

CEVA INC  
Form 10-K  
March 15, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2011**

**OR**

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

**For the transition period from                      to**

**Commission file number: 000-49842**

**CEVA, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**

**77-0556376**  
**(I.R.S. Employer**

Edgar Filing: CEVA INC - Form 10-K

**incorporation or organization)**  
**1943 Landings Drive, Mountain View, California**  
 (Address of principal executive offices)

**Identification No.)**  
**94043**  
 (Zip Code)

**(650) 417-7900**

**(Registrant's telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.001 par value per share	NASDAQ GLOBAL MARKET
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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  (Do not check if a smaller reporting company) 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

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$456,991,000 based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation System National Market System. Shares of common stock held by each officer, director, and holder of 5% or more of the outstanding common stock of the Registrant have been excluded from this calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

<b>Class</b>	<b>Outstanding at March 8, 2012</b>
Common Stock, \$0.001 par value per share	23,229,597 shares

## Edgar Filing: CEVA INC - Form 10-K

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 14, 2012 (the 2012 Proxy Statement ) are incorporated by reference into Item 5 of Part II and Items 10, 11, 12, 13, and 14 of Part III.

**Table of Contents**

**TABLE OF CONTENTS**

**PART I**

	<b>Page</b>
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	10
Item 1B. <u>Unresolved Staff Comments</u>	21
Item 2. <u>Properties</u>	21
Item 3. <u>Legal Proceedings</u>	21
Item 4. <u>Mine Safety Disclosures</u>	21

**PART II**

Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	23
Item 6. <u>Selected Financial Data</u>	25
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 8. <u>Financial Statements and Supplementary Data</u>	44
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	44
Item 9A. <u>Controls and Procedures</u>	44
Item 9B. <u>Other Information</u>	45

**PART III**

Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	46
Item 11. <u>Executive Compensation</u>	46
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stock Holder Matters</u>	46
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	46
Item 14. <u>Principal Accountant Fees and Services</u>	46

**PART IV**

Item 15. <u>Exhibits and Financial Statement Schedules</u>	47
<u>Financial Statements</u>	F-1
<u>Signatures</u>	

**Table of Contents**

**FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA**

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

Our belief that Texas Instruments exit from the baseband market, after historically having been a large player in this market, as well as the emergence of merchant chips from companies such as Broadcom, Intel and Spreadtrum, all of whom are our customers, are strong positive drivers for our future market share expansion;

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

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

Our belief that we are well positioned to take full advantage of the growth in the demand for high performance and low power DSP and application-specific platforms incorporating DSP cores and all the necessary hardware and software for target applications;

Our belief that there are four growth drivers for our business, namely (i) evolution of cellular networks, (ii) emergence of 3G and 4G connectivity, (iii) mass adoption of smartphones, and (iv) proliferation of smart devices in the home, and that we are well positioned to take full advantage of these growth trends;

Our belief that the majority of growth in the cellular market will come from low-cost smartphone demands in developing countries and the broader adoption of advanced smartphones in mature markets and that we are well-positioned to capitalize on this growth trend;

Our belief that we are well-positioned to capitalize on the growth in the mobile connected devices and machine 2 machine devices;

Our belief that our operating expenses will be higher in 2012 as compared to 2011;

Our belief that the first and second quarters of 2012 will be sequentially down quarters;

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.

## Edgar Filing: CEVA INC - Form 10-K

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.

**Table of Contents**

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

This report contains market data prepared by a third party research firm, Strategy Analytics. Actual market results may differ from Strategy Analytics' projections. This report includes trademarks and registered trademarks of CEVA. Products or service names of other companies mentioned in this Annual Report on Form 10-K may be trademarks or registered trademarks of their respective owners.

---

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**Company Overview**

Headquartered in Mountain View, California, CEVA is the world's leading licensor of silicon intellectual property (SIP) primarily for the handsets, mobile broadband, portable and consumer electronics markets. For more than fifteen years, CEVA has been licensing a portfolio of Digital Signal Processor (DSP) cores, subsystems and platforms to leading semiconductor and original equipment manufacturer (OEM) companies worldwide. These technologies include:

a family of programmable DSP cores with a range of cost, power-efficiency and performance points; and

a portfolio of application-specific platforms, including wireless baseband, audio, imaging & vision, VoIP (Voice over Internet Protocols), Bluetooth and serial storage technology (Serial ATA (SATA) and Serial Attached SCSI (SAS)).

Our technology is licensed to leading semiconductor and OEM companies throughout the world. These companies incorporate our IP into application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) that they manufacture, market and sell to consumer electronics companies. Our IP is primarily deployed in high volume markets, including feature phones, smartphones and mobile broadband (used in tablets, electronic books and laptops), machine to machine for all cellular standards (e.g.

GSM/GPRS/EDGE/WCDMA/LTE/WiMAX, CDMA and TD-SCDMA), home entertainment (e.g. DVD/Blu-ray players, set-top boxes and digital TVs), portable game consoles, serial storage (e.g. Solid Storage Devices (SSD)) and telecommunication devices (e.g. residential gateways, femtocells, VoIP phones and network infrastructure).

Our revenue mix comprises of primarily IP licensing fees, per unit and prepaid royalties, and other revenues. Other revenues include revenues from support, training and sale of development systems. We have built a strong network of licensing customers who rely on our technologies to deploy their silicon solutions. Our technologies are widely licensed and power some of the world's leading semiconductor and consumer electronics companies, including Broadcom, Intel, Intersil, Marvell, Mediatek, Mindspeed, MStar, Nufont, NXP, PMC-Sierra, Renesas, Samsung, Sharp, Solomon Systech, Sony, Spreadtrum, ST Ericsson, Sunplus, Toshiba and VIA Telecom.

In 2011, CEVA's licensees shipped more than one billion CEVA-powered chipsets targeted for a wide range of diverse end markets, an increase of 68% over 2010 shipments of 613 million chipsets. To date, over three billion CEVA-powered chipsets have been deployed by the world's top cellular handset and consumer electronics brands, including ASUS, Dell, Fujitsu, Haier, Huawei, Lenovo, LG Electronics, Motorola, Nintendo, Nokia, Panasonic, Philips, Pioneer, Samsung, Sharp, Sony, Sony Ericsson, Toshiba and ZTE.

CEVA was created through the combination of the DSP IP licensing division of DSP Group, Inc. and Parthus Technologies plc (Parthus) in November 2002. We have over 190 employees worldwide, with research and development facilities in Israel, Ireland and the United Kingdom, and sales and support offices throughout Asia Pacific (APAC), Japan, Sweden, Israel and the United States.

CEVA is traded on both NASDAQ Global Market (CEVA) and the London Stock Exchange (CVA).

**Industry Background**

*DSP Cores*

DSPs continue to be one of the fastest growing sectors of the semiconductor industry. DSP is fundamental to all broadband communication (wireless and wired), as well as digital multimedia processing (e.g. voice, audio, video and vision image). DSP converts an analog signal (such as the human voice or music) into digital form.



## **Table of Contents**

Such digital form then permits features such as voice, video, audio and data compression (a mandatory feature for saving memory space and allowing more users to share the scarce frequency band in wireless or wired communication) for devices such as mobile phones, tablets, electronic books, Blu-ray DVDs and digital TVs.

### *Design Gap*

The demand for advanced smartphones, feature phones, mobile broadband devices, and home entertainment equipment continues to grow. As consumers demand electronic products with more connectivity, portability and capability, semiconductor manufacturers face ever growing pressures to make smaller, feature-rich integrated circuits that are more reliable, less expensive and have greater performance, all in the face of decreasing product lifecycles and constrained battery power. The advent of wireless technologies like HSPA+ and LTE, high resolution performance image signal processing and high fidelity audio requirements have further increased these pressures. While semiconductor manufacturing processes have advanced significantly to allow a substantial increase in the number of circuits placed on a single chip, resources for design capabilities have not kept pace with the advances in manufacturing processes, resulting in a growing design gap between the increasing manufacturing potential and the constrained design capabilities.

### **CEVA Business**

CEVA addresses the requirements of the handsets, portable and home electronics markets by designing and licensing programmable DSP cores, application-specific platforms and a range of software components which enable the rapid design of DSP-based chipsets or application-specific solutions for developing a wide variety of applications.

Given the design gap, as well as the complexity and the unique skill set required to develop a DSP core, many semiconductor design and manufacturing companies increasingly choose to license proven intellectual property, such as processor cores (e.g. DSPs), memory and application-specific platforms, from silicon intellectual property (SIP) companies like CEVA rather than develop those technologies in-house. In addition, with more complex designs and shorter time to market, it is no longer cost efficient and becoming progressively more difficult for most semiconductor companies to develop the DSP and software for baseband, image signal processing and audio applications. As a result, companies increasingly seek to license application-specific DSP and software from third parties such as CEVA or a third-party community of developers, such as CEVAnet, CEVA's third-party network.

### **Our IP Business Model**

Our objective is for our CEVA DSP cores to become the de facto DSP in the embedded DSP market. To enable this goal, we license our technologies on a worldwide basis to semiconductor and OEM companies that design and manufacture products that combine CEVA-based solutions with their own differentiating technology. We believe our business model offers us some key advantages. By not focusing on manufacturing or selling silicon products, we are free to widely license our technology and free to focus most of our resources on research and development of DSP technologies. By choosing to license the programmable DSP core, manufacturers can achieve the advantage of creating their own differentiated solutions and develop their own unique product roadmaps. Through our licensing efforts, we have established a worldwide community developing CEVA-based solutions, and therefore we can leverage their strengths, customer relationships, proprietary technology advantages, and existing sales and marketing infrastructure. As an example, our CEVA-XCnet partner program focuses on various technology and solution providers in the Software-Defined-Radio (SDR) space with complimentary offerings for our CEVA-XC communication processor addressing wireless, infrastructure, smart grid Wi-Fi and digital TV markets. In addition, as our intellectual property is widely licensed and deployed, system OEM companies can obtain CEVA-based chipsets from a wide range of suppliers, thus reducing dependence on any one supplier and fostering price competition, both of which help to contain the cost of CEVA-based products.

---

## **Table of Contents**

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

### **Strategy**

We believe there is a growing demand for high performance and low power DSP and application-specific platforms incorporating DSP cores and all the necessary hardware and software for target applications. We believe the growth in the demand for these platforms will drive demand for our technology. As CEVA offers expertise developing these complete solutions in a number of key growth markets, including handsets, mobile broadband, wireless infrastructure, image signal processing, audio, Bluetooth and storage, we believe we are well positioned to take full advantage of this industry shift. To capitalize on this industry shift, we intend to:

continue to develop and enhance our range of DSP cores with additional features, performance and capabilities;

continue to develop and enhance our range of complete and highly integrated platform solutions to deliver to our licensing partners a complete and verified system solution;

continue to develop an ecosystem of third party partners developing software and solutions based on our DSPs;

capitalize on our relationships and leadership within our worldwide community of semiconductor and OEM licensees who are developing CEVA-based solutions; and

capitalize on our IP licensing and royalty business model which we believe is the best vehicle for a pervasive adoption of our technology and allows us to focus our resources on research and development of new licensable technologies and applications.

### **Products**

We are the leading licensor of SIP platform solutions and DSP cores to the semiconductor industry. We offer a family of programmable DSP cores and a portfolio of application-specific platforms, including wireless baseband (both terminal and infrastructure), multimedia (HD audio, HD video and image), voice (VoIP), Bluetooth and serial storage technology (SATA and SAS).

#### *CEVA DSP Cores*

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

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

---

## **Table of Contents**

### *CEVA Platforms & Solutions*

In order to reduce the cost, complexity, and risk in bringing products to market, CEVA has developed a suite of system platforms and solutions. These platforms and solutions combine the hardware and software elements that are essential for designers deploying CEVA's state-of-the-art DSP and IP cores. Platforms typically integrate a CEVA DSP core, hardware subsystem and application-specific (e.g. vision & imaging) software. Our family of DSP-based platforms is targeted for 3G & 4G baseband mobile, home audio, mobile and digital TV image signal processing and voice (VoIP). We also offer platform solutions for Bluetooth and serial storage technologies (SATA and SAS).

### **Customers**

We have licensed our DSP cores and application-specific platforms to leading semiconductor and OEM companies throughout the world. These companies incorporate our IP into application-specific chipsets or custom-designed chipsets that they manufacture, market and sell to consumer electronics companies. We also license our DSP cores and application-specific platforms to OEMs directly. Included among our licensees are the following customers: Broadcom, Intel, Intersil, Marvell, Mediatek, Mindspeed, MStar, NXP, Nufont, PMC-Sierra, Renesas, Samsung, Sharp, Solomon Systech, Sony, Spreadtrum, ST Ericsson, Sunplus, and VIA Telecom. As of the end of 2011, we had 28 licensees shipping products incorporating our technologies, pursuant to 37 licensing agreements. Three customers accounted for 12%, 16% and 17% of our total revenues for 2011. The identity of our greater-than-10% customers varies from period to period, and we do not believe that we are materially dependent on any one specific customer or any specific small number of licensees.

### **International Sales and Operations**

Customers based in EME (Europe and Middle East) and APAC (Asia Pacific) accounted for 76% of our total revenues for 2011, 79% for 2010 and 84% for 2009. Customers in each of Germany, Switzerland and China accounted for greater than 10% of our total revenues for both 2011 and 2010. Customers in each of Sweden, China and Japan accounted for greater than 10% of our total revenues for 2009. Although all of our sales to foreign customers are denominated in United States dollars, we are subject to risks of conducting business internationally. These risks include fluctuations in exchange rates, unexpected changes in regulatory requirements, delays resulting from difficulty in obtaining export licenses for certain technologies, tariffs, other barriers and restrictions and the burden of complying with a variety of foreign laws. Information on the geographic breakdown of our revenues and location of our long-lived assets is contained in Note 11 to our consolidated financial statements, which appear elsewhere in this annual report.

Moreover, the majority of our expenses, mainly employee salaries, are paid in currencies other than the U.S. dollar, principally the Israeli currency, New Israeli Shekel (NIS), the Euro and the British pound, which subjects us to the risks of foreign currency fluctuations and economic pressures in those regions. As a result, an increase in the value of the currencies other than the U.S. dollar in comparison to the U.S. dollar could increase the cost of our operating expenses. 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 a foreign currency cash flow hedging program. We hedge portions of the anticipated payroll for our Israeli, Irish and British employees denominated in the NIS, the Euro and the British pound for a period of one to twelve months with forward and options contracts. There are no assurances that future hedging transactions will successfully mitigate losses caused by currency fluctuations.

### **Sales and Marketing**

We license our technology through a direct sales force. As of December 31, 2011, we had 22 employees in sales and marketing. We have sales offices and representation in Asia Pacific (APAC) region, Japan, Sweden, Israel and the United States.

## **Table of Contents**

Maintaining close relationships with our customers and strengthening these relationships are central to our strategy. We typically launch each new DSP core, platform or solution upgrade with a signed license agreement with a tier-one customer, which signifies to the market that we are focused on viable applications that meet broad industry needs. Staying close to our customers allows us to create a roadmap for the future development of existing cores and application platforms, and helps us to anticipate the next potential applications for the market. We seek to use our customer relationships to deliver new products in a faster time to market.

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

## **Technical Support**

We offer technical support services through our offices in Israel, Ireland, Asia Pacific (APAC) region, Japan, Sweden and the United States. As of December 31, 2011, we had 14 employees in technical support. Our technical support services include:

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

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

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

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

## **Research and Development**

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

Our research and development team, consisting of 133 engineers as of December 31, 2011, work in five development centers located in Israel, Ireland and the United Kingdom. This team consists of engineers who possess significant experience in developing DSP cores, solutions and application platforms. In addition, we engage third party contractors with specialized skills as required to support our research and development efforts. Our research and development expenses, net of related research grants, were approximately \$17, \$18 and \$22 million in 2009, 2010 and 2011, respectively.

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

## Table of Contents

### **Competition**

The markets in which we operate are intensely competitive. They are subject to rapid change and are significantly affected by new product introductions. We compete with other suppliers of licensed DSP cores and solutions. We believe that the principal competitive elements in our field are DSP performance, overall chip cost, power consumption, flexibility, reliability, communication and multimedia software availability, design cycle time, tool chain, customer support, financial strength, name recognition and reputation. We believe that we compete effectively in each of these areas, but can offer no assurance that we will have the financial resources, technical expertise, and marketing or support capabilities to compete successfully in the future.

The markets in which we compete are dominated by large, fully-integrated semiconductor companies that have significant brand recognition, a large installed base and a large network of support and field application engineers. We face direct and indirect competition from:

IP vendors that offer programmable DSP cores;

IP vendors of general purpose processors with DSP extensions;

IP vendors that offer hardware-based DSP implementation as opposed to software-based DSP, which is our specialization; and

internal design groups of large chip companies that develop proprietary DSP cores or engines for their own application-specific chipsets.

We face direct competition in the DSP core space mainly from Cognovo, Coresonic and Verisilicon, which licenses DSP cores in addition to its semiconductor business.

In recent years, we also have faced competition from companies that offer Central Processor Unit (CPU) intellectual property. These companies products are used for host functions in various applications, such as in mobile and home entertainment products. These applications typically also incorporate a programmable DSP that is responsible for communication and video/audio/voice compression. Recently, CPU companies, such as ARM Holdings, Synopsys (through its acquisition of the ARC technology) and Tensilica have added DSP technology and make use of it to provide platform solutions in the areas of baseband, video and audio.

With respect to certain large potential customers, we also compete with internal engineering teams, which may design programmable DSP core products in-house. Companies such as Broadcom, Mediatek, Qualcomm, Samsung and ST-Ericsson license our designs for some applications and use their own proprietary cores for other applications. These companies also may choose to license their proprietary DSP cores to third parties and, as a result, become direct competitors.

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

in the imaging & vision market   Imagination Technologies and Silicon Image;

in the serial storage technology market   Gennum   s Snowbush IP Group, Silicon Image and Synopsys;

in VoIP applications market   ARM Holdings, MIPS Technologies and Verisilicon; and

Edgar Filing: CEVA INC - Form 10-K

in audio applications market ARM Holdings, Synopsys (through its acquisition of the ARC technology), Tensilica and Verisilicon.

---

## **Table of Contents**

### **Proprietary Rights**

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

We have an active program to protect our proprietary technology through the filing of patents. Our patents relate to our DSP cores and application-specific platform technologies. As of December 31, 2011, we hold 43 patents in the United States and 11 patents in the EME (Europe and Middle East) region and three patents in Asia Pacific (APAC) region, totaling 57 patents, with expiration dates between 2013 and 2024. In addition, as of December 31, 2011, we have 19 patent applications pending in the United States, 10 pending patent applications in Canada, 16 pending patent applications in the EME region and 10 pending patent applications in the APAC region, totaling 55 pending patent applications.

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

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

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

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

**Table of Contents****Employees**

The table below presents the number of employees of CEVA as of December 31, 2011 by function and geographic location.

	<b>Number</b>
<b>Total employees</b>	<b>193</b>
<b>Function</b>	
Research and development	133
Sales and marketing	22
Technical support	14
Administration	24
<b>Location</b>	
Israel	144
Ireland	15
United Kingdom	7
United States	10
Elsewhere	17

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

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

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

**Corporate History**

Our company was incorporated in Delaware on November 22, 1999 under the name DSP Cores, Inc. We changed our name to ParthusCeva, Inc. in November 2002 and to CEVA, Inc. in December 2003.

**Available Information**

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

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

**ITEM 1A. RISK FACTORS**

*We caution you that the following important factors, among others, could cause our actual future results to differ materially from those expressed in forward-looking statements made by or on behalf of us in filings with the Securities and Exchange Commission, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in this annual report, and in any other public statements we make,*



## **Table of Contents**

*may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make in our reports filed with the Securities and Exchange Commission.*

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

The markets for the products in which our technology is incorporated are highly competitive. 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 industry players and factors may have a significant impact on our competitiveness:

We compete directly in the DSP cores space with Cognovo, Coresonic and Verisilicon;

We compete with CPU IP providers, such as ARM Holdings, Synopsys (through its acquisition of the ARC technology), and Tensilica, who offer DSP and DSP extensions to their IP;

We compete with internal engineering teams at companies such as Broadcom, Mediatek, Qualcomm, Samsung and ST Ericsson that may design programmable DSP core products in-house and therefore not license our technologies;

We compete in the SATA and SAS IP markets with several vendors, such as Gennum's Snowbush IP group, Silicon Image and Synopsys, that offer similar products, thereby leading to pricing pressures for both licensing and royalty revenue;

We compete in the imaging & vision market with Imagination Technologies and Silicon Image;

We compete in the VoIP applications market with ARM Holdings, MIPS Technologies and Verisilicon; and

We compete in the audio applications market with ARM Holdings, Synopsys (through its acquisition of the ARC Technology), Tensilica and Verisilicon.

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:

## Edgar Filing: CEVA INC - Form 10-K

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;

**Table of Contents**

royalty pricing pressures and reduction in royalty rates due to an increase in volume shipments by customers, end-product price erosion and competitive pressures;

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, the British Pound 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;

the timing of certain R&D government grant payments;

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 end 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, the magnitude of this general quarterly fluctuation varies annually and may be impacted by

## Edgar Filing: CEVA INC - Form 10-K

global economic conditions. We anticipate this general trend to vary in 2012, as third quarter 2011 shipments reflected in our fourth quarter 2011 royalty revenue were an all-time record high, and we foresee the first quarter of 2012 to be a sequentially down quarter for this reason, as well as a down quarter for the second quarter of 2012 due to the typical seasonality trend as stated above.

We currently anticipate that our operating expenses will be higher for 2012, in comparison to 2011, mainly due to: (1) an increase in non-cash equity-based compensation expenses due to anticipated new equity grants to employees; (2) increased investments in research and development in next-generation baseband processors for LTE-Advance as well as our new MM3000 HD imaging platform; and (3) lower government research and development grants. 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. Three customers, varying in identity from period-to-period, accounted for 12%, 16% and 17% of our total revenues in 2011. Our five largest customers, varying in identity from period-to-period, accounted for 60% of our total revenues in 2011 and 2010 and 53% in 2009. Our five largest customers paying per unit royalties, varying in identity from period-to-period, accounted for 74% of our total royalty revenues in 2011, 81% in 2010 and 73% in 2009. 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.

**Royalty rates could decrease for existing and future license agreements which could materially adversely affect our operating results.**

Royalty payments to us under existing and future license agreements could be lower than currently anticipated for a variety of reasons. Average selling prices for semiconductor products generally decrease over time during the lifespan of a product. In addition, there is increasing downward pricing pressures in the semiconductor industry on end products incorporating our technology, especially end products for the handsets and consumer electronics markets. As a result, notwithstanding the existence of a license agreement, our customers may demand that royalty rates for our products be lower than our historic royalty rates. We have in the past and may be pressured in the future to renegotiate existing license agreements with our customers. In addition, certain of our license agreements provide that royalty rates may decrease in connection with the sale of larger quantities of products incorporating our technology. Furthermore, our competitors may lower the royalty rates for their comparable products to win market share which may force us to lower our royalty rates as well. As a consequence of the above referenced factors, as well as unforeseen factors in the future, the royalty rates we receive for use of our technology could decrease, thereby decreasing future anticipated revenue and cash flow. Royalty revenues were approximately 60%, 51% and 42% of our total revenues for 2011, 2010 and 2009, respectively. Therefore, a significant decrease in our royalty revenues could materially adversely affect our operating results.

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

Revenues derived from the handsets and mobile broadband markets accounted for approximately 77% of our total revenues for 2011, 72% for 2010 and 68% for 2009. Any adverse change in our ability to compete and maintain our competitive position in the handsets and mobile broadband markets, including through the introduction by competitors of enhanced technologies that attract OEM customers that target these markets, would harm our business, financial condition and results of operations. Moreover, the handsets and mobile broadband markets are extremely competitive and are 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 or mobile broadband devices that attract consumers, or encounter significant delays in developing, manufacturing or shipping new or enhanced products in these markets. The inability of our OEM customers to compete would result in lower shipments of products powered by our technologies which in turn would have a material adverse effect on our business, financial condition and results of operations.

---

**Table of Contents**

**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.

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.

---

## **Table of Contents**

### **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 76% of our total revenues in 2011, 79% in 2010 and 84% in 2009 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.

**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.**

## Edgar Filing: CEVA INC - Form 10-K

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



---

**Table of Contents**

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 global downturn that started in the second half of 2008 and continued throughout 2009, 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. Notwithstanding improvements in business conditions since the second half of 2009, there continues to be uncertainty about the global economy and outlook, which continue to make it difficult for our customers, the end-product customers, our vendors and us to accurately forecast and plan future business activities and make reliable projections.

Moreover, we operate within the semiconductor industry which experiences significant fluctuations in sales and profitability. 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.

**Our research and development expenses may increase if the grants we currently receive from the Israeli government 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. We received an aggregate of \$2,518,000, \$2,322,000 and \$1,731,000 in 2011, 2010 and 2009, respectively. To be eligible for these grants, we must meet certain development conditions

---

**Table of Contents**

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 believe that our 2012 government grants will be lower than the 2011 and 2010 levels due to completion of a few programs.

**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.

**Our product development efforts are time-consuming and expensive and may not generate an acceptable return, if any.**

Our product development efforts require us to incur substantial research and development expense. Our research and development expenses were approximately \$16.6, \$17.9 and \$21.5 million for 2009, 2010 and 2011, respectively and we anticipate that research and development expenses will increase in 2012 in comparison to 2011. We may not be able to achieve an acceptable return, if any, on our research and development efforts.

The development of our products is highly complex. We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. Unanticipated problems in developing products could also divert substantial engineering resources, which may impair our ability to develop new products and enhancements and could substantially increase our costs. Furthermore, we may expend significant amounts on research and development programs that may not ultimately result in commercially successful products. As a result of these and other factors, we may be unable to develop and introduce new products successfully and in a cost-effective and timely manner, and any new products we develop and offer may never achieve market acceptance. Any failure to successfully develop future products would have a material adverse effect on our business, financial condition and results of operations.

**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.

---

**Table of Contents**

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

We may in the future pursue acquisitions of businesses, products and technologies, establish joint venture arrangements, make minority equity investments or enhance our existing CEVAnet partner eco-system to expand our business. We are unable to predict whether or when any prospective acquisition, equity investment or joint venture will be completed. The process of negotiating potential acquisitions, joint ventures or equity investments, 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 or investment candidates, complete acquisitions or investments, or integrate acquired businesses or joint ventures with our operations. If we were to make any acquisition or investment or enter into a joint venture, we may not receive the intended benefits of the acquisition, investment or joint venture or such an acquisition, investment or joint venture may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The expansion of our CEVAnet partner eco-system also may not achieve the anticipated benefits. The occurrence of any of these events could harm our business, financial condition or results of operations. Future acquisitions, investments or joint ventures may require substantial capital resources, which may require us to seek additional debt or equity financing.

Future acquisitions, joint ventures or minority equity investments 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 or equity investment impairment 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.

**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.

## Edgar Filing: CEVA INC - Form 10-K

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.

---

**Table of Contents**

**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, these benefits would be cancelled and we would be subject to corporate tax in Israel at the standard corporate rate (25% in 2012) 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 active 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**

**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. 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.

**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. 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. President Obama's administration has 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 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

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

We lease buildings for our executive offices, and engineering, sales, marketing, administrative and support operations and design centers. The following table summarizes information with respect to the principal facilities leased by us as of December 31, 2011:

<b>Location</b>	<b>Term</b>	<b>Expiration</b>	<b>Area (Sq. Feet)</b>	<b>Principal Activities</b>
Mountain View, CA, U.S.	5 years	2015	3,643	Headquarters; sales and marketing; administration
Herzeliya, Israel	4 years	2014	28,880	Research and development; administration
Dublin, Ireland (1)	1 year	2012	2,270	Research and development; administration
Cork, Ireland (2)	5 years	2016	2,870	Research and development
Belfast, UK (3)	15 years	2019	2,600	Research and development

- (1) We are currently negotiating to extend this lease.
- (2) Break clause in the lease exercisable in 2013.
- (3) Break clause in the lease exercisable on payment of one year rent.

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents**

**EXECUTIVE OFFICERS OF THE REGISTRANT**

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

*Gideon Wertheizer*, age 55, has served as our Chief Executive Officer since May 2005. He joined our board of directors in January 2010. Mr. Wertheizer has 29 years of experience in the semiconductor and Silicon Intellectual Property (SIP) industries. He previously served as the Executive Vice President and General Manager of the DSP business unit at CEVA. Prior to joining CEVA in November 2002, Mr. Wertheizer held various executive positions at DSP Group, Inc., including such roles as Executive VP Strategic Business Development, Vice President for Marketing and Vice President of VLSI design. Mr. Wertheizer holds a BsC for electrical engineering from Ben Gurion University in Israel and executive MBA from Bradford University in the United Kingdom.

*Yaniv Arieli*, age 43, has served as our Chief Financial Officer since May 2005. Prior to his current position, Mr. Arieli served as President of U.S. Operations and Director of Investor Relations of DSP Group beginning in August 2002 and Vice President of Finance, Chief Financial Officer and Secretary of DSP Group's DSP Cores Licensing Division prior to that time. Before joining DSP Group in 1997, Mr. Arieli served as an account manager and certified public accountant at Kesselman & Kesselman, a member of PricewaterhouseCoopers, a leading accounting firm. Mr. Arieli is a CPA and holds a B.A. in Accounting and Economics from Haifa University in Israel and an M.B.A. from Newport University and is also a member of the National Investor Relation Institute.

*Issachar Ohana*, age 46, has served as our Vice President, Worldwide Sales, since November 2002 and our Executive Vice President, Worldwide Sales, since July 2006. Prior to joining CEVA in November 2002, Mr. Ohana was with DSP Group beginning in August 1994 as a VLSI design engineer. He was appointed Project Manager of DSP Group's research and development in July 1995, Director of Core Licensing in August 1998, and Vice President Sales of the Core Licensing Division in May 2000. Mr. Ohana holds a B.Sc. in Electrical and Computer Engineering from Ben Gurion University in Israel and an MBA from Bradford University in the United Kingdom.



**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock began trading on The NASDAQ Global Market and the London Stock Exchange on November 1, 2002. Our common stock currently trades under the ticker symbol "CEVA" on NASDAQ and under the ticker symbol "CVA" on the London Stock Exchange. As of February 28, 2012, there were approximately 7,563 holders of record, which we believe represents approximately 15,328 beneficial holders. The closing price of our common stock on The NASDAQ Global Market on March 8, 2012 was \$23.55 per share. The following table sets forth, for the periods indicated, the range of high and low closing prices per share of our common stock, as reported on The NASDAQ Global Market.

	Price Range of Common Stock	
	High	Low
<b>2011</b>		
First Quarter	\$ 26.84	\$ 21.17
Second Quarter	\$ 34.33	\$ 25.68
Third Quarter	\$ 32.94	\$ 23.25
Fourth Quarter	\$ 33.02	\$ 22.81
<b>2010</b>		
First Quarter	\$ 13.01	\$ 10.72
Second Quarter	\$ 12.92	\$ 10.93
Third Quarter	\$ 14.57	\$ 11.20
Fourth Quarter	\$ 23.77	\$ 14.12

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

**Equity Compensation Plan Information**

Information as of December 31, 2011 regarding options granted under our option plans and remaining available for issuance under those plans will be contained in the definitive 2012 Proxy Statement for the 2012 annual meeting of stockholders to be held on May 14, 2012 and incorporated herein by reference.

**Issuer Purchases of Equity Securities**

We did not repurchase any shares of our common stock in 2011.

**2012 Annual Meeting of Stockholders**

We anticipate that the 2012 annual meeting of our stockholders will be held on May 14, 2012 in New York City, NY.

**Table of Contents****Stock Performance Graph**

*Notwithstanding anything to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate this proxy statement or future filings made by the Company under those statutes, the below Stock Performance Graph shall not be deemed filed with the United States Securities and Exchange Commission and shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by the Company under those statutes.*

	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
<b>CEVA, Inc</b>	<b>100.00</b>	<b>188.72</b>	<b>108.19</b>	<b>198.76</b>	<b>316.85</b>	<b>467.70</b>
<b>NASDAQ Composite</b>	<b>100.00</b>	<b>110.66</b>	<b>66.41</b>	<b>96.54</b>	<b>114.06</b>	<b>113.16</b>
<b>Morningstar Semiconductor</b>	<b>100.00</b>	<b>106.83</b>	<b>59.42</b>	<b>97.97</b>	<b>115.14</b>	<b>110.70</b>

The stock performance graph above compares the percentage change in cumulative stockholder return on the common stock of our company for the period from December 31, 2006, through December 31, 2011, with the cumulative total return on The NASDAQ Global Market (U.S.) Composite Index and the Morningstar Semiconductor Group Index.

This graph assumes the investment of \$100 in our common stock (at the closing price of our common stock on December 31, 2006), the NASDAQ Global Market (U.S.) Composite Index and the Morningstar Semiconductor Group Index on December 31, 2006, and assumes dividends, if any, are reinvested.

Comparisons in the graph above are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and the related notes, as well as our Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2011, both appearing elsewhere in this annual report.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(in thousands)				
<b>Consolidated Statements of Income Data:</b>					
Revenues:					
Licensing	\$ 19,499	\$ 21,701	\$ 18,764	\$ 18,395	\$ 20,239
Royalties	9,095	14,349	16,225	22,866	36,403
Other revenue	4,617	4,315	3,478	3,650	3,597
<b>Total revenues</b>	<b>33,211</b>	<b>40,365</b>	<b>38,467</b>	<b>44,911</b>	<b>60,239</b>
Cost of revenues	3,851	4,668	4,117	3,712	3,559
<b>Gross profit</b>	<b>29,360</b>	<b>35,697</b>	<b>34,350</b>	<b>41,199</b>	<b>56,680</b>
Operating expenses:					
Research and development, net	19,136	20,172	16,561	17,909	21,543
Sales and marketing	6,253	7,088	6,732	7,308	8,937
General and administrative	5,721	6,637	6,087	6,108	7,639
Amortization of intangible assets	148	53			
Reorganization, restructuring and severance charge		4,121			
<b>Total operating expenses</b>	<b>31,258</b>	<b>38,071</b>	<b>29,380</b>	<b>31,325</b>	<b>38,119</b>
<b>Operating income (loss)</b>	<b>(1,898)</b>	<b>(2,374)</b>	<b>4,970</b>	<b>9,874</b>	<b>18,561</b>
Financial income, net	3,211	2,729	2,048	2,095	2,909
Other income, net	425	12,011	3,712		
<b>Income before taxes on income</b>	<b>1,738</b>	<b>12,366</b>	<b>10,730</b>	<b>11,969</b>	<b>21,470</b>
Income tax expense	447	3,801	2,384	591	2,908
<b>Net income</b>	<b>\$ 1,291</b>	<b>\$ 8,565</b>	<b>\$ 8,346</b>	<b>\$ 11,378</b>	<b>\$ 18,562</b>
<b>Basic net income per share</b>	<b>\$ 0.07</b>	<b>\$ 0.43</b>	<b>\$ 0.42</b>	<b>\$ 0.54</b>	<b>\$ 0.80</b>
<b>Diluted net income per share</b>	<b>\$ 0.06</b>	<b>\$ 0.42</b>	<b>\$ 0.41</b>	<b>\$ 0.51</b>	<b>\$ 0.77</b>

	December 31,				
	2007	2008	2009	2010	2011
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Working capital	\$ 77,312	\$ 83,886	\$ 101,169	\$ 114,928	\$ 136,483
Total assets	128,989	137,586	155,444	186,608	219,140
Total long-term liabilities	4,647	3,788	4,483	5,486	5,607
Total stockholders' equity	\$ 114,388	\$ 121,659	\$ 139,096	\$ 168,468	\$ 200,920

**Table of Contents****QUARTERLY FINANCIAL INFORMATION**

	March 31,	June 30,	September 30, 2010	December 31,	Three months ended			
					March 31,	June 30,	September 30, 2011	December 31,
<b>Revenues:</b>								
Licensing	\$ 4,722	\$ 4,593	\$ 4,459	\$ 4,621	\$ 5,108	\$ 5,195	\$ 5,225	\$ 4,711
Royalties	4,980	5,154	5,238	7,494	9,206	8,272	8,766	10,159
Other revenue	899	862	978	911	738	921	856	1,082
<b>Total revenues</b>	<b>10,601</b>	<b>10,609</b>	<b>10,675</b>	<b>13,026</b>	<b>15,052</b>	<b>14,388</b>	<b>14,847</b>	<b>15,952</b>
Cost of revenues	714	863	1,001	1,134	948	876	811	924
<b>Gross profit</b>	<b>9,887</b>	<b>9,746</b>	<b>9,674</b>	<b>11,892</b>	<b>14,104</b>	<b>13,512</b>	<b>14,036</b>	<b>15,028</b>
<b>Operating expenses:</b>								
Research and development, net	4,609	4,505	4,129	4,666	5,250	5,405	5,158	5,730
Sales and marketing	1,808	1,776	1,664	2,060	2,224	2,327	2,099	2,287
General and administrative	1,546	1,570	1,593	1,399	1,754	1,732	2,057	2,096
<b>Total operating expenses</b>	<b>7,963</b>	<b>7,851</b>	<b>7,386</b>	<b>8,125</b>	<b>9,228</b>	<b>9,464</b>	<b>9,314</b>	<b>10,113</b>
<b>Operating income</b>	<b>1,924</b>	<b>1,895</b>	<b>2,288</b>	<b>3,767</b>	<b>4,876</b>	<b>4,048</b>	<b>4,722</b>	<b>4,915</b>
Financial income, net	557	541	493	504	545	707	784	873
<b>Income before taxes on income</b>	<b>2,481</b>	<b>2,436</b>	<b>2,781</b>	<b>4,271</b>	<b>5,421</b>	<b>4,755</b>	<b>5,506</b>	<b>5,788</b>
Income taxes expense (income)	422	313	(208)	64	770	632	571	935
<b>Net income</b>	<b>\$ 2,059</b>	<b>\$ 2,123</b>	<b>\$ 2,989</b>	<b>\$ 4,207</b>	<b>\$ 4,651</b>	<b>\$ 4,123</b>	<b>\$ 4,935</b>	<b>\$ 4,853</b>
Basic net income per share	\$ 0.10	\$ 0.10	\$ 0.14	\$ 0.19	\$ 0.20	\$ 0.18	\$ 0.21	\$ 0.21
Diluted net income per share	\$ 0.09	\$ 0.10	\$ 0.13	\$ 0.18	\$ 0.19	\$ 0.17	\$ 0.20	\$ 0.20
Weighted average number of shares of Common Stock used in computation of net income per share (in thousands):								
Basic	20,654	21,061	21,244	22,029	22,692	23,107	23,390	23,491
Diluted	21,911	22,069	22,356	23,367	23,888	24,165	24,253	24,293

---

**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**BUSINESS OVERVIEW**

The following discussion and analysis is intended to provide an investor with a narrative of our financial results and an evaluation of our financial condition and results of operations. The discussion should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2011, both appearing elsewhere in this annual report.

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 2011, our licensees shipped more than one billion CEVA-powered chipsets targeted for a wide range of diverse end markets. Shipments of CEVA-powered chipsets increased 68% over 2010, illustrating continued, strong market deployment of our technology.

During the past six years, our business has shown profitability growth and market share expansion as a result of the widespread deployment of our DSP cores with all major handset OEMs—Huawei, LG Electronics, Motorola, Nokia, Samsung, Sony, ZTE and a major U.S.-based smartphone manufacturer. This positive trend is evident from our royalty revenues which increased by 59% in 2011 over 2010. Based on internal data and Strategy Analytics' worldwide shipment data, CEVA's worldwide market share of cellular baseband chips that incorporate our technologies reached approximately 42% of the worldwide shipment volume based on third quarter 2011 worldwide shipments. Revenues derived from the handsets and mobile broadband markets accounted for approximately 77% of our total revenues in 2011. The mobile broadband space is a category of wireless-enabled products, among which are tablets, notebooks, electronic books, machine-to-machine devices, automotive applications and smart grids.

We believe the full scale migration to our DSP cores and technologies in the handsets and mobile broadband markets has not been fully realized and continues to progress. Specifically, we believe Texas Instruments' exit from the baseband market, after historically having been a large player in this market, as well as the emergence of merchant chips from companies such as Broadcom, Intel and Spreadtrum, all of whom are our customers, are strong positive drivers for our future market share expansion. Moreover, Strategy Analytics forecasts that worldwide cellular baseband shipments will grow by 8.6% in 2012 to reach 2.5 billion units. We believe that the majority of this growth will come from advanced-feature phone and low-cost smartphone 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 above segments, as well as growth from other mobile connected devices such as tablets, electronic books and other machine-to-machine devices, as key chip suppliers serving these markets use our technologies broadly.

Beyond products enabled by our technologies for baseband in handsets and mobile broadband markets, we continue to target growth in non-baseband applications, such as audio, imaging, vision and connectivity. During the fourth quarter of 2011, we completed licensing agreements for audio in smart TVs, connectivity in smartphones and our first imaging platform, the MM3000 DSP core.

---

**Table of Contents**

We believe the following four market trends represent significant growth drivers for the Company:

The evolution of cellular networks, specifically the growth of 3G networks in emerging countries and the migration from 3G to LTE in developed countries. CEVA is well positioned to leverage these opportunities with a broad range of technologies and broad customer base.

The emergence of 3G and 4G connectivity in devices beyond handsets such as tablets, laptops, automotive and surveillance. Our range of baseband DSPs are ideal for these promising new segments.

The mass adoption and feature set enhancements of smartphones. We offer a range of new DSPs and software technologies to address the needs for advanced imaging and high fidelity audio. It is an incremental business to our already strong foothold in the baseband market.

The proliferation of smart devices in the home, including the emergence smart-TV, or smart set-top boxes and smartgrid. We aim to leverage our mobile experience and technology base to expand into these markets.

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. Royalty payments under our existing license agreements also could be lower than currently anticipated for a variety of reasons, including decreased royalty rates triggered by larger volume shipments or lower royalty rates negotiated with customers due to competitive pressure. Moreover, 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 anticipate that our operating expenses will be higher for 2012 in comparison to 2011, mainly due to: (1) an increase in non-cash equity-based compensation expenses due to anticipated new equity grants to employees; (2) increased investments in research and development in next-generation baseband processors for LTE-Advance as well as our new MM3000 HD imaging and vision platform, and (3) lower government research and development grants. 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 imaging and audio products is highly dependent on the market adoption of new services and products, such as smartphones, tablets, smart TVs and set-top boxes. In addition, our business is affected by market conditions in emerging markets, such as India, Latin America and Africa, where the penetration of handsets, especially 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 technologies, 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.

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, current economic conditions, and specifically the volatility in the semiconductor and consumer electronics industries, and consolidation in the semiconductor industry, 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.

We currently anticipate that the first quarter of 2012 to be a sequentially down quarter as third quarter 2011 shipments of CEVA-powered chipsets, as reflected in our fourth quarter 2011 royalty revenues, were an all-time record high. Also, we currently anticipate that the second quarter of 2012 to be a down quarter due to the typical seasonality trend we experience annually.

**Table of Contents****CRITICAL ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS**

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

revenue recognition;

allowances for doubtful accounts;

income taxes;

equity-based compensation; and

impairment of marketable securities.

In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result.

*Revenue Recognition*

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

We generate our revenues from (1) licensing intellectual property, which in certain circumstances is modified for customer-specific requirements, (2) royalty revenues and (3) other revenues, which include revenues from support, training and sale of development systems. We license our IP to semiconductor companies throughout the world. These semiconductor companies then manufacture, market and sell custom-designed chipsets to OEMs of a variety of consumer electronics products. We also license our technology directly to OEMs, which are considered end users.

We account for our IP license revenues and related services in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 985-605, Software Revenue Recognition. Revenues are recognized when persuasive evidence of an arrangement exists and no further obligation exists, delivery has occurred, the license fee is fixed or determinable, and collection is reasonably assured. A license may be perpetual or time limited in its application. Revenue earned on licensing arrangements involving multiple elements are allocated to each element based on the relative fair value of the elements. However, with respect to certain transactions, for multiple element transactions, revenue can be recognized under the residual method when vendor specific objective evidence (VSOE) of fair value exists for all undelivered elements and VSOE does not exist for one of the delivered elements. VSOE of fair value of the undelivered elements is determined based on the substantive renewal rate as stated in the agreement. In certain cases in which we undertake services that are not essential to the functionality of the IP license and we did not establish a VSOE of fair value for the services, the entire arrangement fee is recognized as the services are performed.





---

## **Table of Contents**

Extended payment terms in a licensing arrangement may indicate that the license fees are not deemed to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer unless collection is not considered reasonably assured, then revenue is recognized as payments are collected from the customer, provided all other revenue recognition criteria have been met.

Revenues from license fees that involve significant customization of our IP to customer-specific specifications are recognized in accordance with the principles set out in FASB ASC No. 605-35-25, Construction-Type and Production-Type Contracts Recognition, using contract accounting on a percentage of completion method. The amount of revenue recognized is based on the total license fees under the agreement and the percentage of completion achieved. The percentage of completion is measured by the actual time incurred to date on the project compared to the total estimated project requirements, which correspond to the costs related to earned revenues. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss on the entire contract.

Royalties from licensing the right to use our IP are recognized on a quarterly basis in arrears as we receive quarterly shipment reports from our licensees. We determine such revenues by receiving confirmation of sales subject to royalties from licensees. Non-refundable payments on account of future royalties (prepaid royalties) are recognized upon payment becoming due, provided no future obligation exists.

In addition to license fees, contracts with customers generally contain an agreement to provide for post contract support and training, which consists of telephone or e-mail support, correction of errors (bug fixing) and unspecified updates and upgrades. Fees for post contract support, which takes place after delivery to the customer, are specified in the contract and are generally mandatory for the first year. After the mandatory period, the customer may extend the support agreement on similar terms on an annual basis. We recognize revenue for post contract support on a straight-line basis over the period for which technical support is contractually agreed to be provided to the licensee. Revenue from training is recognized as the training is performed.

Revenue from the sale of development systems is recognized when title to the product passes to the customer and all other revenue recognition criteria have been met.

We usually do not provide rights of return. When rights of return are included in the license agreements, revenue is deferred until rights of return expire.

### *Allowances for Doubtful Accounts*

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a detailed review of all significant outstanding receivables. In determining the provision, we analyze our historical collection experience and current economic trends. We reassess these allowances each accounting period. Historically, our actual losses and credits have been consistent with these provisions. If actual payment experience with our customers is different from our estimates, adjustments to these allowances may be necessary, resulting in additional charges to our statements of income. Allowance for doubtful accounts amounted to \$25,000 as of both December 31, 2010 and 2011.

### *Income Taxes*

We are subject to income taxes mainly in Israel, the U.S. and Ireland. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Based on the guidance in ASC 740 Income Taxes, we use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

---

## **Table of Contents**

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We do not record valuation allowances for deferred tax assets that we believe are more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2011 and 2010 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 13 to our Consolidated Financial Statements for the year ended December 31, 2011 for further information regarding income taxes. We have filed or are in the process of filing local and foreign tax returns that are subject to audit by the respective tax authorities. The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statute of limitations on potential assessments expire.

### *Accounting for Equity-Based Compensation*

We account for equity-based compensation in accordance with FASB ASC No. 718, *Stock Compensation* which requires the recognition of compensation expenses based on estimated fair values for all equity-based awards made to employees and non-employee directors.

We estimate the fair value of equity-based awards on the date of grant using an option-pricing model. Accordingly, the value of the portion of an award that is ultimately expected to vest is recognized as an expense over the requisite service period in our consolidated statement of income. We recognize compensation expenses for the value of our awards, which have graded vesting based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

We use the Monte-Carlo simulation model for options granted. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected option term. We have historically not paid dividends and have no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The Monte-Carlo model also considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option. Although our management believes that their estimates and judgments about equity-based compensation expense are reasonable, actual results and future changes in estimates may differ substantially from our current estimates.

### *Impairment of Marketable Securities*

Marketable securities consist of certificates of deposits, corporate bonds and government securities. We determine the appropriate classification of marketable securities at the time of purchase and re-evaluate such designation at each balance sheet date. In accordance with FASB ASC No. 320, *Investment Debt and Equity Securities*, we classify marketable securities as available-for-sale. Available-for-sale securities are stated at fair

---

**Table of Contents**

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 financial income, net. The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in financial income, net. We have 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 we may sell these securities prior to maturity to meet liquidity needs or as part of risk versus reward objectives.

We recognize an impairment charge when a decline in the fair value of our investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. The determination of credit losses requires significant judgment and actual results may be materially different from our estimates. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the ability of the issuer to meet payment obligations, the potential recovery period and our intent to sell, including whether it is more likely than not that we will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired, the amount of impairment is recognized in the statement of income and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

During the years ended December 31, 2009, 2010 and 2011, no other-than temporary impairment were recorded related to our marketable securities.

*Recently issued accounting standards:*

In June 2011, the FASB issued Accounting Standards Update ( ASU ) No. 2011-05, Topic 220 *Presentation of Comprehensive Income* ( ASU 2011-05 ), which requires an entity to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This guidance is effective for fiscal years and interim periods, beginning after December 15, 2011. The adoption of ASU 2011-05 will not have an impact on our financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Topic 350 *Intangibles Goodwill and Other* ( ASU 2011-08 ), which amends Topic 350 to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This guidance is effective for annual and interim goodwill tests performed for years beginning after December 15, 2011. Early adoption is permitted. The adoption of ASU 2011-08 is not expected to have an impact on our financial statements.

In December 2011, the FASB issued ASU No. 2011-12, Topic 220 *Comprehensive Income* ( ASU 2011-12 ), which indefinitely deferred certain provisions of ASU 2011-05, including the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This amendment is effective for both annual and interim financial statements beginning after December 15, 2011. The adoption of ASU 2011-12 will not have an impact on our financial statements.

**Table of Contents****RESULTS OF OPERATIONS**

The following table presents line items from our consolidated statements of income as percentages of our total revenues for the periods indicated:

	2009	2010	2011
<b>Consolidated Statements of Income Data:</b>			
Revenues:			
Licensing	48.8%	41.0%	33.6%
Royalties	42.2%	50.9%	60.4%
Other revenue	9.0%	8.1%	6.0%
Total revenues	100.0%	100.0%	100.0%
Cost of revenues	10.7%	8.3%	5.9%
Gross profit	89.3%	91.7%	94.1%
Operating expenses:			
Research and development, net	43.1%	39.9%	35.8%
Sales and marketing	17.5%	16.3%	14.8%
General and administrative	15.8%	13.6%	12.7%
Total operating expenses	76.4%	69.8%	63.3%
Operating income	12.9%	21.9%	30.8%
Financial income, net	5.3%	4.7%	4.8%
Other income	9.7%		
Income before taxes on income	27.9%	26.6%	35.6%
Income tax expenses	6.2%	1.3%	4.8%
Net income	21.7%	25.3%	30.8%

**Discussion and Analysis**

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

**Revenues***Total Revenues*

	2009	2010	2011
Total revenues (in millions)	\$ 38.5	\$ 44.9	\$ 60.2
<i>Change year-on-year</i>		16.8%	34.1%

The increase in total revenues from 2010 to 2011 principally reflected a combination of significantly higher royalty revenues and higher licensing revenues offset by slightly lower other revenues. The increase in total revenues from 2009 to 2010 principally reflected a combination of significantly higher royalty revenues and slightly higher other revenues, offset by slightly lower licensing revenues.

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 technologies, which we refer to as per unit royalties, and royalties which are paid in a lump sum and in advance to cover a pre-defined 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. Prepaid royalties

**Table of Contents**

are recognized under our licensing revenue line and accounted for 0%, 4% and 4% of our total revenues in 2011, 2010 and 2009, respectively. 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.

In 2011, three customers accounted for 12%, 16% and 17% of our total revenues, compared to three different mix of customers that accounted for 16%, 18% and 19% of our total revenues in 2010 and two customers that accounted for 20% and 13% of our total revenues in 2009. Because of the nature of our license agreements and the associated large initial payments due, the identity of major customers generally varies from period to period, and we do not believe that we are materially dependent on any one specific customer or any specific small number of customers. Our five largest customers accounted for 60% of our total revenues in both 2011 and 2010 and 53% in 2009. This trend is also explained in part by consolidation in the semiconductor industry.

The following table sets forth the products and services that represented 10% or more of our total revenues in each of the periods set forth below:

	Year ended December 31,		
	2009	2010	2011
CEVA-X family	40%	32%	26%
CEVA TeakLite family	35%	48%	49%
CEVA Teak family	13%	12%	17%

We expect these products will continue to generate a significant portion of our revenues for 2012. The remaining amount consists of other families of products and services that each represented less than 10% of our total revenues.

Revenues derived from the handsets and mobile broadband markets represented approximately 77%, 72% and 68% of our total revenues for 2011, 2010 and 2009, respectively.

*Licensing Revenues*

	2009	2010	2011
Licensing revenues (in millions)	\$ 18.8	\$ 18.4	\$ 20.2
<i>Change year-on-year</i>		(2.0)%	10.0%

The increase in licensing revenues from 2010 to 2011 principally reflected higher revenues from our CEVA-X DSP core family of products, our CEVA-Teak DSP core family of products, our Bluetooth IP and our SATA IP, partially offset by lower revenues from our CEVA-TeakLite DSP core family of products. The decrease in licensing revenues from 2009 to 2010 principally reflected lower revenues from our CEVA-X DSP core family of products and our SAS IP, partially offset by higher revenues from our CEVA-TeakLite DSP core family of products.

Licensing revenues accounted for 33.6% of our total revenues in 2011, compared with 41.0% and 48.8% of our total revenues in 2010 and 2009, respectively. The percentage decreases in licensing revenues principally reflect the percentage increase in royalty revenues. In 2011, we signed 30 new license agreements, compared to 25 and 34 in 2010 and 2009, respectively.

*Royalty Revenues*

	2009	2010	2011
Royalty revenues (in millions)	\$ 16.2	\$ 22.9	\$ 36.4
<i>Change year-on-year</i>		40.9%	59.2%

## Table of Contents

Based on Strategic Analytics and internal data, CEVA's worldwide market share of baseband chips that incorporate our technologies represented approximately 42%, 36% and 18% of the worldwide baseband volume based on third quarter shipments in 2011, 2010 and 2009, respectively, and accounted for approximately 78%, 72% and 61% of our total royalty revenues for 2011, 2010 and 2009, respectively. Generally, the average royalty per unit from baseband chips incorporating our technologies is lower than the average royalty per unit from other consumer electronics products incorporating our technologies.

The increase in royalty revenues from 2010 to 2011 principally reflected the continued expansion of our DSPs across both handset and non-handset cellular-enabled products, which were driven by large volume 2G, 3G and TD-SCDMA phones, partially offset by a decrease in the average per unit royalty rate. Royalty revenues for 2010 included \$0.4 million of catch-up royalties on past shipments from two existing customers in the consumer space. Royalty revenues for 2009 included \$0.9 million of catch up royalties on past shipments from another existing customer. Excluding the catch up royalties, the increase in royalty revenues from 2009 to 2010 is due to: (i) significantly higher shipments of 2G and 3G feature phones, (ii) worldwide market expansion for handsets, and (iii) our market share gains within our customer base. The five largest customers paying per unit royalty accounted for 74.0% of our total royalty revenues in 2011, compared to 81.1% and 73.4% in 2010 and 2009, respectively.

Our per unit and prepaid royalty customers reported sales of 1,027 million chipsets incorporating our technologies in 2011, compared to 613 million in 2010 and 334 million in 2009. The increase in units shipped in both 2011 compared to 2010 and 2010 compared to 2009 primarily results from the strong momentum in the shipments of cellular processors enabled by our DSPs that are now widely deployed across all market segments.

### Other Revenues

Other revenues include support and training for licensees and sale of development systems.

	2009	2010	2011
Other revenues (in millions)	\$ 3.5	\$ 3.7	\$ 3.6
<i>Change year-on-year</i>		4.9%	(1.5)%

The slight decrease in other revenues in 2011 compared to 2010 principally reflects a decrease in support revenues, offset by an increase in revenues from sales of development systems. The increase in other revenues in 2010 compared to 2009 principally reflects an increase in revenues from sales of development systems.

### Geographic Revenue Analysis

	2009		2010		2011	
	(in millions, except percentages)					
United States	\$6.0	15.5%	\$9.3	20.8%	\$14.3	23.8%
Europe, Middle East (EME) (1) (2) (3)	\$17.9	46.4%	\$18.8	41.9%	\$19.9	33.0%
Asia Pacific (APAC) (4) (5)	\$14.6	38.1%	\$16.8	37.3%	\$26.0	43.2%
(1) Germany	*)	*)	\$8.7	19.3%	\$12.3	20.4%
(2) Switzerland	*)	*)	\$6.2	13.7%	\$6.2	10.2%
(3) Sweden	\$7.5	19.4%	*)	*)	*)	*)
(4) China	\$6.4	16.7%	\$11.1	24.7%	\$13.8	22.9%
(5) Japan	\$4.5	11.6%	*)	*)	*)	*)

\*) Less than 10%





**Table of Contents**

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 period to period.

The increase in revenues in absolute and percentage terms in the United States from 2010 to 2011 and from 2009 to 2010 reflects more design activities in the United States by large semiconductor companies and OEMs, mainly for our DSP core products, and royalty ramp-up mainly from cellular products.

The increase in revenues in absolute term in the EME region from 2010 to 2011 and from 2009 to 2010 primarily reflects significantly higher royalty revenues and unit shipment ramp-up from cellular products, offset by a continued decrease in licensing activities in the EME region due to the consolidation of semiconductor companies and overall economic slowdown (most significantly in 2011).

The increase in revenues in absolute terms in the APAC region from 2010 to 2011 and from 2009 to 2010 primarily reflects significantly higher royalty revenues and unit shipment ramp-up from cellular products. In 2011, we also generated significantly higher licensing revenues from our DSP core products for audio applications and LTE designs, as well as from our Bluetooth IP.

*Cost of Revenues*

	2009	2010	2011
Cost of revenues (in millions)	\$ 4.1	\$ 3.7	\$ 3.6
<i>Change year-on-year</i>		(9.8)%	(4.1)%

Cost of revenues accounted for 5.9% of our total revenues in 2011, compared with 8.3% of our total revenues in 2010 and 10.7% of our total revenues in 2009. The absolute and percentage decrease in cost of revenues in 2011 compared to 2010 principally reflected lower customization work for our licensees, partially offset by higher labor-related and commission costs and higher non-cash equity compensation expenses. The absolute and percentage decrease in cost of revenues in 2010 compared to 2009 principally reflected lower royalty expense payments to the Office of the Chief Scientist of Israel of the Israeli Ministry of Industry and Trade. Royalty expenses relate to royalties payable to the Office of the Chief Scientist of Israel that amount to 3%-3.5% of the actual sales of certain of our products, the development of which previously included grants from the Office of the Chief Scientist of Israel. The obligation to pay these royalties is contingent on actual sales of these products.

Cost of revenues includes labor-related costs and, where applicable, costs related to overhead, subcontractor, materials, travel, royalty expenses payments to the Office of the Chief Scientist of Israel and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in cost of revenues for the years 2011, 2010 and 2009 were \$239,000, \$77,000 and \$115,000, respectively.

*Operating Expenses*

	2009	2010	2011
		(in millions)	
Research and development, net	\$ 16.6	\$ 17.9	\$ 21.5
Sales and marketing	\$ 6.7	\$ 7.3	\$ 8.9
General and administration	\$ 6.1	\$ 6.1	\$ 7.7
Total operating expenses	\$ 29.4	\$ 31.3	\$ 38.1
<i>Change year-on-year</i>		6.6%	21.7%

The increase in total operating expenses in 2011 compared to 2010 principally reflected (i) higher salary and related costs, mainly due to higher headcount, salary adjustments, and higher currency exchange expenses as a result of the devaluation of the U.S. dollar against the Israeli NIS, and (ii) higher non-cash equity-based

**Table of Contents**

compensation expenses. The increase in total operating expenses in 2010 compared to 2009 principally reflected (i) higher salary and related costs, mainly as a result of salary adjustments and higher bonus provisions, (ii) higher commission expenses due to higher revenues, and (iii) higher project-related expenses, partially offset by higher research grants received from the Office of Chief Scientist of Israel and lower non-cash equity-based compensation expenses.

*Research and Development Expenses, Net*

	2009	2010	2011
Research and development expenses, net (in millions)	\$ 16.6	\$ 17.9	\$ 21.5
<i>Change year-on-year</i>		8.1%	20.3%

The net increase in research and development expenses in 2011 compared to 2010 principally reflected (i) higher salary and related costs, mainly due to higher headcount, salary adjustments, and higher currency exchange expenses as a result of the devaluation of the U.S. dollar against the Israeli NIS, and (ii) higher non-cash equity-based compensation expenses. The net increase in research and development expenses in 2010 compared to 2009 principally reflected higher salary and related costs, mainly as a result of salary adjustments, higher bonus provisions and higher number of research and development personnel hired to leverage opportunities in the LTE and HD video markets, as well as higher project-related expenses, offset by higher research grants received from the Office of Chief Scientist of Israel and lower non-cash equity-based compensation expenses. The average number of research and development personnel in 2011 was 130, compared to 125 in 2010 and 121 in 2009. The number of research and development personnel was 133 at December 31, 2011, compared with 124 at year-end 2010 and 125 at year-end 2009.

Research and development expenses, net of related government grants, were 35.8% of our total revenues in 2011, compared with 39.9% in 2010 and 43.1% in 2009. We recorded net research grants under funding programs of the Office of the Chief Scientist of Israel of \$2,518,000 in 2011, compared with \$2,322,000 in 2010 and \$1,731,000 in 2009. Grants received from the Office of the Chief Scientist of Israel may become repayable if certain criteria under the grants are not met.

Research and development expenses consist primarily of salaries and associated costs and project-related expenses connected with the development of our intellectual property which are expensed as incurred, and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in research and development expenses, net for the years 2011, 2010 and 2009 were \$1,934,000, \$652,000 and \$873,000, respectively. Research and development expenses are net of related government research grants. We view research and development as a principal strategic investment and have continued our commitment to invest heavily in this area, which represents the largest of our ongoing operating expenses. We will need to continue to invest in research and development and such expenses may increase in the future to keep pace with new trends in our industry.

We anticipate that our research and development expenses will be higher in 2012, as compared to 2011, due mainly to additional research and development investments in next-generation baseband processors for LTE-Advance, as well as our new MM3000 imaging platform, and lower government research and development grants.

*Sales and Marketing Expenses*

	2009	2010	2011
Sales and marketing expenses (in millions)	\$ 6.7	\$ 7.3	\$ 8.9
<i>Change year-on-year</i>		8.6%	22.3%

**Table of Contents**

The increase in sales and marketing expenses in 2011 compared to 2010 principally reflected higher salary and related expenses, and higher non-cash equity-based compensation expenses. The increase in sales and marketing expenses in 2010 compared to 2009 principally reflected higher salary and related costs, and higher commission expenses due to higher revenues, offset by lower non-cash equity-based compensation expenses.

Sales and marketing expenses as a percentage of our total revenues were 14.8% in 2011, compared with 16.3% in 2010 and 17.5% in 2009. The total number of sales and marketing personnel was 22 at year-end 2011, compared with 20 at year-end 2010 and 22 at year-end 2009. Sales and marketing expenses consist primarily of salaries, commissions, travel and other costs associated with sales and marketing activities, as well as advertising, trade show participation, public relations and other marketing costs and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in sales and marketing expenses for the years 2011, 2010 and 2009 were \$1,094,000, \$380,000 and \$590,000, respectively.

*General and Administrative Expenses*

	2009	2010	2011
General and administrative expenses (in millions)	\$ 6.1	\$ 6.1	\$ 7.6
<i>Change year-on-year</i>		0.3%	25.1%

The increase in general and administrative expenses in 2011 compared to 2010 principally reflected higher salary and related expenses, higher professional services cost and higher non-cash equity-based compensation expenses. The slight increase in general and administrative expenses in 2010 compared to 2009 principally reflected higher salary and related costs, offset by lower non-cash equity-based compensation expenses. The total number of general and administrative personnel was 24 at year-end 2011, compared with 23 at year-end 2010 and 24 at year-end 2009. General and administrative expenses consist primarily of fees for directors, salaries for management and administrative employees, accounting and legal fees, expenses related to investor relations and facilities expenses associated with general and administrative activities and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in general and administrative expenses for the years 2011, 2010 and 2009 were \$1,891,000, \$1,023,000 and \$1,342,000, respectively.

*Financial Income, net and Other Income*

	2009	2010 (in millions)	2011
Financial income, net	\$ 2.05	\$ 2.10	\$ 2.91
<i>of which:</i>			
Interest income and gains and losses from marketable securities, net	\$ 2.19	\$ 2.16	\$ 2.92
Foreign exchange loss	\$ (0.14)	\$ (0.06)	\$ (0.01)
Other income	\$ 3.71	\$	\$
<i>of which:</i>			
Gain on realization of investments	\$ 3.71	\$	\$

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 increase in interest income, and gains and losses from marketable securities, net, in 2011 as compared to 2010 reflected higher combined cash, bank deposits and marketable securities balances held and higher yields. The slight decrease in interest income, and gains and losses from marketable securities, net, in 2010 as compared to 2009 reflected a combination of lower interest rates and higher amortization of premiums of marketable securities, offset by higher combined cash and marketable securities balances held.

---

## **Table of Contents**

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 loss of \$0.01, \$0.06 and \$0.14 million in 2011, 2010 and 2009, respectively.

Other income consists of gains on realization of an investment. We recorded a gain of \$3.71 million in 2009 from the divestment of our equity investment in Glonav Inc. to NXP Semiconductors (for more information, see Note 12 to the attached Notes to Consolidated Financial Statement for the year ended December 31, 2011).

### ***Provision for Income Taxes***

During the years 2011, 2010 and 2009, we recorded tax expenses of \$2.9, \$0.6 and \$2.4 million, respectively. The provision for income taxes in 2011 reflects an increase income earned domestically and in certain foreign jurisdictions, as well as withholding tax expenses which we were unable to obtain a refund from certain tax authorities. In 2010, we recorded tax expenses of approximately \$2.4 million related to: (i) income earned in certain foreign jurisdictions, and (ii) withholding tax expenses which we were unable to obtain a refund from certain tax authorities, offset by an income tax benefit of approximately \$1.8 million related to: (a) tax loss carrybacks, which allowed us to reduce taxes already paid in previous years, and (b) tax plan strategies to better utilize certain deferred tax assets. In 2009, we recorded tax expenses of approximately \$1.1 million related to a capital gain from the divestment of our equity investment in Glonav to NXP Semiconductors and approximately \$1.3 million related to income earned in certain foreign jurisdictions. We have significant operations in Israel and the Republic of Ireland and a substantial portion of our taxable income is generated there. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

Our Irish subsidiary qualified for a 10% tax rate on its trade until December 31, 2010. Since January 1, 2011, a new tax rate of 12.5% is in effect. Interest income generated by our Irish subsidiary is taxed at a rate of 25%.

Our Israeli subsidiary is entitled to various tax benefits by virtue of the Approved Enterprise and/or Benefited Enterprise status granted to its eight investment programs, as defined by the Israeli Investment Law, which has resulted in a decrease in the effective tax rate otherwise applicable to our Israeli subsidiary. In accordance with the Investment Law, our Israeli subsidiary's investment programs are tax-exempt for a period of two to four years commencing from the year the program first earns taxable income, and is subject to corporate taxes at the rate of 10% to 25%, depending upon the level of foreign ownership, for an additional period of up to a total of six to eight years from when the tax exemption ends. The period of tax rate for Approved Enterprises is limited to the earlier of 12 years from the commencement of production, or 14 years from the approval date, and for Benefited Enterprises, 12 years starting from the year of election.

The tax benefits under our Israeli subsidiary's first four investment programs have expired and are subject to corporate tax of 26% in 2009, 25% in 2010 and 24% in 2011. 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 these investment programs. The approval did result in an increase in the taxable income attributable to our Israeli subsidiary's eighth investment program, which was tax exempt for the year 2011, and therefore no taxes were attributable to this latest program. Our Israeli subsidiary's fifth, sixth and seventh investment programs are subject to corporate tax of 10% in 2011. The tax benefits under our Israeli subsidiary's active investment programs are scheduled to gradually expire starting in 2012.

To maintain our Israeli subsidiary's eligibility for the above tax benefits, it must continue to meet certain conditions under the Investment Law. Should our Israeli subsidiary fail to meet such conditions in the future, these benefits would be cancelled and it would be subject to corporate tax in Israel at the standard corporate rate and could be required to refund tax benefits already received, with interest and adjustments for inflation based on the Israeli consumer price index.

For more information about our provision for income taxes, see Note 13 to the attached Notes to Consolidated Financial Statement for the year ended December 31, 2011.

---

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2011, we had approximately \$15.0 million in cash and cash equivalents, \$55.4 million in short term bank deposits, \$69.0 million in marketable securities, and \$25.1 million in long term bank deposits, totaling \$164.5 million, compared to \$131.0 million at December 31, 2010. During 2011, we invested \$107.0 million of cash in bank deposits and available-for-sale marketable securities with maturities up to 36 months. In addition, bank deposits and available-for-sale marketable securities were sold or redeemed for cash amounting to \$69.0 million in 2011. During 2010, we invested \$98.8 million of cash in bank deposits and available-for-sale marketable securities with maturities up to 34 months. In addition, bank deposits and available-for-sale marketable securities were sold or redeemed for cash amounting to \$72.9 million in 2010. During 2009, we invested \$94.6 million of cash in bank deposits and available-for-sale marketable securities with maturities up to 29 months. In addition, bank deposits and available-for-sale marketable securities were sold or redeemed for cash amounting to \$78.2 million in 2009. All of our marketable securities are classified as available-for-sale. 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 consolidated statements of income. We did not recognize any other-than-temporarily-impaired charges on marketable securities in 2011, 2010 and 2009. For more information about our marketable securities, see Notes 1 and 2 to the attached Notes to Consolidated Financial Statement for the year ended December 31, 2011.

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.

*Operating Activities*

Cash provided by operating activities in 2011 was \$27.1 million and consisted of net income of \$18.6 million, adjustments for non-cash items of \$6.5 million, and changes in operating assets and liabilities of \$2.0 million. Adjustments for non-cash items primarily consisted of \$5.7 million of depreciation and equity-based compensation expenses, \$2.1 million of amortization of premiums on available-for-sale marketable securities, and \$1.1 million of accrued interest on bank deposits. The increase in cash from changes in operating assets and liabilities primarily consisted of a decrease in prepaid expenses and other accounts receivable of \$3.3 million, mainly reflecting a tax refund, a decrease in trade receivable of \$0.8 million and an increase in deferred revenues of \$0.5 million, partially offset by an increase in deferred tax assets, net, of \$1.4 million and a classification of excess tax benefit from equity-based compensation expenses of \$1.3 million as financing cash flows.

Cash provided by operating activities in 2010 was \$16.3 million and consisted of net income of \$11.4 million, adjustments for non-cash items of \$3.7 million, and changes in operating assets and liabilities of \$1.2 million. Adjustments for non-cash items primarily consisted of \$2.7 million of depreciation and equity-based compensation expenses, \$1.6 million of amortization of premiums on available-for-sale marketable securities, and \$0.6 million of accrued interest on bank deposits. The increase in cash from changes in operating assets and liabilities primarily consisted of a decrease in prepaid expenses and other accounts receivable of \$2.6 million, and an increase in accrued expenses and other payables of \$0.7 million, partially offset by an increase in deferred tax assets, net, of \$0.7 million and a classification of excess tax benefit from equity-based compensation expenses of \$1.7 million as financing cash flows.

Cash provided by operating activities in 2009 was \$6.0 million and consisted of net income of \$8.3 million, offset by adjustments for non-cash items of \$0.6 million, and changes in operating assets and liabilities of \$1.7 million. Adjustments for non-cash items primarily consisted of \$3.4 million of depreciation and equity-based compensation expenses, \$0.7 million of amortization of premiums on available-for-sale marketable securities,

---

**Table of Contents**

\$1.0 million of accrued interest on bank deposits, and \$3.7 million gain on realization of investments. The decrease in cash from changes in operating assets and liabilities primarily consisted of: (i) an increase in trade receivables of \$0.6 million, (ii) an increase in prepaid expenses and other accounts receivable of \$0.4 million, (iii) a decrease in deferred revenues of \$0.6 million, (iv) a decrease in accrued expenses and other payables of \$0.8 million, mainly as a result of a cash outflow of \$0.6 million in connection with the restructuring of our SATA activities, and (v) a decrease in accrued severance pay, net of \$0.3 million, partially offset by a decrease in deferred tax assets, net, of \$1.1 million.

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.

#### *Investing Activities*

Net cash used in investing activities in 2011, 2010 and 2009 was \$39.3, \$26.6 and \$13.1 million, respectively. We had a cash outflow of \$42.3 million and a cash inflow of \$44.0 million in respect of investments in marketable securities during 2011. Included in the cash outflow during 2011 was a net investment of \$39.7 million in bank deposits. We had a cash outflow of \$59.6 million and a cash inflow of \$32.5 million in respect of investments in marketable securities during 2010. Included in the cash outflow during 2010 was a net proceed of \$1.2 million in bank deposits. We had a cash outflow of \$48.4 million and a cash inflow of \$31.6 million in respect of investments in marketable securities during 2009. Included in the cash outflow for 2009 was a net proceed of \$0.4 million in bank deposits. Capital equipment purchases of computer hardware and software used in engineering development, furniture and fixtures amounted to approximately \$0.4 million in 2011, \$0.7 million in 2010 and \$0.4 million in 2009. We had a cash outflow of \$0.9 million in 2011 from a minority investment in a private company. We had a cash inflow of \$3.7 million in 2009 from the divestment of our equity investment in Glonav to NXP Semiconductors.

#### *Financing Activities*

Net cash provided by financing activities in 2011, 2010 and 2009 was \$10.0, \$15.8 and \$5.9 million, respectively.

In August 2008, we announced that our board of directors approved a share repurchase program for up to 1.0 million shares of common stock. On September 2008, we announced the adoption of a share repurchase plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act), to repurchase up to 500,000 of the 1.0 million shares of common stock previously authorized by the board for repurchase, which plan was fully utilized during the fourth quarter of 2008. In February 2009, our board of directors approved the adoption of another 10b5-1 plan, authorizing the repurchase of 200,064 shares of our common stock, representing the remaining shares available for repurchase pursuant to the 1.0 million board-authorized share repurchase program. In October 2009, our board of directors authorized the termination of such 10b5-1 plan such that the 106,409 shares of common stock that remained available for repurchase under the plan were repurchasable pursuant to Rule 10b-18 of the Exchange Act. In May 2010, we announced that our board of directors approved the expansion of our share repurchase program by another two million shares of common stock, with one million shares available for repurchase in accordance with Rule 10b5-1, which plan terminated by its terms in November 2011 and one million shares available for repurchase in accordance with Rule 10b-18. In 2010 and 2009, we repurchased 139,709 and 140,828 shares, respectively, of common stock at an average purchase price of \$11.22 and \$5.85 per share, respectively, for an aggregate purchase price of \$1.6 and \$0.8 million, respectively. We did not repurchase any shares of common stock in 2011. As of December 31, 2011, 1,966,700 shares of common stock remained authorized for repurchase pursuant to our share repurchase program. In January 2012, our Board of Directors authorized the repurchase by us of 1,966,700 shares of common stock all pursuant to Rule 10b-18 of the Exchange Act.

**Table of Contents**

In 2011, 2010 and 2009, we received \$8.7, \$15.7 and \$6.7 million, respectively, from the issuance of common stock and treasury stock upon exercise of stock options and purchases under our employee stock purchase plan.

In 2011 and 2010, we classified \$1.3 and \$1.7 million, respectively, of excess tax benefit from equity-based compensation expenses as financing cash flows.

We believe 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. We cannot provide assurance, 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 and minority equity investments. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products or businesses or minority equity investments. 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 or investment candidates, complete acquisitions or investments, integrate acquired businesses into our current operations, or expand into new markets. Furthermore, we cannot provide assurance 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 in ways that could result in diversion of resources and extra expenses. for more detailed information.

**Contractual Obligations**

The table below presents the principal categories of our contractual obligations as of December 31, 2011:

		Payments Due by Period (\$ in thousands)				
		Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Obligations	Leasehold properties	2,250	833	1,337	80	
Operating Lease Obligations	Other	2,087	1,336	751		
Purchase Obligations		206	206			
Severance Pay (*)		5,607				
<b>Total</b>		<b>10,150</b>	<b>2,375</b>	<b>2,088</b>	<b>80</b>	

Operating leasehold obligations principally relate to our offices in Ireland, Israel and the United States. Other operating lease obligations relate to license agreements entered into for maintenance of design tools. Purchase obligations consist of capital and operating purchase order commitments. Other than set forth in the table above, we have no long-term debt or capital lease obligations.

(\*) Severance pay relates to accrued severance obligations to our Israeli employees as required under Israeli labor laws. These obligations are payable only upon termination, retirement or death of the respective employee. Of this amount, only \$134,000 is unfunded.

**Off-Balance Sheet Arrangements**

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

---

**Table of Contents**

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the 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 loss of \$0.01, \$0.06 and \$0.14 million for 2011, 2010 and 2009, respectively. The foreign exchange losses arose principally on the Euro and the NIS assets and liabilities as a result of the currency fluctuations of the Euro and the NIS against the dollar.

As a result of currency fluctuations and the remeasurement of non-U.S. dollar denominated expenditures to 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 flow resulting from salaries paid in currencies other than the U.S. dollar during the year, we instituted a foreign currency cash flow hedging program starting in the second quarter of 2007. 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 2011, 2010 and 2009, we recorded accumulated other comprehensive loss of \$424,000, accumulated other comprehensive gain of \$132,000 and accumulated other comprehensive loss of \$58,000, respectively, from our forward and option contracts, net of taxes, with respect to anticipated payroll expenses for our non-U.S. employees. As of December 31, 2011, the amount of other comprehensive loss from our forward and option contracts, net of taxes, was \$205,000, which will be recorded in the consolidated statements of income during the following 12 months. We recognized a net gain of \$0.18 million for both 2011 and 2010 and a net loss of \$0.11 million for 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. We intend, and have the ability, to hold such investments until recovery of temporary declines in market value or maturity; accordingly, as of December 31, 2011, we believe the losses associated with our investments are temporary and no impairment loss was recognized in 2011. However, we can provide no assurance that we will recover present declines in the market value of our investments.

Interest income and gains and losses from marketable securities, net, were \$2.92 million in 2011, \$2.16 million in 2010 and \$2.19 million in 2009. The increase in interest income, and gains and losses from marketable securities, net, in 2011 as compared to 2010 reflected higher combined cash, bank deposits and marketable securities balances held and higher yields. The slight decrease in interest income, and gains and losses from



## **Table of Contents**

marketable securities, net, in 2010 as compared to 2009 reflected a combination of lower interest rates and higher amortization of premiums of marketable securities, offset by higher combined cash and marketable securities balances held.

We are exposed primarily to fluctuations in the level of U.S. Israeli 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.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not Applicable.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

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 were effective as of December 31, 2011.

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.

#### **Management's Annual Report on Internal Control Over Financial Reporting.**

CEVA, Inc.'s management is responsible for establishing and maintaining adequate internal control over the company's financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. CEVA, Inc.'s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further because of changes in conditions, the effectiveness of internal controls may vary over time such that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of CEVA, Inc.'s internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its assessment using those criteria, management believes that CEVA, Inc.'s internal control over financial reporting was effective as of December 31, 2011.

**Table of Contents**

CEVA, Inc. s independent registered public accountants audited the financial statements included in this Annual Report on Form 10-K and have issued a report concurring with management s assessment of the company s internal control over financial reporting, which appears in Item 8 of this Annual Report.

**ITEM 9B. OTHER INFORMATION**

None.

**Table of Contents**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information regarding our directors required by this item is incorporated herein by reference to the 2012 Proxy Statement. Information regarding the members of the Audit Committee, our code of business conduct and ethics, the identification of the Audit Committee Financial Expert, stockholder nominations of directors and compliance with Section 16(a) of the Securities Exchange Act of 1934 is also incorporated herein by reference to the 2012 Proxy Statement.

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

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated herein by reference to the 2012 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCK HOLDER MATTERS**

The information required by this item is incorporated herein by reference to the 2012 Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated herein by reference to the 2012 Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated herein by reference to the 2012 Proxy Statement.

**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

1. Financial Statements:

Consolidated Balance Sheets as of December 31, 2011 and 2010.

Consolidated Statements of Income for the Years Ended December 31, 2011, 2010 and 2009.

Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2011, 2010 and 2009.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules:

Schedule II: Valuation and Qualifying Accounts

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

3. Exhibits:

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

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2011**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-4
<u>Consolidated Statements of Income</u>	F-5
<u>Statements of Changes in Stockholders' Equity</u>	F-6
<u>Consolidated Statements of Cash Flows</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

F-1

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of CEVA, Inc.

We have audited the accompanying consolidated balance sheets of CEVA, Inc. as of December 31, 2010 and 2011, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at item 15(a) 2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CEVA, Inc. at December 31, 2010 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CEVA, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel Aviv, Israel

March 15, 2012

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of CEVA, Inc.

We have audited CEVA, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CEVA, Inc.'s management is responsible for maintaining effectiveness of internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, CEVA, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CEVA, Inc. as of December 31, 2010 and 2011 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 of CEVA, Inc. and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel Aviv, Israel

March 15, 2012

**Table of Contents****CEVA, INC.****CONSOLIDATED BALANCE SHEETS**

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

	December 31, 2010	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,098	\$ 14,954
Short-term bank deposits	24,807	55,431
Marketable securities (Note 2)	73,874	69,027
Trade receivables (net of allowance for doubtful accounts of \$25 at both December 31, 2010 and 2011)	5,906	5,116
Deferred tax assets (Note 13)	1,288	2,248
Prepaid expenses and other accounts receivable (Note 6)	4,609	2,320
<b>Total current assets</b>	<b>127,582</b>	<b>149,096</b>
Long-term assets:		
Long term bank deposits	15,173	25,106
Severance pay fund	5,433	5,473
Deferred tax assets (Note 13)	574	832
Property and equipment, net (Note 4)	1,348	1,235
Goodwill (Note 5)	36,498	36,498
Investment in other company (Note 7)		900
<b>Total long-term assets</b>	<b>59,026</b>	<b>70,044</b>
<b>Total assets</b>	<b>\$ 186,608</b>	<b>\$ 219,140</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Trade payables	\$ 616	\$ 580
Deferred revenues	616	1,074
Accrued expenses and other payables (Note 8)	10,521	10,669
Deferred tax liabilities	901	290
<b>Total current liabilities</b>	<b>12,654</b>	<b>12,613</b>
Long-term liabilities:		
Accrued severance pay	5,486	5,607
<b>Total long-term liabilities</b>	<b>5,486</b>	<b>5,607</b>
Stockholders equity:		
Preferred stock:		
\$0.001 par value: 5,000,000 shares authorized at December 31, 2010 and 2011; none issued and outstanding		
Common stock:		
\$0.001 par value: 60,000,000 shares authorized at December 31, 2010, and 2011; 22,524,449 and 23,543,746 shares issued and outstanding at December 31, 2010 and 2011, respectively		
	23	24



Edgar Filing: CEVA INC - Form 10-K

Additional paid in capital	176,838	191,945
Accumulated other comprehensive income (loss)	317	(901)
Retained earnings (accumulated deficit)	(8,710)	9,852
<b>Total stockholders' equity</b>	<b>168,468</b>	<b>200,920</b>
Total liabilities and stockholders' equity	\$ 186,608	\$ 219,140

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

F-4

**Table of Contents****CEVA, INC.****CONSOLIDATED STATEMENTS OF INCOME**

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

	Year Ended December 31,		
	2009	2010	2011
Revenues:			
Licensing	\$ 18,764	\$ 18,395	\$ 20,239
Royalties	16,225	22,866	36,403
Other revenues	3,478	3,650	3,597
Total revenues	38,467	44,911	60,239
Cost of revenues	4,117	3,712	3,559
Gross profit	34,350	41,199	56,680
Operating expenses:			
Research and development, net	16,561	17,909	21,543
Sales and marketing	6,732	7,308	8,937
General and administrative	6,087	6,108	7,639
Total operating expenses	29,380	31,325	38,119
Operating income	4,970	9,874	18,561
Financial income, net (Note 12)	2,048	2,095	2,909
Other income (Note 12)	3,712		
Income before taxes on income	10,730	11,969	21,470
Income tax expenses (Note 13)	2,384	591	2,908
Net income	\$ 8,346	\$ 11,378	\$ 18,562
Basic net income per share	\$ 0.42	\$ 0.54	\$ 0.80
Diluted net income per share	\$ 0.41	\$ 0.51	\$ 0.77
Weighted average number of shares of Common Stock used in computation of net income per share (in thousands):			
Basic	19,717	21,251	23,173
Diluted	20,411	22,430	24,153

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

**Table of Contents****CEVA, INC.****STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

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

	Common Stock		Additional paid-in capital	Treasury Stock	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total comprehensive income	Total stockholders equity
	Number of Shares	Amount						
<b>Balance as of January 1, 2009</b>	19,532,026	\$ 20	\$ 153,712	\$ (5,077)	\$ (24)	\$ (26,972)		\$ 121,659
Net income						8,346	\$ 8,346	8,346
Unrealized gain from available-for-sale securities, net of taxes of \$85					333		333	333
Unrealized loss from hedging activities, net of taxes of \$14					(58)		(58)	(58)
Total comprehensive income							\$ 8,621	
Equity-based compensation			2,920					2,920
Issuance of Common Stock upon exercise of stock options (a)	237,515	(*)	1,610					1,610
Purchase of Treasury Stock (a)	(140,828)	(1)		(822)				(823)
Issuance of Treasury Stock upon exercise of stock options (a)	633,008	1	83	4,639		(593)		4,130
Issuance of Treasury Stock under employee stock purchase plan (a)	168,015	(*)		1,260		(281)		979
<b>Balance as of December 31, 2009</b>	20,429,736	\$ 20	\$ 158,325	\$	\$ 251	\$ (19,500)		\$ 139,096
Net income						11,378	\$ 11,378	11,378
Unrealized loss from available-for-sale securities, net of taxes of \$44					(66)		(66)	(66)
Unrealized gain from hedging activities, net of taxes of \$8					132		132	132
Total comprehensive income							\$ 11,444	
Equity-based compensation			2,132					2,132
Tax benefit related to exercise of stock options			1,692					1,692
Issuance of Common Stock upon exercise of stock options (a)	1,960,887	3	13,893					13,896

**Table of Contents**

## CEVA, INC.

## STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (Continued)

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

	Common Stock		Additional paid-in capital	Treasury Stock	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total comprehensive income	Total stockholders equity
	Number of Shares	Amount						
Issuance of Common Stock under employee stock purchase plan (a)	133,826	(*)	795					795
Purchase of Treasury Stock (a)	(139,709)	(*)		(1,567)				(1,567)
Issuance of Treasury Stock upon exercise of stock options (a)	91,389	(*)	1	1,027		(340)		688
Issuance of Treasury Stock under employee stock purchase plan (a)	48,320	(*)		540		(248)		292
<b>Balance as of December 31, 2010</b>	22,524,449	\$ 23	\$ 176,838	\$	\$ 317	\$ (8,710)		\$ 168,468
Net income						18,562	\$ 18,562	18,562
Unrealized loss from available-for-sale securities, net of taxes of \$344					(794)		(794)	(794)
Unrealized loss from hedging activities, net of taxes of \$42					(424)		(424)	(424)
Total comprehensive income							\$ 17,344	
Equity-based compensation			5,158					5,158
Tax benefit related to exercise of stock options			1,290					1,290
Issuance of Common Stock upon exercise of stock options (a)	887,991	1	7,423					7,424
Issuance of Common Stock under employee stock purchase plan (a)	131,306	(*)	1,236					1,236
<b>Balance as of December 31, 2011</b>	23,543,746	\$ 24	\$ 191,945	\$	\$ (901)	\$ 9,852		\$ 200,920
Accumulated unrealized loss from available-for-sale securities, net of taxes of \$303								\$ (696)
Accumulated unrealized loss from hedging activities, net of taxes of \$20								\$ (205)

Accumulated other comprehensive loss, net as of December 31, 2011

\$ (901)

(\*) Represent an amount lower than \$1.

(a) See Note 9 to these consolidated financial statements.

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

F-7

**Table of Contents****CEVA, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(U.S. dollars in thousands)

	Year ended December 31,		
	2009	2010	2011
<b>Cash flows from operating activities:</b>			
Net income	\$ 8,346	\$ 11,378	\$ 18,562
<b>Adjustments required to reconcile net income to net cash provided by operating activities:</b>			
Depreciation	488	528	506
Equity-based compensation	2,920	2,132	5,158
Gain from sale of property and equipment			(10)
Loss (gain) on sale of available-for-sale marketable securities	21	(35)	(54)
Amortization of premiums on available-for-sale marketable securities	652	1,603	2,068
Unrealized foreign exchange loss (gain)	85	26	(46)
Accrued interest on bank deposits	(1,049)	(589)	(1,070)
Gain on realization of investments	(3,712)		
<b>Changes in operating assets and liabilities:</b>			
Decrease (increase) in trade receivables	(605)	89	790
Decrease (increase) in prepaid expenses and other accounts receivable	(438)	2,567	3,338
Decrease (increase) in deferred tax, net	1,100	(688)	(1,443)
Increase (decrease) in trade payables	(88)	46	7
Increase (decrease) in deferred revenues	(602)	184	458
Increase (decrease) in accrued expenses and other payables	(784)	695	23
Excess tax benefit from equity-based compensation		(1,692)	(1,290)
Increase (decrease) in accrued severance pay, net	(325)	21	85
<b>Net cash provided by operating activities</b>	<b>6,009</b>	<b>16,265</b>	<b>27,082</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(368)	(728)	(393)
Proceeds from sale of property and equipment	3		10
Investment in bank deposits	(46,182)	(39,177)	(64,709)
Proceeds from bank deposits	46,598	40,420	25,040
Investment in available-for-sale marketable securities	(48,402)	(59,593)	(42,291)
Proceeds from maturity of available-for-sale marketable securities	21,018	20,061	29,173
Proceeds from sale of available-for-sale marketable securities	10,569	12,418	14,813
Investment in other company			(900)
Proceeds from realization of investment	3,712		
<b>Net cash used in investing activities</b>	<b>(13,052)</b>	<b>(26,599)</b>	<b>(39,257)</b>
<b>Cash flows from financing activities:</b>			
Purchase of Treasury Stock	(823)	(1,567)	
Proceeds from issuance of Common Stock and Treasury Stock upon exercise of stock options	5,740	14,584	7,424
Proceeds from issuance of Common Stock and Treasury Stock under employee stock purchase plan	979	1,087	1,236
Excess tax benefit from equity-based compensation		1,692	1,290
<b>Net cash provided by financing activities</b>	<b>5,896</b>	<b>15,796</b>	<b>9,950</b>
<b>Effect of exchange rate movements on cash</b>	<b>(77)</b>	<b>(468)</b>	<b>81</b>

Edgar Filing: CEVA INC - Form 10-K

Increase (decrease) in cash and cash equivalents	(1,224)	4,994	(2,144)
Cash and cash equivalents at the beginning of the year	13,328	12,104	17,098
Cash and cash equivalents at the end of the year	\$ 12,104	\$ 17,098	\$ 14,954
Supplemental information of cash-flows activities:			
Cash paid (received) during the year for:			
Income and withholding taxes, net	\$ 1,105	\$ (136)	\$ 528

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

---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(in thousands, except share data)*

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

***Organization:***

CEVA, Inc. ( *CEVA* or the *Company* ) was incorporated in Delaware on November 22, 1999. The Company was formed through the combination of Parthus Technologies plc ( *Parthus* ) and the digital signal processor (DSP) cores licensing business and operations of DSP Group, Inc. in November 2002. The Company had no business or operations prior to the combination.

CEVA licenses a family of programmable DSP cores and application-specific platforms, including wireless baseband (both terminal and infrastructure), vision and imaging, 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.

***Basis of presentation:***

The consolidated financial statements have been prepared according to United States Generally Accepted Accounting Principles ( *U.S. GAAP* ).

***Use of estimates:***

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

***Financial statements in U.S. dollars:***

A majority of the revenue of the Company and its subsidiaries is generated in U.S. dollars ( *dollars* ). In addition, a portion of the Company and its subsidiaries' costs are incurred in dollars. The Company's management has determined that the dollar is the primary currency of the economic environment in which the Company and its subsidiaries principally operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars in accordance with Financial Accounting Standards Board ( *FASB* ) Accounting Standards Codification ( *ASC* ) No. 830, *Foreign Currency Matters*. All transaction gains and losses from remeasurement of monetary balance sheet items are reflected in the consolidated statements of income as financial income or expenses, as appropriate, which is included in *financial income, net*. The foreign exchange losses arose principally on the Euro and the NIS liabilities as a result of the currency fluctuations of the Euro and the NIS against the dollar.



---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

***Principles of consolidation:***

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

***Cash equivalents:***

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less from the date acquired.

***Short-term bank deposits:***

Short-term bank deposits are deposits with maturities of more than three months from deposit day but less than one year. The deposits are presented at their cost, including accrued interest. The deposits bear interest annually at an average rate of 1.89% and 2.06% during 2010 and 2011, respectively.

***Marketable securities:***

Marketable securities consist of certificates of deposits, corporate bonds and government 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 FASB ASC No. 320 Investments- Debt and Equity Securities, the Company classifies marketable securities as available-for-sale. 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 financial income, net. The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in financial income, net. 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 recognizes an impairment charge when a decline in the fair value of its investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired ( OTTI ), the amount of impairment is recognized in the statement of income and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. The Company did not recognize OTTI on its marketable securities in 2009, 2010 and 2011.

***Long-term bank deposits:***

Long-term bank deposits are deposits with maturities of more than one year from deposit day. The deposits presented at their cost, including accrued interest. The deposits bear interest annually at an average rate of 2.30% and 2.28% during 2010 and 2011, respectively.

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)****Property and equipment, net:***

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers, software and equipment	15-33
Office furniture and equipment	7-25
Leasehold improvements	10
	(the shorter of the expected lease term or useful economic life)

The Company's long-lived assets are reviewed for impairment in accordance with FASB ASC No. 360-10-35, Impairment or Disposal of Long-Lived Assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the carrying amount of an asset to be held and used is measured by a comparison of its carrying amount to the future undiscounted cash flows expected to be generated by such asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of such asset exceeds its fair value. In determining the fair value of long-lived assets for purposes of measuring impairment, the Company's assumptions include those that market participants would consider in valuations of similar assets.

An asset to be disposed is reported at the lower of its carrying amount or fair value less selling costs. No impairment was recorded in 2009, 2010 and 2011.

***Goodwill:***

The Company applies FASB ASC No. 350, Intangibles Goodwill and Other. Goodwill is carried at cost and is not amortized but rather is tested for impairment at least annually or between annual tests in certain circumstances. The Company conducts its annual test of impairment for goodwill on October 1st of each year.

The Company operates in one operating segment and this segment comprises the only reporting unit.

The Company evaluates whether goodwill has been impaired at the reporting unit level by first determining whether the estimated fair value of the reporting unit is less than its carrying value and, if so, by determining whether the implied fair value of goodwill within the reporting unit is less than the carrying value. In calculating the fair value of the reporting unit, the Company uses its market equity capitalization.

The annual goodwill impairment tests did not result in any impairment charges in 2009, 2010, or 2011.

***Investment in other company:***

The Company's investment in a private company, in which it holds a minority equity interest, is presented at cost based on FASB ASC No. 323, Investments Equity Method and Joint Ventures. The investment is reviewed periodically to determine if its value has been impaired and adjustments are recorded as necessary. During the year ended December 31, 2011, no impairment loss was identified.



---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

***Revenue recognition:***

The Company generates its revenues from (1) licensing intellectual property, which in certain circumstances is modified for customer-specific requirements, (2) royalty revenues, and (3) other revenues, which include revenues from support, training and sale of development systems.

The Company accounts for its IP license revenues and related services in accordance with FASB ASC No. 985-605, Software Revenue Recognition. Revenues are recognized when persuasive evidence of an arrangement exists and no further obligation exists, delivery has occurred, the license fee is fixed or determinable, and collection is reasonably assured. A license may be perpetual or time limited in its application. Revenue earned on licensing arrangements involving multiple elements are allocated to each element based on the relative fair value of the elements. However, with respect to certain transactions, for multiple element transactions, revenue can be recognized under the residual method when vendor specific objective evidence (VSOE) of fair value exists for all undelivered elements and VSOE does not exist for one of the delivered elements. VSOE of fair value of the undelivered elements is determined based on the substantive renewal rate as stated in the agreement. In certain cases in which the Company undertakes services that are not essential to the functionality of the IP license and the Company has not established a VSOE of fair value for the services, the entire arrangement fee is recognized as the services are performed.

Extended payment terms in a licensing arrangement may indicate that the license fees are not deemed to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer unless collection is not considered reasonably assured, then revenue is recognized as payments are collected from the customer, provided all other revenue recognition criteria have been met.

Revenues from license fees that involve significant customization of the Company's IP to customer-specific specifications are recognized in accordance with the principles set out in FASB ASC No. 605-35-25, Construction-Type and Production-Type Contracts Recognition, using contract accounting on a percentage of completion method. The amount of revenue recognized is based on the total license fees under the agreement and the percentage of completion achieved. The percentage of completion is measured by the actual time incurred to date on the project compared to the total estimated project requirements, which corresponds to the costs related to earned revenues. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss on the entire contract.

Royalties from licensing the right to use the Company's IP are recognized on a quarterly basis in arrears as the Company receives quarterly shipment reports from its licensees. The Company determines such revenues by receiving confirmation of sales subject to royalties from licensees. Non-refundable payments on account of future royalties (prepaid royalties) are recognized upon payment becoming due, provided no future obligation exists.

In addition to license fees, contracts with customers generally contain an agreement to provide for post contract support and training, which consists of telephone or e-mail support, correction of errors (bug fixing) and unspecified updates and upgrades. Fees for post contract support, which takes place after delivery to the customer, are specified in the contract and are generally mandatory for the first year. After the mandatory period, the customer may extend the support agreement on similar terms on an annual basis. The Company recognizes revenue for post contract support on a straight-line basis over the period for which technical support is contractually agreed to be provided to the licensee. Revenue from training is recognized as the training is performed.

---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

Revenue from the sale of development systems is recognized when title to the product passes to the customer and all other revenue recognition criteria have been met.

The Company usually does not provide rights of return. When rights of return are included in the license agreements, revenue is deferred until rights of return expire.

Deferred revenues include unearned amounts received under license agreements, unearned technical support and amounts paid by customers not yet recognized as revenues.

***Cost of revenue:***

Cost of revenue includes the costs of products, services and royalty expense payments to the Office of the Chief Scientist of Israel. Cost of product revenue includes shipping, handling, materials and the portion of development costs associated with product development arrangements. Cost of service revenue includes salary costs for personnel engaged in services, training and customer support, and travel, telephone and other support costs. Royalty expenses amounted to 3%-3.5% of the actual sales of certain of the Company's products, the development of which previously received grants from the Office of the Chief Scientist of Israel (Refer to Note 15c for further details).

***Income taxes:***

The Company accounts for income taxes in accordance with FASB ASC No. 740 *Income Taxes* ( FASB ASC No. 740 ). This statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the book and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to be reversed. The Company and its subsidiaries provide a valuation allowance, as necessary, to reduce deferred tax assets to their estimated realizable value.

Accounting for deferred taxes under FASB ASC No. 740 involves the evaluation of a number of factors concerning the realizability of the Company's deferred tax assets. In concluding whether a valuation allowance is required, the Company primarily considers such factors as its operating history and any expected future losses in certain jurisdictions and the nature of its deferred tax assets. The Company provides valuation allowances in respect of deferred tax assets resulting principally from the carryforward of tax losses. Management currently believes that it is more likely than not that the deferred tax relating to the carryforward of losses and certain accrued expenses will not be realized in the foreseeable future. If the Company is not able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets will be charged to earnings during the period in which it makes such a determination. Likewise, if the Company later determines that it is more likely than not that the net deferred tax assets will be realized, the Company will reverse the applicable portion of the previously provided valuation allowance. In order for the Company to realize its deferred tax assets, it must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located.

The Company implements a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with FASB ASC No. 740. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

The Company does not have a provision for U.S. Federal income taxes on the undistributed earnings of its international subsidiaries because such earnings are re-invested and, in the opinion of management, will not be distributed to CEVA, Inc., the U.S. parent company, and will continue to be re-invested indefinitely. In addition, the Company operates within multiple taxing jurisdictions involving complex issues, and it has provisions for tax liabilities on investment activities as appropriate.

***Research and development:***

Research and development costs are charged to the consolidated statements of income as incurred.

***Government grants:***

Government grants received by the Company relating to categories of operating expenditures are credited to the consolidated statements of income during the period in which the expenditure to which they relate is charged. Royalty and non-royalty-bearing grants from the Office of the Chief Scientist of Israel for funding certain approved research and development projects are recognized at the time when the Company is entitled to such grants, on the basis of the related costs incurred, and included as a deduction from research and development expenses.

The Company and its subsidiaries recorded grants in the amounts of \$1,731, \$2,322 and \$2,518 for the years ended December 31, 2009, 2010 and 2011, respectively. The Company's Israeli subsidiary is obligated to pay royalties amounting to 3%-3.5% of the sales of certain products the development of which received grants from the Office of the Chief Scientist of Israel in previous years. The obligation to pay these royalties is contingent on actual sales of the products. Grants received from Enterprise Ireland, Invest Northern Ireland and the Office of the Chief Scientist of Israel may become repayable if certain criteria under the grants are not met.

***Employee benefit plan:***

Certain of the Company's employees are eligible to participate in a defined contribution pension plan (the Plan). Participants in the Plan may elect to defer a portion of their pre-tax earnings into the Plan, which is run by an independent party. The Company makes pension contributions at rates varying up to 10% of the participant's pensionable salary. Contributions to the Plan are recorded as an expense in the consolidated statements of income.

The Company's U.S. operations maintain a retirement plan (the U.S. Plan) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Participants in the U.S. Plan may elect to defer a portion of their pre-tax earnings, up to the Internal Revenue Service annual contribution limit. The Company matches 100% of each participant's contributions up to a maximum of 6% of the participant's base pay. Each participant may contribute up to 15% of base remuneration. Contributions to the U.S. Plan are recorded during the year contributed as an expense in the consolidated statements of income.

Total contributions for the years ended December 31, 2009, 2010 and 2011 were \$297, \$289 and \$311, respectively.

***Accrued severance pay:***

The liability of CEVA's Israeli subsidiary for severance pay is calculated pursuant to Israeli severance pay laws for all Israeli employees, based on the most recent salary of each employee multiplied by the number of years of employment for that employee as of the balance sheet date. The Israeli subsidiary's liability is fully provided for by monthly deposits with severance pay funds, insurance policies and an accrual.

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)*

The deposited funds include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay laws or labor agreements. The value of these policies is recorded as an asset on the Company's consolidated balance sheets.

Severance pay expenses, net of related income, for the years ended December 31, 2009, 2010 and 2011, were \$431, \$853 and \$1,037, respectively.

**Accounting for equity-based compensation:**

The Company accounts for equity-based compensation in accordance with FASB ASC No. 718, "Stock Compensation" which requires the recognition of compensation expenses based on estimated fair values for all equity-based awards made to employees and nonemployees directors.

The Company estimates the fair value of equity-based awards on the date of grant using an option-pricing model. Accordingly, the value of the portion of an award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statements of income. The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company uses the Monte-Carlo simulation model for options granted. The Monte-Carlo simulation model uses the weighted-average assumptions noted in the table below. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected option term. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The Monte-Carlo model also considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option.

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:

	2009	2010	2011
Expected dividend yield	0%	0%	0%
Expected volatility	47%-78%	38%-62%	39%-58%
Risk-free interest rate	0.4%-3.4%	0.2%-3.2%	0.1%-2.7%
Expected forfeiture (employees)	10%	10%	10%
Expected forfeiture (executives)	5%	5%	5%
Contractual term of up to	7 years	7 years	7 years
Suboptimal exercise multiple (employees)	1.5	1.5	2.0-2.1
Suboptimal exercise multiple (executives)	1.3	1.3	2.3

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 years ended 2009, 2010 and 2011 except for the expected life, which was assumed to be six to 24 months, and except for the expected volatility, which was assumed to be in a range of 51%-95% in 2009, 37%-63% in 2010 and 41%-50% in 2011.





**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)*

During the years ended December 31, 2009, 2010 and 2011, the Company recognized equity-based compensation expense related to stock options and employee stock purchase plan as follows:

	Year ended December 31,		
	2009	2010	2011
Cost of revenue	\$ 115	\$ 77	\$ 239
Research and development, net	873	652	1,934
Sales and marketing	590	380	1,094
General and administrative	1,342	1,023	1,891
<b>Total equity-based compensation expense</b>	<b>\$ 2,920</b>	<b>\$ 2,132</b>	<b>\$ 5,158</b>

As of December 31, 2011, there was \$4,921 of unrecognized compensation expense related to unvested awards. This amount is expected to be recognized over a weighted-average period of 1.5 years. To the extent the actual forfeiture rate is different from what the Company has estimated, equity-based compensation related to these awards will be different from the Company's expectations.

FASB ASC No. 718 requires the cash flows resulting from the tax deductions in excess of the equity-based compensation costs recognized for those equity-based awards to be classified as financing cash flows. During the years ended December 31, 2010 and 2011, the Company classified \$1,692 and \$1,290, respectively, of excess tax benefit from equity-based compensation as financing cash flows.

***Fair value of financial instruments:***

The carrying amount of cash, cash equivalents, short term bank deposits, trade receivables, other accounts receivable, trade payables and other accounts payable approximates fair value due to the short-term maturities of these instruments. Marketable securities and derivative instruments are carried at fair value. See Note 3 for more information.

***Comprehensive income (loss):***

The Company accounts for comprehensive income (loss) in accordance with FASB ASC No. 220, Comprehensive Income. This statement establishes standards for the reporting and display of comprehensive income (loss) and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders. The Company determined that its items of other comprehensive income (loss) relate to unrealized gains and losses, net of tax, on hedging derivative instruments and marketable securities.

***Concentration of credit risk:***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, bank deposits, marketable securities, foreign exchange contracts and trade receivables. The Company invests its surplus cash in cash deposits and marketable securities in financial institutions and has established guidelines relating to diversification and maturities to maintain safety and liquidity of the investments.

The majority of the Company's 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 on demand and therefore minimal credit risk exists with respect to them. Nonetheless, deposits with



---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

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 the Company monitors 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 the Company deposit its funds fails or is subject to other adverse conditions in the financial or credit markets. To date the Company has experienced no loss of principal or lack of access to its invested cash or cash equivalents; however, the Company can provide no assurance that access to its invested cash and cash equivalents will not be affected if the financial institutions in which the Company holds its cash and cash equivalents fail. Furthermore, the Company holds an investment portfolio consisting principally of corporate bonds. The Company intends, and has the ability, to hold such investments until recovery of temporary declines in market value or maturity; accordingly, as of December 31, 2011, the Company believes the losses associated with its investments are temporary and no impairment loss was recognized during 2011. However, the Company can provide no assurance that it will recover declines in the market value of its investments.

The Company is exposed primarily to fluctuations in the level of U.S. and EMU 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.

The Company is exposed to financial market risks, including changes in interest rates. The Company typically does not attempt to reduce or eliminate its market exposures on its investment securities because the majority of its investments are short-term.

The Company's trade receivables are geographically diverse and are derived from sales to OEMs, mainly in the United States, Europe and Asia. Concentration of credit risk with respect to trade receivables is limited by credit limits, ongoing credit evaluation and account monitoring procedures. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. The Company makes judgments on its ability to collect outstanding receivables and provides allowances for the portion of receivables for which collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding receivables. In determining the provision, the Company considers the expected collectability of receivables. Allowance for doubtful accounts amounted to \$25 as of both December 31, 2010 and 2011.

The Company has no off-balance-sheet concentration of credit risk.

***Derivative 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.

---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

The Company hedges portions of the anticipated payroll of its non-U.S. employees denominated in the 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.

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 December 31, 2010 and 2011, the notional principal amount of the Hedging Contracts to sell U.S. dollars held by the Company was \$3,997 and \$8,350, 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 December 31, 2010 and 2011, the notional principal amount of the foreign exchange contracts to sell NIS held by the Company was \$13,246 and \$0, respectively.

***Advertising expenses:***

Advertising expenses are charged to consolidated statements of income as incurred. Advertising expenses for the years ended December 31, 2009, 2010 and 2011 were \$438, \$489 and \$570, respectively.

***Treasury stock:***

The Company repurchases its common stock from time to time pursuant to a board-authorized share repurchase program through open market purchases, privately negotiated transactions and repurchase plans in accordance with Rules 10b5-1 and 10b-18 of the United States Securities Exchange Act of 1934, as amended.

The repurchases of common stock are accounted for as treasury stock, and result in a reduction of stockholders' equity. When treasury shares are reissued, the Company accounts for the reissuance in accordance with FASB ASC No. 505-30, Treasury Stock and charges the excess of the repurchase cost over issuance price using the weighted average method to retained earnings (accumulated deficit). The purchase cost is calculated based on the specific identified method. In the case where the repurchase cost over issuance price using the weighted average method is lower than the issuance price, the Company credits the difference to additional paid-in capital.

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)***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 year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each year, plus dilutive potential shares of common stock considered outstanding during the year, in accordance with FASB ASC No. 260, Earnings Per Share.

	Year ended December 31,		
	2009	2010	2011
<b>Numerator:</b>			
Net income	\$ 8,346	\$ 11,378	\$ 18,562
<b>Denominator:</b>			
Weighted-average common stock outstanding	19,717	21,251	23,173
Effect of stock options	694	1,179	980
Diluted weighted-average common stock outstanding	20,411	22,430	24,153
Basic net income per share	\$ 0.42	\$ 0.54	\$ 0.80
Diluted net income per share	\$ 0.41	\$ 0.51	\$ 0.77

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, were 1,688,811, 68,718 and 592,647 shares for the years ended December 31, 2009, 2010 and 2011, respectively.

**Recently issued accounting standards:**

In June 2011, the FASB issued Accounting Standards Update ( ASU ) No. 2011-05, Topic 220 *Presentation of Comprehensive Income* ( ASU 2011-05 ), which requires an entity to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance is effective for fiscal years and interim periods, beginning after December 15, 2011. The Company's adoption of ASU 2011-05 will not have an impact on its financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Topic 350 *Intangibles - Goodwill and Other* ( ASU 2011-08 ), which amends Topic 350 to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This guidance is effective for annual and interim goodwill tests performed for years beginning after December 15, 2011. Early adoption is permitted. The Company's adoption of ASU 2011-08 is not expected to have an impact on its financial statements.

In December 2011, the FASB issued ASU No. 2011-12, Topic 220 *Comprehensive Income* ( ASU 2011-12 ), which indefinitely deferred certain provisions of ASU 2011-05, including the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This amendment is effective for both annual and interim financial statements beginning after December 15, 2011. The Company's adoption of ASU 2011-12 will not have an impact on its financial statements.



**Table of Contents**

## CEVA, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*(in thousands, except share data)***NOTE 2: MARKETABLE SECURITIES**

The following is a summary of available-for-sale marketable securities at December 31, 2010 and 2011:

	Amortized cost	As at December 31, 2011 Gross unrealized gains	Gross unrealized losses	Fair value
<b>Available-for-sale matures within one year:</b>				
Corporate bonds	\$ 22,204	\$ 16	\$ (115)	\$ 22,105
	22,204	16	(115)	22,105
<b>Available-for-sale matures after one year through three years:</b>				
Certificates of deposits	2,206		(2)	2,204
Foreign government bond	592		(3)	589
Corporate bonds	45,024	84	(979)	44,129
	47,822	84	(984)	46,922
<b>Total</b>	<b>\$ 70,026</b>	<b>\$ 100</b>	<b>\$ (1,099)</b>	<b>\$ 69,027</b>

	Amortized cost	As at December 31, 2010 Gross unrealized gains	Gross unrealized losses	Fair value
<b>Available-for-sale matures within one year:</b>				
Certificates of deposits	\$ 5,358	\$ 3	\$	\$ 5,361
Corporate bonds	25,909	112	(23)	25,998
	31,267	115	(23)	31,359
<b>Available-for-sale matures after one year through three years:</b>				
Corporate bonds	42,468	216	(169)	42,515
	42,468	216	(169)	42,515
<b>Total</b>	<b>\$ 73,735</b>	<b>\$ 331</b>	<b>\$ (192)</b>	<b>\$ 73,874</b>

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2010 and 2011, and the length of time that those investments have been in a continuous loss position:

Edgar Filing: CEVA INC - Form 10-K

	Less than 12 months		12 months or greater	
	Fair Value	Gross unrealized loss	Fair Value	Gross unrealized loss
As of December 31, 2011	\$ 48,594	\$ (923)	\$ 5,476	\$ (176)
As of December 31, 2010	\$ 27,249	\$ (189)	\$ 1,154	\$ (3)

As of December 31, 2010 and 2011, management believes the impairments are not other than temporary and therefore the impairment losses were recorded in accumulated other comprehensive income (loss). The Company has no intent to sell these marketable securities and it is more likely than not that the Company will not be required to sell these marketable securities prior to the recovery of the entire amortized cost basis.

For the years ended December 31, 2009, 2010 and 2011, the Company recognizes gross realized gains of \$45, \$73 and \$77, respectively, and gross realized losses of \$66, \$38 and \$23, respectively.

F-20



**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)***NOTE 3: 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 1 or 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.

Description	December 31,			
	2011	Level I	Level II	Level III
Assets:				
Marketable securities:				
Certificates of deposits	\$ 2,204		\$ 2,204	
Foreign government bond	589		589	
Corporate bonds	66,234		66,234	
Liabilities:				
Foreign exchange contracts	225		225	

Description	December 31,			
	2010	Level I	Level II	Level III
Assets:				
Marketable securities:				
Certificates of deposits	5,361	4,316	1,045	
Corporate bonds	68,513		68,513	
Foreign exchange contracts	241		241	
Liabilities:				
Foreign exchange contracts	709		709	



**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)***NOTE 4: PROPERTY AND EQUIPMENT, NET**

Composition of assets, grouped by major classifications, is as follows:

	As at December 31,	
	2010	2011
Cost:		
Computers, software and equipment	\$ 11,682	\$ 11,289
Office furniture and equipment	925	829
Leasehold improvements	775	784
	13,382	12,902
Less Accumulated depreciation	(12,034)	(11,667)
Property and equipment, net	\$ 1,348	\$ 1,235

In the fourth quarter of 2011, there was a decrease in the amount of property and equipment of \$873 as a result of the disposal of redundant assets following office relocation in Cork, Ireland.

**NOTE 5: GOODWILL**

	As at December 31,	
	2010	2011
Gross carrying amount	\$ 38,398	\$ 38,398
Accumulated impairment loss/ asset write down	1,900	1,900
	\$ 36,498	\$ 36,498

**NOTE 6: PREPAID EXPENSES AND OTHER ACCOUNTS RECEIVABLE****PREPAID EXPENSES**

	As at December 31,	
	2010	2011
Prepaid leased design tools	\$ 306	\$ 383
Prepaid car leases	183	144
Prepaid rent	231	199
Other prepaid expenses	113	197
	\$ 833	\$ 923

**OTHER ACCOUNTS RECEIVABLE**

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2011</b>
Taxes	\$ 2,242	\$ 251
Interest receivable	1,014	948
Foreign exchange contracts	241	
Other	279	198
	<b>\$ 3,776</b>	<b>\$ 1,397</b>

F-22

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)***NOTE 7: INVESTMENT IN OTHER COMPANY**

In November 2011, the Company invested \$1,500 in a private company to be paid in three installments. The first installment of \$900 was paid in November 2011, and the other two installments in a total sum of \$600 will be paid based on completion of certain development milestones, which is expected to occur in 2012.

**NOTE 8: ACCRUED EXPENSES AND OTHER PAYABLES**

	As at December 31,	
	2010	2011
Accrued payroll and related benefits	\$ 6,784	\$ 6,921
Engineering accruals	782	834
Professional fees	763	690
Income tax payable	70	545
Foreign exchange contracts	709	225
Other accruals	1,413	1,454
	<b>\$ 10,521</b>	<b>\$ 10,669</b>

**NOTE 9: STOCKHOLDERS' EQUITY***a. Common stock:*

Holders of common stock are entitled to one vote per share on all matters to be voted upon by the Company's stockholders. In the event of a liquidation, dissolution or winding up of the Company, holders of common stock are entitled to share ratably in all of the Company's assets. The Board of Directors may declare a dividend out of funds legally available therefore and the holders of common stock are entitled to receive ratably any such dividends. Holders of common stock have no preemptive rights or other subscription rights to convert their shares into any other securities.

*b. Preferred stock:*

The Company is authorized to issue up to 5,000,000 shares of blank check preferred stock, par value \$0.001 per share. Such preferred stock may be issued by the Board of Directors from time to time in one or more series. These series may have designations, preferences and relative, participating, optional or other special rights and any qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, exchange rights, voting rights, redemption rights (including sinking and purchase fund provisions), and dissolution preferences as may be determined by the Company's Board of Directors.

*c. Share repurchase program:*

In August 2008, the Company announced that its Board of Directors approved a share repurchase program for up to one million shares of common stock. In September 2008, the Company announced that it adopted a share repurchase plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act), to repurchase up to 500,000 of the one million shares of common stock previously authorized by the Board for repurchase, which plan was fully utilized during the fourth quarter of 2008. In February 2009, the Company's Board of Directors approved the adoption of another 10b5-1 plan, authorizing the repurchase of 200,064 shares of its common stock, representing the remaining shares available for repurchase pursuant to the one-million board-authorized share repurchase program. In

October 2009, the Company's Board of Directors

F-23

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)*

authorized the termination of such 10b5-1 plan such that the 106,409 shares of common stock that remained available for repurchase under the plan were repurchasable pursuant to Rule 10b-18 of the Exchange Act. In May 2010, the Company announced that its Board of Directors approved the expansion of its share repurchase program by another two million shares of common stock, with one million shares available for repurchase in accordance with Rule 10b5-1, which plan terminated by its terms in November 2011 and one million shares available for repurchase in accordance with Rule 10b-18. As of December 31, 2011, 1,966,700 shares of common stock remained authorized for repurchase pursuant to the Company's share repurchase program. In January 2012, the Company's Board of Directors authorized the repurchase by the Company of 1,966,700 shares of common stock all pursuant to Rule 10b-18 of the Exchange Act.

In 2009 and 2010, the Company repurchased 140,828 and 139,709 shares, respectively, of common stock at an average purchase price of \$5.85 and \$11.22 per share, respectively, for an aggregate purchase price of \$823 and \$1,567, respectively. The Company did not repurchase any shares during 2011.

*d. Employee and non-employee stock 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 ESPP to employees of the Company and its subsidiaries. The options granted under the Company's stock incentive plans have been granted with exercise price equal to the market price of the Company's common stock on the grant date. Generally, options granted under stock incentive plans vest at a rate of 25% of the shares underlying the option after one year and the remaining shares vest in equal portions over the following 36 months, such that all shares are vested after four years. Options granted to non-employee directors under the Company's Amended and Restated 2003 Director Stock Option Plan (the Director Plan) vest 25% of the shares underlying the option on each anniversary of the option grant.

A summary of the Company's stock option activity and related information for the year ended December 31, 2011, is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic-value
Outstanding at the beginning of the year	2,041,078	\$ 8.65		
Granted	762,000	26.03		
Exercised	(887,991)	8.36		
Forfeited or expired	(35,591)	18.00		
Outstanding at the end of the year	1,879,496	\$ 15.66	4.9	\$ 27,449,976
Vested or expected to vest as of December 31	1,800,051	\$ 15.43	4.9	\$ 26,686,576
Exercisable as of December 31	723,803	\$ 8.45	3.4	\$ 15,783,448

The weighted average fair value of options granted during the years ended December 31, 2009, 2010 and 2011 was \$3.3, \$4.9 and \$11.6 per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2010 and 2011 was \$3,610, \$18,410 and \$18,286, respectively.





**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)*

The options granted to employees and non-employee directors of the Company and its subsidiaries which were outstanding as of December 31, 2011 have been classified into a range of exercise prices as follows:

Exercise price (range)	Number of options	Outstanding Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Exercisable Weighted average remaining contractual life (years)	Weighted average exercise price
5.70-7.97	377,130	3.4	\$ 7.18	267,723	3.1	\$ 7.14
8.03-8.68	390,726	3.6	8.45	277,231	3.4	8.46
9.10-17.56	370,140	4.4	11.08	178,849	3.9	10.42
24.17	535,500	6.1	24.17			
28.97-32.34	206,000	8.3	30.92			
	1,879,496	4.9	\$ 15.66	723,803	3.4	\$ 8.45

**Stock Plans**

As of December 31, 2011 the Company maintains the Director Plan and the 2011 Stock Incentive Plan (the 2011 Plan and together with the Director Plan, the Stock Plans ).

As of December 31, 2011, options to purchase 1,679,634 shares of common stock were available for grant under the Stock Plans.

**2011 Stock Incentive Plan**

The 2011 Plan was adopted by the Company's Board of Directors in February 2011 and stockholders on May 17, 2011. Up to 1,100,000 shares of common stock, plus the number of shares that remain available for grant of awards under the Company's 2002 Stock Incentive Plan (the 2002 Plan), plus any shares that would otherwise return to the 2002 Plan as a result of forfeiture, termination or expiration of awards previously granted under the 2002 plan (subject to adjustment in the event of stock splits and other similar events), are reserved for issuance under the 2011 Plan. The 2002 Plan was automatically terminated and replaced and superseded by the 2011 Plan, except that any awards previously granted under the 2002 Plan shall remain in effect pursuant to their term.

The 2011 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code, nonqualified stock options, restricted stock, restricted stock units, dividend equivalent rights and stock appreciation rights. Officers, employees, directors, outside consultants and advisors of the Company and those of the Company's present and future parent and subsidiary corporations are eligible to receive awards under the 2011 Plan. Under current U.S. tax laws, incentive stock options may only be granted to employees. The Company may grant awards at an exercise or purchase price less than, equal to or greater than the fair market value of common stock on the date of the grant. Under current U.S. tax laws, incentive stock options and options intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code may not be granted at an exercise price less than the fair market value of common stock on the date of grant, or less than 110% of the fair market value in the case of incentive stock options granted to optionees holding more than 10% of the voting power of the Company's securities. The 2011 Plan permits the Board of Directors to determine how grantees may pay the exercise or purchase price of their awards, including by cash, check or in connection with a cashless exercise through a broker, by surrender of shares of common stock, or by any combination of the permitted forms of payment.



---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

Unless sooner terminated, the 2011 Plan is effective until February 2021.

The Company's Board of Directors or a committee thereof has authority to administer the 2011 Plan. The Company's Board of Directors has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the 2011 Plan and to interpret its provisions.

*2003 Director Stock Option Plan*

Under the Director Plan, 1,100,000 shares of common stock (subject to adjustment in the event of stock splits and other similar events) are authorized for issuance.

The Director Plan provides for the grant of nonqualified stock options to non-employee directors. Options must be granted at an exercise price equal to the fair market value of the common stock on the date of grant. Options may not be granted for a term in excess of ten years. The Director Plan permits the following forms of payment of the exercise price of options: (i) payment by cash or certified or bank check, or (ii) delivery to the Company of an irrevocable undertaking by a broker to deliver sufficient funds or delivery to the Company of irrevocable instructions to a broker to deliver sufficient funds.

Under the terms of the Director Plan, any person who becomes a non-employee director of the Company will automatically be granted an option to purchase 38,000 shares of common stock. On June 30 of each year, beginning in 2004, each non-employee director who has served on the Company's Board of Directors for at least six (6) months as of such date will automatically be granted an option to purchase 13,000 shares of common stock, and each non-employee director would receive an option to purchase 13,000 shares of common stock for each committee on which he or she had served as chairperson for at least six months prior to such date. The Chairman of the Board is granted an additional option to purchase 15,000 shares of common stock on an annual basis.

In 2009 and 2010, option grants to non-employee directors were generally not granted from the Director Plan as a result of an insufficient number of authorized shares under the Director Plan. As a result, options to purchase 132,000 shares of common stock in both 2009 and 2010 were granted to non-employee directors mostly from the Company's 2000 Stock Incentive Plan (the 2000 Plan) and the 2002 Plan. In 2011 and after stockholder approval of an increase in the authorized number of shares under the Director Plan, options to purchase 119,000 shares of common stock were granted to non-employee directors from the Director Plan.

The Company's Board of Directors may grant additional options to purchase common stock with a vesting schedule to be determined by the Board of Directors in recognition of services provided by a non-employee director in his or her capacity as a director.

The Company's Board of Directors or a committee thereof has authority to administer the Director Plan. The Company's Board of Directors has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the Director Plan and to interpret its provisions.

*2002 Employee Stock Purchase Plan ( ESPP )*

The ESPP was adopted by the Company's Board of Directors and stockholder in July 2002. The ESPP is intended to qualify as an Employee Stock Purchase Plan under Section 423 of the U.S. Internal Revenue Code and is intended to provide the Company's employees with an opportunity to purchase shares of common stock through payroll deductions. At the annual meeting of stockholders held on July 18, 2006, the stockholders

---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

approved an increase of 500,000 shares of common stock under the ESPP. At the annual meeting of stockholders held on June 2, 2009, the stockholders approved an increase of 650,000 shares of common stock under the ESPP. Accordingly, an aggregate of 2,150,000 shares of common stock (subject to adjustment in the event of future stock splits, future stock dividends or other similar changes in the common stock or the Company's capital structure) are reserved for issuance. As of December 31, 2011, 386,244 shares of common stock were available for future issuance under the ESPP.

All of the Company's employees who are regularly employed for more than five months in any calendar year and work 20 hours or more per week are eligible to participate in the ESPP. Non-employee directors, consultants, and employees subject to the rules or laws of a foreign jurisdiction that prohibit or make impractical their participation in an employee stock purchase plan are not eligible to participate in the ESPP.

The ESPP designates offer periods, purchase periods and exercise dates. Offer periods generally will be overlapping periods of 24 months. Purchase periods generally will be six-month periods. Exercise dates are the last day of each purchase period. In the event the Company merges with or into another corporation, sells all or substantially all of the Company's assets, or enters into other transactions in which all of the Company's stockholders before the transaction own less than 50% of the total combined voting power of the Company's outstanding securities following the transaction, the Company's Board of Directors or a committee designated by the Board may elect to shorten the offer period then in progress.

The price per share at which shares of common stock may be purchased under the ESPP during any purchase period is the lesser of:

85% of the fair market value of common stock on the date of grant of the purchase right, which is the commencement of an offer period; or

85% of the fair market value of common stock on the exercise date, which is the last day of a purchase period.

The participant's purchase right is exercised in the above noted manner on each exercise date arising during the offer period unless, on the first day of any purchase period, the fair market value of common stock is lower than the fair market value of common stock on the first day of the offer period. If so, the participant's participation in the original offer period will be terminated, and the participant will automatically be enrolled in the new offer period effective the same date.

The ESPP is administered by the Board of Directors or a committee designated by the Board, which will have the authority to terminate or amend the plan, subject to specified restrictions, and otherwise to administer and resolve all questions relating to the administration of the plan.

*e. Dividend policy:*

The Company has never declared or paid any cash dividends on its capital stock and does not anticipate paying any cash dividends in the foreseeable future.

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)***NOTE 10: DERIVATIVES AND HEDGING ACTIVITIES**

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

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2011</b>
<b>Derivative assets:</b>		
Derivatives designated as cash flow hedging instruments:		
Foreign exchange option contracts	\$ 151	\$
Foreign exchange forward contracts	90	
<b>Total</b>	<b>\$ 241</b>	<b>\$</b>
<b>Derivative liabilities:</b>		
Derivatives designated as cash flow hedging instruments:		
Foreign exchange option contracts	\$	\$ 143
Foreign exchange forward contracts		82
Derivatives not designated as hedging instruments:		
Foreign exchange forward contracts	709	
<b>Total</b>	<b>\$ 709</b>	<b>\$ 225</b>

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 on the Company's consolidated balance sheets.

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

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Derivatives designated as cash flow hedging instruments:			
Foreign exchange option contracts	\$ (209)	\$ 176	\$ (102)
Foreign exchange forward contracts	52	143	(181)
	\$ (157)	\$ 319	\$ (283)

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

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>

Edgar Filing: CEVA INC - Form 10-K

Derivatives designated as cash flow hedging instruments:			
Foreign exchange option contracts	\$ 226	\$ (128)	\$ (192)
Foreign exchange forward contracts	(113)	(51)	9
	\$ 113	\$ (179)	\$ (183)

F-28

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)*

The Company recorded in cost of revenues and operating expenses, a net loss of \$113, a net gain of \$179 and a net gain of \$183 during the years ended December 31, 2009, 2010 and 2011, respectively, related to its Hedging Contracts. In addition, the Company recorded in financial income, net, a net loss of \$709 and a net gain of \$43 during the years ended December 31, 2010 and 2011, respectively, related to derivatives not designated as hedging instruments. There were no derivatives not designated as hedging instruments during 2009.

**NOTE 11: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA***a. Summary information about geographic areas:*

FASB ASC No. 280, Segment Reporting, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company manages its business on a 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 revenues within geographic areas:

	Year ended December 31,		
	2009	2010	2011
Revenues based on customer location:			
United States	\$ 5,982	\$ 9,326	\$ 14,312
Europe, Middle East (1) (2) (3)	17,843	18,825	19,878
Asia Pacific (4) (5)	14,642	16,760	26,049
	\$ 38,467	\$ 44,911	\$ 60,239
(1) Germany	*)	\$ 8,670	\$ 12,262
(2) Switzerland	*)	\$ 6,163	\$ 6,150
(3) Sweden	\$ 7,454	*)	*)
(4) China	\$ 6,420	\$ 11,098	\$ 13,790
(5) Japan	\$ 4,455	*)	*)

\*) Less than 10%

	December 31,		
	2009	2010	2011
Long-lived assets by geographic region:			
United States	\$ 25	\$ 35	\$ 30
Ireland	69	47	47
Israel	1,044	1,260	1,157
Other	10	6	1
	\$ 1,148	\$ 1,348	\$ 1,235





**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)**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:

	Year ended December 31,		
	2009	2010	2011
Customer A	20%	16%	*)
Customer B	13%	18%	17%
Customer C	*)	19%	*)
Customer D	*)	*)	12%
Customer E		*)	16%

\*) Less than 10%

*c. Information about Products and Services:*

The following table sets forth the products and services that represented 10% or more of the Company's total revenues in each of the periods set forth below:

	Year ended December 31,		
	2009	2010	2011
CEVA-X family	40%	32%	26%
CEVA TeakLite family	35%	48%	49%
CEVA Teak family	13%	12%	17%

The remaining amount consists of other families of products and services that each represented less than 10% of total revenues.

**NOTE 12: SELECTED STATEMENTS OF INCOME DATA**

Financial income, net:

	Year ended December 31,		
	2009	2010	2011
Interest income	\$ 2,863	\$ 3,724	\$ 4,937
Gain (loss) on available-for-sale marketable securities, net	(21)	35	54
Amortization of premium on available-for-sale marketable securities, net	(652)	(1,603)	(2,068)
Foreign exchange loss, net	(142)	(61)	(14)
	\$ 2,048	\$ 2,095	\$ 2,909

Other income:

Edgar Filing: CEVA INC - Form 10-K

	Year ended December 31,		
	2009	2010	2011
Gain on realization of investments	\$ 3,712	\$	\$

During 2009, the Company received an aggregate payment of \$3,712 and recorded a capital gain of \$3,712 from the divestment of its equity investment in Glonav Inc.

F-30

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

**NOTE 13: TAXES ON INCOME**

a. A number of the Company's operating subsidiaries are taxed at rates lower than U.S. rates.

*1. Irish Subsidiaries*

The Irish operating subsidiary qualified for a 10% tax rate on its trade until December 31, 2010. Since January 1, 2011, a new tax rate of 12.5% is in effect going forward. Interest income earned by the Irish subsidiary is taxed at a rate of 25%. As of January 1, 2012, the open tax years, subject to review by the applicable taxing authorities for the Irish subsidiary, is 2007 and subsequent years.

*2. Israeli Subsidiary*

A. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ( Investment Law ):

In accordance with the Investment Law, CEVA's Israeli subsidiary is entitled to various tax benefits by virtue of the Approved Enterprise and/or Benefited Enterprise status granted to its eight investment programs, as defined by the Investment Law, and has resulted in a decrease in the effective tax rate otherwise applicable to CEVA's Israeli subsidiary.

As permitted by the Investment Law, CEVA's Israeli subsidiary has elected the alternative benefits track for its investment programs, which is a waiver of grants in return for tax exemption. Accordingly, the investment programs are tax-exempt for a period of two to four years commencing from the year the program first earns taxable income, and is subject to corporate taxes at the rate of 10% to 25%, depending upon the level of foreign ownership of the Company, for an additional period of up to a total of six to eight years from when the tax exemption ends. The period of tax rate for Approved Enterprises is limited to the earlier of 12 years from the commencement of production, or 14 years from the approval date, and for Benefited Enterprises, 12 years starting from the year of election.

The tax benefits under CEVA's Israeli subsidiary's first, second, third and fourth investment programs have expired. CEVA's Israeli subsidiary's fifth and sixth investment programs are under the Approved Enterprise status and commenced operations in 2002 and 2004, respectively. The plans are tax exempt for two years from the first year they had taxable income and are entitled to a corporate tax rate of 10%-25% (based on the percentage of foreign ownership) for an additional period of eight years. Income from the fifth and sixth investment programs was subject to a reduced tax rate of 10% in 2011.

On April 1, 2005, an amendment to the Investment Law came into effect (the Amendment ) and significantly changes the provisions of the Investment Law. The Amendment includes 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 commencing after 2004. The Amendment also simplifies the approval process for an Approved Enterprise. As a result of the Amendment, it is no longer necessary for a company to approach the Investment Center in order to receive the tax benefits previously available under the alternative benefits track. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns or by notifying the Israeli Tax Authority within 12 months from the end of that year ( the year of election ), provided that its investment program meets the criteria for tax benefits set out by the Amendment. An investment program that receives tax benefits under the Amendment is called a Benefited Enterprise, rather than the previous terminology of Approved Enterprise.

---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

CEVA's Israeli subsidiary implemented its seventh and eighth investment programs in 2007 and 2010, respectively, and they are deemed Benefited Enterprises and are subject to the provisions of the Amendment. Income from the seventh investment program was subject to a reduced tax rate of 10% in 2011.

In 2008, CEVA's Israeli subsidiary received an approval for the erosion of tax basis with respect to its second, third and fourth investment programs and therefore notwithstanding the expiration of the tax benefits under these programs, no taxes were payable. The approval did result in an increase in the taxable income attributable to the eighth plan, which was tax exempt for the year 2011, and therefore no taxes were attributed to the eighth plan.

The principal benefits by virtue of the Investment Law are:

X. Tax benefits and tax rates:

Since CEVA's Israeli subsidiary is operating under more than one approval, its effective tax rate is the result of a weighted combination of the various applicable rates.

The Company's Board of Directors has determined that tax-exempt income earned by the Israeli subsidiary's Approved Enterprise and Benefited Enterprise programs will not be distributed as dividends, and the Israeli subsidiary intends to reinvest the amount of its tax exempt income. Accordingly, no deferred income taxes have been provided on income attributable to the Israeli subsidiary's Approved Enterprise and Benefited Enterprise programs as the undistributed tax exempt income is essentially permanently reinvested.

In the event CEVA distributes a dividend out of the retained tax exempt profits, such profits will be subject to corporate tax in the year the dividend is distributed, in respect of the gross amount of the dividend distributed and at a rate that would have been applicable had the Company not elected the alternative benefits track (10%-25%, depending on the level of foreign investment in the Company). In addition, the dividend recipient is subject to tax at a reduced rate of 15% applicable to dividends from Approved Enterprises if the dividend is distributed during the exemption period or within 12 years thereafter. This tax must be withheld by CEVA at the source. However, in the event that the Company qualifies as a Foreign Investors Company, there would be no such limitation.

As a result of the Amendment, tax-exempt income generated from a Benefited Enterprise under the provisions of the Amendment will subject the Company to taxes upon distribution or liquidation, and the Company may be required to record deferred tax liability with respect to such tax-exempt income. As of December 31 2011, the Company generated exempt income under the provisions of the Investment Law which in the case of distribution or liquidation of the Israeli subsidiary would result in the Israeli subsidiary being taxed at the reduced corporate tax rate of 10%, which in turn will generate tax liabilities of \$1,848.

Tax benefits are available under the Amendment to production facilities, which generally are required to derive more than 25% of their business income from export. In order to receive the tax benefits under the Amendment, a company must make an investment in the Benefited Enterprise exceeding a certain percentage or a minimum amount specified in the Investment Law.

Y. Accelerated depreciation:

Under the Investment Law, CEVA's Israeli subsidiary is entitled to claim accelerated rates of depreciation on its property and equipment that are included in the Approved Enterprise and Benefited Enterprise programs during the first five tax years of the asset's operation.

---

**Table of Contents**

**CEVA, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(in thousands, except share data)*

Conditions for the entitlement to the benefits:

The entitlement to the above benefits is conditioned upon the Company's fulfillment of the conditions stipulated by the Investment Law and the Amendment, regulations published thereunder and the criteria set forth in the specific certificate of approvals. In the event of the Company's failure to comply with these conditions, the benefits may be canceled, the income generated from the Approved Enterprise and Benefited Enterprise programs could be subject to corporate tax in Israel at the standard corporate tax rate and CEVA's Israeli subsidiary would be required to refund tax benefits already received plus a consumer price index linkage adjustment and interest.

Management believes that as of December 31, 2011, CEVA's Israeli subsidiary met all of the aforementioned conditions.

On December 29, 2010, new legislation amending the Investment Law was adopted (the New Amendment). Under the New Amendment, a uniform corporate tax rate will apply to all qualifying income of certain Industrial Companies, as opposed to the current law's incentives, which are limited to income from Approved Enterprises and Benefited Enterprises during their benefit period. Under the New Amendment, the uniform tax rate will be 10% in areas in Israel designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5%, respectively, in 2013-2014, and 6% and 12%, respectively thereafter. CEVA's Israeli subsidiary is deemed an Industrial Company but it is not located in Development Zone A. The profits of these Industrial Companies will be freely distributable as dividends, subject to a 15% withholding tax (or lower, under an applicable tax treaty). However, upon the distribution of a dividend to an Israeli company, no withholding tax will be remitted. The New Amendment became effective as of January 1, 2011 and applies to preferred income produced or generated by an Industrial Company from the effective date. Under the transition provisions of the New Amendment, a company may decide to irrevocably implement the New Amendment while waiving benefits provided under the current law or to remain subject to the current law. Opting for compliance with the New Amendment will be done on the record date for filing the annual income tax return every year and will apply to the investment program's entire income starting from the tax year following the tax year in which the return has been filed and onwards.

CEVA's Israeli subsidiary does not intend to implement the New Amendment in the foreseeable future, and intend to continue to comply with the Investment Law and the Amendment before the enactment of the New Amendment.

Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company qualifies as an Industrial Company within the meaning of the Law for the Encouragement of Industry (Taxes), 1969 (the Industrial Encouragement Law). The Industrial Encouragement Law defines an Industrial Company as a company that is resident in Israel and that derives at least 90% of its income in any tax year, other than income from defense loans, capital gains, interest and dividends, from an enterprise whose major activity in a given tax year is industrial production. Under the Industrial Encouragement Law the Company is entitled to amortization of the cost of purchased know-how and patents over an eight-year period for tax purposes as well as accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industrial Encouragement Law is not subject to receipt of prior approval from any governmental authority.

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)*

## Foreign Exchange Regulations:

Under the Foreign Exchange Regulations, CEVA's Israeli subsidiary is calculating its tax liability in U.S. Dollars according to certain orders. The tax liability, as calculated in U.S. Dollars, is translated into NIS according to the exchange rate as of December 31st of each year.

## B. Israeli corporate tax structure:

Income from sources other than the Approved Enterprise and Benefited Enterprise programs during the benefit period will be subject to tax at the statutory corporate tax rate (24% in 2011 and 25% in 2012).

The tax rate of the Israeli subsidiary is as follows: 2009 26%, 2010 25%, and 2011 24%. Tax at a rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the Knesset (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting in 2011 to the following tax rates: 2011 24%, 2012 23%, 2013 22%, 2014 21%, 2015 20%, 2016 and thereafter 18%. On December 5, 2011 the Knesset approved the Law to Change the Tax Burden (Legislative Amendments) 2011. In accordance with the new law, the tax reduction that was provided in the Economic Efficiency Law, as aforementioned, was cancelled and the corporate tax rate will be 25% as from 2012.

## C. Final tax assessments:

CEVA's Israeli subsidiary has received final tax assessments through 2005.

*b. The provision for income taxes is as follows:*

	Year ended December 31,		
	2009	2010	2011
Domestic taxes:			
Current	\$ 109	\$ (885)	\$ 1,452
Deferred	920	(877)	(1,024)
Foreign taxes:			
Current	1,175	2,164	2,899
Deferred	180	189	(419)
	\$ 2,384	\$ 591	\$ 2,908
Income (loss) before taxes on income:			
Domestic	\$ (3,571)	\$ (3,426)	\$ 542
Foreign	14,301	15,395	20,928
	\$ 10,730	\$ 11,969	\$ 21,470

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)**c. Reconciliation between the Company's effective tax rate and the U.S. statutory rate:*

	Year ended December 31,		
	2009	2010	2011
Income before taxes on income	\$ 10,730	\$ 11,969	\$ 21,470
Theoretical tax at U.S. statutory rate-35%	3,756	4,189	7,515
Foreign income taxes at rates other than U.S. rate	(3,273)	(4,182)	(5,622)
Changes in foreign tax rates		(1,714)	
Subpart F	1,189	216	221
Non-deductible items	1,008	408	355
Valuation allowance	(265)	1,633	(545)
Other, net	(31)	41	984
<b>Taxes on income</b>	<b>\$ 2,384</b>	<b>\$ 591</b>	<b>\$ 2,908</b>

*d. Deferred taxes on income:*

Deferred taxes on income reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	As at December 31,	
	2010	2011
<b>Deferred tax assets</b>		
Operating loss carryforward	\$ 9,067	\$ 8,874
Accrued expenses	397	522
Temporary differences related to R&D expenses	857	1,218
Equity-based compensation	533	949
Other	637	740
<b>Total gross deferred tax assets</b>	<b>11,491</b>	<b>12,303</b>
Valuation allowance	(9,629)	(9,223)
<b>Net deferred tax assets</b>	<b>\$ 1,862</b>	<b>\$ 3,080</b>
<b>Deferred tax liabilities</b>		
Subpart F carryforward	\$ 751	\$ 202
Other	150	88
<b>Total gross deferred tax liabilities</b>	<b>\$ 901</b>	<b>\$ 290</b>
<b>Net deferred tax assets (*)</b>	<b>\$ 961</b>	<b>\$ 2,790</b>

(\*) Net deferred tax for the year ended December 31, 2010 from domestic and foreign jurisdictions was \$77 and \$884, respectively. Net deferred tax for the year ended December 31, 2011 from domestic and foreign jurisdictions was \$1,326 and \$1,464, respectively.

The Company and its subsidiaries provide valuation allowances for deferred tax assets resulting principally from the carryforward of tax losses. Management currently believes that it is more likely than not that the deferred tax regarding the carryforward of losses and certain accrued expenses will not be realized in the foreseeable future.



**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)*

The Company has not provided for federal income tax on approximately \$54,279 of undistributed earnings of its foreign subsidiaries since the Company intends to reinvest this amount outside the U.S. indefinitely. The tax impact of repatriating these earnings is not practical to compute.

*e. Uncertain tax positions*

The Company accounts for its income tax uncertainties in accordance with FASB ASC No. 740 which clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits based on the provisions of FASB ASC No. 740 is as follows:

	Year ended December 31,	
	2010	2011
Beginning of year	\$	\$ 847
Additions for current year tax positions	847	1,734
Additions for prior year's tax positions		473
Balance at December 31	\$ 847	\$ 3,054

As of December 31, 2010 and 2011, there were \$847 and \$3,054, respectively, of unrecognized tax benefits that if recognized would affect the annual effective tax rate. The Company did not accrue interest and penalties relating to unrecognized tax benefits in its provision for income taxes because such interest and penalties did not have a material impact on the Company's financial statements.

*f. Tax loss carryforwards:*

Excess tax benefits related to stock option exercises cannot be recognized until realized through a reduction of current taxes payable. An additional \$5,100 of net operating loss in relation to excess tax benefits on stock option exercises during the fiscal year ended December 31, 2011 were not recorded because these benefits have not yet been realized. Such loss carryforwards begin to expire in 2021.

As of December 31, 2011, CEVA and its subsidiaries had net operating loss carryforwards for California income tax purposes of approximately \$5,387, which are available to offset future California taxable income. Such loss carryforwards begin to expire in 2013. As of December 31, 2011, CEVA and its subsidiaries had foreign operating losses only in CEVA's Irish subsidiary of approximately \$66,554, which are available to offset future taxable income. Such foreign operating losses can be carried forward indefinitely for tax purposes. A full valuation allowance was provided in relation to those carryforward tax losses due to the uncertainty of their utilization in the foreseeable future.

*g. Tax returns:*

CEVA files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, CEVA is no longer subject to U.S. federal income tax examinations by tax authorities for the years prior to 2008, and state and local income tax examinations for the years prior to 2007.

**Table of Contents****CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)***NOTE 14: RELATED PARTY TRANSACTIONS**

One of the Company's directors, Bruce Mann, is a partner of Morrison & Foerster LLP, the Company's outside legal counsel. Fees paid to Morrison & Foerster LLP during the years ended December 31, 2009, 2010 and 2011 were \$194, \$307 and \$256, respectively. The accounts payable balance with Morrison & Foerster LLP at December 31, 2009, 2010 and 2011 were \$16, \$0 and \$0, respectively.

**NOTE 15: COMMITMENTS AND CONTINGENCIES**

a. The Company is not a party to any litigation or other legal proceedings that the Company believes could reasonably be expected to have a material adverse effect on the Company's business, results of operations and financial condition.

b. As of December 31, 2011, the Company and its subsidiaries had several non-cancelable operating leases, primarily for facilities and equipment. These leases generally contain renewal options and require the Company and its subsidiaries to pay all executory costs such as maintenance and insurance. In addition, the Company has several fixed service agreements with sub-contractors.

Rent expenses for the years ended December 31, 2009, 2010 and 2011, were \$918, \$891 and \$884, respectively.

As of December 31, 2011, future purchase obligations and minimum rental commitments for leasehold properties and operating leases with non-cancelable terms are as follows:

	Minimum rental commitments for leasehold properties	Commitments for other lease obligations	Other purchase obligations	Total
2012	\$ 833	\$ 1,336	\$ 206	\$ 2,375
2013	695	728		1,423
2014	642	23		665
2015	80			80
	\$ 2,250	\$ 2,087	\$ 206	\$ 4,543

**c. Royalties:**

The Company participated in programs sponsored by the Israeli government for the support of research and development activities. Through December 31, 2011, the Company had obtained grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade (the OCS) for certain of the Company's research and development projects. The Company is obligated to pay royalties to the OCS, amounting to 3%-3.5% of the sales of the products and other related revenues (based on the dollar) generated from such projects, up to 100% of the grants received. For grants received after January 1, 1999, the royalty payment obligations also bear interest at the LIBOR rate. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required.

During 2009 and 2010, the Company had paid royalties to the OCS in the amount of \$1,329 and \$108, respectively. During 2011, the Company did not pay any royalties to the OCS since no actual sales were generated from projects that previously received grants from the OCS. As of December 31, 2011, the aggregate contingent liability to the OCS (including interest) amounted to \$4,024.



**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

CEVA, INC.

By: /s/ Gideon Wertheizer

**Gideon Wertheizer**

**Chief Executive Officer**

March 15, 2012

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gideon Wertheizer and Yaniv Arieli or either of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the SEC, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ GIDEON WERTHEIZER Gideon Wertheizer	Chief Executive Officer and Director (Principal Executive Officer & Director)	March 15, 2012
/s/ YANIV ARIELI Yaniv Arieli	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 15, 2012
/s/ PETER MCMANAMON Peter McManamon	Director and Chairman	March 15, 2012
/s/ ELIYAHU AYALON Eliyahu Ayalon	Director	March 15, 2012
/s/ ZVI LIMON Zvi Limon	Director	March 15, 2012

Edgar Filing: CEVA INC - Form 10-K

/s/ BRUCE MANN	Director	March 15, 2012
Bruce Mann		
/s/ SVEN-CHRISTER-NILSSON	Director	March 15, 2012
Sven-Christer Nilsson		
/s/ LOUIS SILVER	Director	March 15, 2012
Louis Silver		
/s/ DAN TOCATLY	Director	March 15, 2012
Dan Tocatly		

**Table of Contents****CEVA, INC.****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

	Balance at beginning of period	Additions	Deduction (1)	Balance at end of period
<b>Year ended December 31, 2011</b>				
Allowance for doubtful accounts	\$ 25	\$	\$	\$ 25
<b>Year ended December 31, 2010</b>				
Allowance for doubtful accounts	\$ 700	\$	\$ 675	\$ 25
<b>Year ended December 31, 2009</b>				
Allowance for doubtful accounts	\$ 743	\$	\$ 43	\$ 700

(1) Actual write-offs of uncollectible accounts receivables

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant
3.2(2)	Certificate of Ownership and Merger (merging CEVA, Inc. into ParthusCeva, Inc.)
3.3(3)	Third Amended and Restated Bylaws of the Registrant
3.7(4)	Amendment to the Amended and Restated Certificate of Incorporation of the Registrant
4.1(5)	Specimen of Common Stock Certificate
10.1(6)	CEVA, Inc. 2000 Stock Incentive Plan
10.7(6)	CEVA, Inc. 2002 Stock Incentive Plan
10.8 *	CEVA, Inc. Amended and Restated 2003 Director Stock Option Plan
10.9(6)	Parthus 2000 Share Option Plan
10.10	CEVA, Inc. 2002 Employee Stock Purchase Plan
10.11(1)	Form of Indemnification Agreement
10.12(7)	Employment Agreement between the Registrant and Gideon Wertheizer dated as of November 1, 2002
10.13(7)	Employment Agreement between the Registrant and Issachar Ohana dated as of November 1, 2002
10.14(8)	Personal and Special Employment Agreement between the Registrant and Yaniv Arieli dated as of August 18, 2005
10.15(9)	Form of Stock Option Agreement under the CEVA, Inc. 2002 Stock Incentive Plan
10.16(9)	Form of Israeli Stock Option Agreement under the CEVA, Inc. 2002 Stock Incentive Plan
10.17(9)	Form of Stock Option Agreement under the CEVA, Inc. 2000 Stock Incentive Plan
10.18(9)	Form of Israeli Stock Option Agreement under the CEVA, Inc. 2000 Stock Incentive Plan
10.19(9)	Form of Option Agreement under the CEVA, Inc. 2003 Director Stock Option Plan
10.20(10)	Form of Stock Option Agreement for Directors under the CEVA, Inc. 2000 Stock Incentive Plan
10.21(10)	Yaniv Arieli's Amended and Restated Nonstatutory Stock Option Agreement under the CEVA, Inc. 2002 Stock Incentive Plan, dated as of August 1, 2007
10.22(11)	Amendment, dated July 22, 2003, to the Employment Agreement by and between Issachar Ohana and CEVA, Inc., dated November 1, 2002
10.23(12)	Amendment, effective as of November 1, 2007, to the Employment Agreement by and between Issachar Ohana and CEVA, Inc., dated November 1, 2002 and as amended on July 22, 2003
10.24(13)	2011 Incentive Plan for Issachar Ohana, effective as of January 1, 2011
10.25(14)	2012 Incentive Plan for Issachar Ohana, effective as of January 1, 2012
10.26(15)	2011 Executive Bonus Plan for Gideon Wertheizer and Yaniv Arieli, effective as of January 1, 2011
10.27(16)	2012 Executive Bonus Plan for Gideon Wertheizer and Yaniv Arieli, effective as of January 1, 2012
10.28(17)	CEVA, Inc. 2011 Stock Incentive Plan
21.1*	Subsidiaries of the Registrant

Edgar Filing: CEVA INC - Form 10-K

- 23.1\* Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global
- 24.1\* Power of Attorney (See signature page of this Annual Report on Form 10-K)



**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
(1)	Filed as an exhibit to CEVA's registration statement on Form 10, as amended, initially filed with the Commission on June 3, 2002 (registration number 000-49842), and incorporated herein by reference.
(2)	Filed as an exhibit to CEVA's Report on Form 8-K, filed with the Commission on December 8, 2003, and incorporated hereby by reference.
(3)	Filed as an exhibit to CEVA's Current Report on Form 8-K, filed with the Commission on October 29, 2008, and incorporated hereby by reference.
(4)	Filed as an exhibit to CEVA's Report on Form 8-K, filed with the Commission on July 22, 2005, and incorporated hereby by reference.
(5)	Filed as an exhibit to CEVA's registration statement on Form S-1, as amended, initially filed with the Commission on July 30, 2002 (registration number 333-97353), and incorporated herein by reference.
(6)	Filed as an exhibit to CEVA's 2007 Annual Report on Form 10-K, filed with the Commission on March 14, 2008, and incorporated hereby by reference.
(7)	Filed as an exhibit to CEVA's 2002 Annual Report on Form 10-K, filed with the Commission on March 28, 2003, and incorporated hereby by reference.
(8)	Filed as an exhibit to CEVA's Quarterly Report on Form 10-Q, filed with the Commission on November 9, 2005, and incorporated hereby by reference.
(9)	Filed as an exhibit to CEVA's Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2006, and incorporated hereby by reference.
(10)	Filed as an exhibit of the same number to CEVA's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 9, 2007, and incorporated hereby by reference.
(11)	Filed as Exhibit 10.27 to CEVA's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 9, 2007, and incorporated hereby by reference.
(12)	Filed as Exhibit 99.1 to CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 7, 2007, and incorporated hereby by reference.
(13)	Filed as Exhibit 10.1 to CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 1, 2011, and incorporated hereby by reference.
(14)	Filed as Exhibit 10.1 to CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 3, 2012, and incorporated hereby by reference.
(15)	Description filed as Exhibit 99.1 to CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 1, 2011, and incorporated hereby by reference.
(16)	Description filed as Exhibit 99.1 to CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 3, 2012, and incorporated hereby by reference.
(17)	Filed as an appendix to CEVA's proxy statement for its 2011 annual meeting of stockholders filed with the Securities and Exchange Commission on April 8, 2011.
	Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(c) of Form 10-K.
*	Filed herewith.