

CEVA INC
Form 10-Q
May 11, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2015

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

Incorporation or Organization)

Identification No.)

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

94043
(Zip Code)

(650) 417-7900

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 20,605,707 shares of common stock, \$0.001 par value, as of May 4, 2015.

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FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

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

Our belief that the adoption of our DSP cores, software and connectivity IPs and IoT applications continues to progress;

Our belief that our expansion strategy will result in future royalty growth and a more diversified royalty base;

Our belief that we will benefit from the handset market transitioning from feature phones to smartphones because we derive higher royalties on average from smartphones than feature phones;

Our belief that the RivieraWaves acquisition substantially increased our overall addressable market to cover all categories of connected devices, which according to ABI Research is expected to be 35 billion devices by 2020;

Our belief that our presence in the 3G and LTE smartphone markets will continue to grow as our customers targeting those markets are gaining market share at the expense of the incumbents;

Our anticipation that product shipments incorporating Bluetooth IP acquired from RivieraWaves will continue to grow;

Our belief that our intelligent audio processing IP strongly positions us for the new range of addressable end markets;

Our belief that our vision processing IP strongly positions us to significantly expand our footprint in smartphones and further into tablets, PCs and automotive applications, and that specifically ABI Research predicts that cameras equipped with vision processing will grow to 2.7 billion by 2017;

Our belief that our cellular baseband business will continue to be a significant growth driver for us;

Our belief that unit shipments for non-cellular baseband applications will reach 700 to 900 million units annually by 2018;

Our expectation that as a result of the RivieraWaves acquisition, our operating expenses will include: (1) the ongoing RivieraWaves expenses, which is expected to be approximately \$1.7 million per quarter in 2015 (including costs related to the RivieraWaves employee retention plan) and (2) amortization of intangible assets and equity-based compensation expenses of approximately \$0.4 million per quarter;

Our current anticipation that as a result of our acquisition of RivieraWaves and our existing DSP products that our quarterly licensing revenues will be in the range of \$6 million to \$7.5 million;

Our belief that our licensing pipeline continues to be healthy across all of our product lines;

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

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

Our belief that the combination of advanced technologies and complimentary software of our new non-baseband technologies will lead to strong licensing dynamics and revenue licensing growth opportunities.

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Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this report are based on information that is currently available to us and expectations and assumptions that we deem reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

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

This report contains market data prepared by third party research firm. Actual market results may differ from their projections.

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

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

| | March 31, 2015 Unaudited | December 31, 2014 Audited |
|--|---|--|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,993 | \$ 16,166 |
| Short term bank deposits | 26,996 | 37,444 |
| Marketable securities | 47,945 | 47,833 |
| Trade receivables, net | 11,376 | 8,347 |
| Deferred tax assets | 1,943 | 1,868 |
| Prepaid expenses and other current assets | 5,393 | 3,982 |
| Total current assets | 107,646 | 115,640 |
| Long term bank deposits | 39,176 | 28,424 |
| Severance pay fund | 7,265 | 7,011 |
| Deferred tax assets | 734 | 399 |
| Property and equipment, net | 2,727 | 2,605 |
| Investments in other company | 1,806 | 1,806 |
| Intangible assets, net | 5,187 | 5,512 |
| Goodwill | 46,612 | 46,612 |
| Total long-term assets | 103,507 | 92,369 |
| Total assets | \$ 211,153 | \$ 208,009 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Trade payables | \$ 1,276 | \$ 864 |
| Deferred revenues | 2,078 | 1,681 |
| Accrued expenses and other payables | 3,227 | 3,518 |
| Contingent consideration (Note 3) | 951 | 3,603 |
| Accrued payroll and related benefits | 11,249 | 10,054 |
| Income taxes payable, net | 775 | 739 |

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| | | |
|---|------------|------------|
| Total current liabilities | 19,556 | 20,459 |
| Long term liabilities: | | |
| Accrued severance pay | 7,551 | 7,096 |
| Deferred tax liabilities | 1,302 | 1,405 |
| Total long-term liabilities | 8,853 | 8,501 |
| Stockholders' equity: | | |
| Preferred Stock: | | |
| \$0.001 par value: 5,000,000 shares authorized; none issued and outstanding | | |
| Common Stock: | | |
| \$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at March 31, 2015 and December 31, 2014. 20,604,319 and 20,252,490 shares outstanding at March 31, 2015 and December 31, 2014, respectively | | |
| | 21 | 20 |
| Additional paid in-capital | 210,275 | 209,426 |
| Treasury stock at cost (2,990,841 and 3,342,670 shares of common stock at March 31, 2015 and December 31, 2014, respectively) | (49,319) | (54,708) |
| Accumulated other comprehensive loss | (311) | (436) |
| Retained earnings | 22,078 | 24,747 |
| Total stockholders' equity | 182,744 | 179,049 |
| Total liabilities and stockholders' equity | \$ 211,153 | \$ 208,009 |

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

Table of Contents**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

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

| | Three months ended March 31, | |
|--|---|-------------|
| | 2015 | 2014 |
| Revenues: | | |
| Licensing and related revenue | \$ 7,839 | \$ 7,906 |
| Royalties | 5,995 | 5,768 |
| Total revenues | 13,834 | 13,674 |
| Cost of revenues | 1,185 | 1,112 |
| Gross profit | 12,649 | 12,562 |
| Operating expenses: | | |
| Research and development, net | 7,363 | 5,996 |
| Sales and marketing | 2,426 | 2,393 |
| General and administrative | 1,972 | 2,040 |
| Amortization of intangible assets | 325 | |
| Total operating expenses | 12,086 | 10,429 |
| Operating income | 563 | 2,133 |
| Financial income (loss), net | (27) | 460 |
| Income before taxes on income | 536 | 2,593 |
| Income taxes | 50 | 608 |
| Net income | \$ 486 | \$ 1,985 |
| Basic and diluted net income per share | \$ 0.02 | \$ 0.09 |
| Weighted-average shares used to compute net income per share (in thousands): | | |
| Basic | 20,418 | 21,159 |
| Diluted | 20,958 | 21,590 |

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

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

| | Three months ended March 31, | |
|---|---|-------------|
| | 2015 | 2014 |
| Net income: | \$ 486 | \$ 1,985 |
| Other comprehensive income before tax: | | |
| Available-for-sale securities: | | |
| Changes in unrealized gains (losses) | 162 | (7) |
| Reclassification adjustments for losses included in net income | 13 | 1 |
| Net change | 175 | (6) |
| Cash flow hedges: | | |
| Changes in unrealized gains (losses) | (110) | 28 |
| Reclassification adjustments for (gains) losses included in net income | 73 | (1) |
| Net change | (37) | 27 |
| Other comprehensive income before tax | 138 | 21 |
| Income tax expense (benefit) related to components of other comprehensive income (loss) | 13 | (4) |
| Other comprehensive income , net of taxes | 125 | 25 |
| Comprehensive income | \$ 611 | \$ 2,010 |

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

Table of Contents**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

U.S. dollars in thousands

| | Three months ended March 31, | |
|--|---|-------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income | \$ 486 | \$ 1,985 |
| Adjustments required to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 255 | 162 |
| Amortization of intangible assets | 325 | |
| Equity-based compensation | 849 | 1,513 |
| Realized loss, net on sale of available-for-sale marketable securities | 13 | 1 |
| Amortization of premiums on available-for-sale marketable securities | 280 | 298 |
| Accrued interest on bank deposits | 30 | 116 |
| Unrealized foreign exchange loss | 185 | 1 |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (3,029) | 2,564 |
| Prepaid expenses and other current assets | (1,549) | (1,455) |
| Deferred tax, net | (547) | 108 |
| Trade payables | 428 | (455) |
| Deferred revenues | 397 | 177 |
| Accrued expenses and other payables | (277) | (298) |
| Accretion of contingent consideration | 48 | |
| Accrued payroll and related benefits | 1,195 | 166 |
| Income taxes payable | 36 | 25 |
| Excess tax benefit from equity-based compensation | | (179) |
| Accrued severance pay, net | 203 | 70 |
| Net cash provided by (used in) operating activities | (672) | 4,799 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (377) | (77) |
| Investment in bank deposits | (22,095) | (21,389) |
| Proceeds from bank deposits | 21,660 | 21,000 |
| Investment in available-for-sale marketable securities | (3,363) | (10,084) |
| Proceeds from maturity of available-for-sale marketable securities | 350 | 700 |
| Proceeds from sale of available-for-sale marketable securities | 2,783 | 12,205 |
| Net cash provided by (used in) investing activities | (1,042) | 2,355 |
| Cash flows from financing activities: | | |

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| | | |
|--|-----------|-----------|
| Payment of contingent consideration (see note 3) | (2,700) | |
| Purchase of treasury stock | (1,917) | (4,127) |
| Proceeds from exercise of stock-based awards | 4,152 | 915 |
| Excess tax benefit from equity-based compensation | | 179 |
| Net cash used in financing activities | (465) | (3,033) |
| Effect of exchange rate movements on cash | 6 | (37) |
| Increase (decrease) in cash and cash equivalents | (2,173) | 4,084 |
| Cash and cash equivalents at the beginning of the period | 16,166 | 24,117 |
| Cash and cash equivalents at the end of the period | \$ 13,993 | \$ 28,201 |
| Supplemental information of cash-flow activities: | | |
| Cash paid during the period for: | | |
| Income and withholding taxes, net of refunds | \$ 548 | \$ 289 |

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

NOTE 1: BUSINESS

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

CEVA licenses a family of programmable DSP cores and application-specific platforms for vision, imaging, audio and voice, as well as communications and connectivity technologies, including wireless and wired modems, Wi-Fi, Bluetooth and Serial ATA (SATA) and Serial Attached SCSI (SAS).

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

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

Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2014, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2015, have been applied consistently in these unaudited interim condensed consolidated financial statements.

Use of Estimates

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

NOTE 3: ACQUISITION OF RIVIERAWAVES

On July 4, 2014 (the Closing Date), the Company acquired 100% of RivieraWaves SAS (RivieraWaves), a privately-held, French-based company and a provider of wireless connectivity intellectual property for Wi-Fi and Bluetooth technologies. The Company agreed to pay an aggregate of \$18,378 to acquire RivieraWaves with \$14,678 paid on the Closing Date and the remaining amount of \$3,700 payable upon the satisfaction of certain milestones (the Contingent Consideration). During the first quarter of 2015, the Company paid \$2,700 of the Contingent Consideration, and the remaining amount of \$1,000 is expected to be paid during the remainder of 2015. The Contingent Consideration is recognized as a liability at fair value. As of March 31, 2015, the fair value of the Contingent Consideration was estimated to be \$951. Accretion of the Contingent Consideration liability is included in financial income, net.

The acquisition has been accounted in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 805, Business Combinations.

In addition, as part of the acquisition, the Company established an employee retention plan for the RivieraWaves employees at a cost of approximately \$3,400, to be payable on a semi-annual basis for a period of two years after the Closing Date. As of March 31, 2015, the Company paid \$329 of the employee retention plan.

Table of ContentsNOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

NOTE 4: MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable securities at March 31, 2015 and December 31, 2014:

| | As at March 31, 2015 (Unaudited) | | | |
|--|----------------------------------|------------------------------|-------------------------------|------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Available-for-sale securities - matures within one year: | | | | |
| Corporate bonds | \$ 9,786 | \$ 4 | \$ (48) | \$ 9,742 |
| Available-for-sale securities - matures after one year through three years: | | | | |
| Certificate of deposits | 1,226 | | | 1,226 |
| Corporate bonds | 37,178 | 22 | (223) | 36,977 |
| | 38,404 | 22 | (223) | 38,203 |
| Total | \$ 48,190 | \$ 26 | \$ (271) | \$ 47,945 |

| | As at December 31, 2014 (Audited) | | | |
|--|-----------------------------------|------------------------------|-------------------------------|------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Available-for-sale securities - matures within one year: | | | | |
| Corporate bonds | \$ 5,443 | \$ | \$ (46) | \$ 5,397 |
| Available-for-sale securities - matures after one year through three years: | | | | |
| Certificate of deposits | 1,975 | | | 1,975 |
| Corporate bonds | 40,835 | 9 | (383) | 40,461 |
| | 42,810 | 9 | (383) | 42,436 |
| Total | \$ 48,253 | \$ 9 | \$ (429) | \$ 47,833 |

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 31, 2015 and December 31, 2014, and the length of time that those investments have been in a continuous loss position:

| | Less than 12 months | | 12 months or greater | |
|-------------------------|----------------------------|------------------------|-----------------------------|------------------------|
| | Gross | | Gross | |
| | Fair value | unrealized loss | Fair value | unrealized loss |
| As of March 31, 2015 | \$ 20,725 | \$ (97) | \$ 14,703 | \$ (174) |
| As of December 31, 2014 | \$ 34,152 | \$ (313) | \$ 9,469 | \$ (116) |

As of March 31, 2015 and December 31, 2014, 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 securities and it is more likely than not that the Company will not be required to sell these securities prior to the recovery of the entire amortized cost basis.

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(in thousands, except share data)**

The following table presents gross realized gain and gross realized loss from sale of available-for-sale marketable securities:

| | Three months ended | |
|---|---------------------------|--------------------|
| | March 31, | |
| | 2015 | 2014 |
| | (unaudited) | (unaudited) |
| Gross realized gain from sale of available-for-sale marketable securities | \$ 1 | \$ 11 |
| Gross realized loss from sale of available-for-sale marketable securities | \$ (14) | \$ (12) |

NOTE 5: 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 I Unadjusted quoted prices in active markets that are accessible on the measurement date for identical, unrestricted assets or liabilities;
- Level II 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 III 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, foreign currency derivative contracts and the Contingent Consideration at fair value. Marketable securities and foreign currency derivative contracts are classified within Level II as the valuation inputs are based on quoted prices and market observable data of similar instruments. The Contingent Consideration related to the RivieraWaves acquisition is classified within Level III as it is based on significant inputs not observable in the market.

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 | March 31, 2015 | Level I | Level II | Level III |
|----------------------------|-----------------------|----------------|-----------------|------------------|
| Assets: | | | | |
| Marketable securities: | | | | |
| Certificate of deposits | \$ 1,226 | \$ | \$ 1,226 | \$ |
| Corporate bonds | 46,719 | | 46,719 | |
| Foreign exchange contracts | 1 | | 1 | |
| Liabilities: | | | | |
| Foreign exchange contracts | 102 | | 102 | |
| Contingent Consideration | 951 | | | 951 |

| Description | December 31, 2014 | Level I | Level II | Level III |
|----------------------------|--------------------------|----------------|-----------------|------------------|
| Assets: | | | | |
| Marketable securities: | | | | |
| Certificate of deposits | \$ 1,975 | \$ | \$ 1,975 | \$ |
| Corporate bonds | 45,858 | | 45,858 | |
| Liabilities: | | | | |
| Foreign exchange contracts | 64 | | 64 | |
| Contingent Consideration | 3,603 | | | 3,603 |

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(in thousands, except share data)**

The table below presents the changes in Level 3 Contingent Consideration liability measured on a recurring basis and related to the acquisition of RivieraWaves:

| | |
|------------------------------|----------|
| Balance at December 31, 2014 | \$ 3,603 |
| Fair value adjustment | 48 |
| Payment | (2,700) |
| Balance at March 31, 2015 | 951 |

NOTE 6: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA

a. Summary information about geographic areas:

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

| | Three months ended | |
|---|---------------------------|--------------------|
| | March 31, | |
| | 2015 | 2014 |
| | (unaudited) | (unaudited) |
| Revenues based on customer location: | | |
| United States | \$ 1,961 | \$ 5,167 |
| Europe and Middle East | 1,445 | 1,838 |
| Asia Pacific (1) (2) | 10,428 | 6,669 |
| | \$ 13,834 | \$ 13,674 |
| (1) China | \$ 7,478 | \$ 2,713 |
| (2) Taiwan | \$ *) | \$ 3,088 |

*) Less than 10%

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

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

| | Three months ended | |
|------------|---------------------------|--------------------|
| | March 31, | |
| | 2015 | 2014 |
| | (unaudited) | (unaudited) |
| Customer A | 25% | 16% |
| Customer B | | 22% |
| Customer C | | 22% |
| Customer D | 14% | *) |

*) Less than 10%

NOTE 7: NET INCOME PER SHARE OF COMMON STOCK

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

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

(in thousands, except share data)

| | Three months ended March 31, | |
|---|---------------------------------|---------------------|
| | 2015 (unaudited) | 2014 (unaudited) |
| Numerator: | | |
| Net income | \$ 486 | \$ 1,985 |
| Denominator (in thousands): | | |
| Weighted-average common stock outstanding | 20,418 | 21,159 |
| Effect of stock options and stock appreciation rights | 540 | 431 |
| Diluted weighted average common stock outstanding | 20,958 | 21,590 |
| Basic and diluted net income per share | \$ 0.02 | \$ 0.09 |

The weighted average number of shares related to outstanding options and stock appreciation rights excluded from the calculation of diluted net income per share, since their effect was anti-dilutive, was 825,296 and 2,202,797 shares for the three months ended March 31, 2015 and 2014, respectively.

NOTE 8: COMMON STOCK AND STOCK-BASED COMPENSATION PLANS

The Company grants stock options and stock appreciation rights (SARs) capped with a ceiling to employees and stock options to non-employee directors of the Company and its subsidiaries and provides the right to purchase common stock pursuant to the Company's 2002 employee stock purchase plan to employees of the Company and its subsidiaries. The SAR unit confers the holder the right to stock appreciation over a preset price of the Company's common stock during a specified period of time. When the unit is exercised, the appreciation amount is paid through the issuance of shares of the Company's common stock. The ceiling limits the maximum income for each SAR unit. SARs are considered an equity instrument as it is a net share settled award capped with a ceiling (400% for SAR grants made during the three months ended March 31, 2015). The options and SARs granted under the Company's stock incentive plans have been granted at the fair market value of the Company's common stock on the grant date. Options and SARs granted to employees 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 vest 25% of the shares underlying the option on each anniversary of the option grant. A summary of the Company's stock option and SARs activities and related information for the three months ended March 31, 2015, are as follows:

| Number of options | Weighted average exercise | Weighted average remaining | Aggregate intrinsic- |
|-------------------------|---------------------------------|----------------------------------|-------------------------|
|-------------------------|---------------------------------|----------------------------------|-------------------------|

| | and SAR units | price | contractual term | value |
|--|--------------------------|--------------|-----------------------------|---------------|
| Outstanding as of December 31, 2014 | 3,316,380 | \$ 16.50 | | |
| SAR units granted (1) | 37,500 | 19.59 | | |
| Options/SAR units exercised | (436,806) | 10.20 | | |
| Options/SAR units forfeited or expired | (36,594) | 18.62 | | |
| Outstanding as of March 31, 2015 (2) | 2,880,480 | \$ 17.47 | 4.7 | \$ 14,188,392 |
| Exercisable as of March 31, 2015 (3) | 1,690,821 | \$ 18.17 | 3.5 | \$ 8,100,340 |

- (1) The SAR units are convertible for a maximum number of shares of the Company's common stock equal to 75% of the SAR units subject to the grant.
- (2) Due to the ceiling imposed on the SAR grants, the outstanding amount equals a maximum of 2,524,973 shares of the Company's common stock issuable upon exercise.
- (3) Due to the ceiling imposed on the SAR grants, the exercisable amount equals a maximum of 1,548,456 shares of the Company's common stock issuable upon exercise.

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(in thousands, except share data)

The following table shows the total equity-based compensation expense included in the interim condensed consolidated statements of income:

| | Three months ended March 31, | |
|--|---|-----------------------------|
| | 2015 (unaudited) | 2014 (unaudited) |
| Cost of revenue | \$ 35 | \$ 58 |
| Research and development, net | 391 | 601 |
| Sales and marketing | 79 | 302 |
| General and administrative | 344 | 552 |
| Total equity-based compensation expense | \$ 849 | \$ 1,513 |

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

| | Three months ended March 31, | |
|--|---|-----------------------------|
| | 2015 (unaudited) | 2014 (unaudited) |
| Expected dividend yield | 0% | 0% |
| Expected volatility | 33%-49% | 37%-52% |
| Risk-free interest rate | 0.2%-1.6% | 0.1%-2.2% |
| Expected forfeiture | 10% | 10% |
| Contractual term of up to | 7 Years | 7 Years |
| Suboptimal exercise multiple (employees) | 2.1 | 2.1 |

The fair value for rights to purchase shares of common stock under the Company's employee stock purchase plan was estimated on the date of grant using the following assumptions:

| | Three months ended March 31, | |
|-------------------------|---|-----------------------------|
| | 2015 (unaudited) | 2014 (unaudited) |
| Expected dividend yield | 0% | 0% |
| Expected volatility | 36% | 43%-52% |

| | | |
|---------------------------|-----------|-----------|
| Risk-free interest rate | 0.1% | 0.1%-0.2% |
| Expected forfeiture | 0% | 0% |
| Contractual term of up to | 24 months | 24 months |

As of March 31, 2015, there was \$3,294 of unrecognized compensation expense related to unvested equity awards. This amount is expected to be recognized over a weighted-average period of 1.4 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.

NOTE 9: DERIVATIVES AND HEDGING ACTIVITIES

The Company follows 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

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(in thousands, except share data)**

exchange forward or option contracts (Hedging Contracts). The policy, however, prohibits the Company from speculating on such Hedging Contracts for profit. To protect against the increase in value of forecasted foreign currency cash flow resulting from salaries paid in currencies other than the U.S. dollar during the year, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll of its non-U.S. employees denominated in 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 March 31, 2015 and December 31, 2014, the notional principal amount of the Hedging Contracts to sell U.S. dollars held by the Company was \$9,500 and \$4,200, respectively.

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

| | As at March 31, 2015 (Unaudited) | As at December 31, 2014 (Audited) |
|--|---|--|
| Derivative assets: | | |
| Derivatives designated as cash flow hedging instruments: | | |
| Foreign exchange forward contracts | \$ 1 | \$ |
| Total | \$ 1 | \$ |
| Derivative liabilities: | | |
| Derivatives designated as cash flow hedging instruments: | | |
| Foreign exchange option contracts | \$ 77 | \$ 52 |
| Foreign exchange forward contracts | 25 | 12 |
| Total | \$ 102 | \$ 64 |

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 interim condensed consolidated balance sheets.

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

| | Three months ended | |
|--|---------------------------|--------------------|
| | March 31, | |
| | 2015 | 2014 |
| | (unaudited) | (unaudited) |
| Derivatives designated as cash flow hedging instruments: | | |
| Foreign exchange option contracts | \$ (76) | \$ 11 |
| Foreign exchange forward contracts | (34) | 17 |
| | \$ (110) | \$ 28 |

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(in thousands, except share data)**

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

| | Three months ended March 31, | |
|--|---|--------------------|
| | 2015 | 2014 |
| | (unaudited) | (unaudited) |
| Derivatives designated as cash flow hedging instruments: | | |
| Foreign exchange option contracts | \$ 51 | \$ |
| Foreign exchange forward contracts | 22 | (1) |
| | \$ 73 | \$ (1) |

The Company recorded in cost of revenues and operating expenses a net loss of \$73 and a net gain of \$1 during the three months ended March 31, 2015 and 2014, respectively, related to its Hedging Contracts.

NOTE 10: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes in accumulated balances of other comprehensive income (loss), net of taxes:

Three months ended March 31, 2015

| | Unrealized gains (losses) on available-for-sale marketable securities | Unrealized gains (losses) on cash flow hedges | Total |
|---|--|--|--------------|
| Beginning balance | \$ (379) | \$ (57) | \$ (436) |
| Other comprehensive income (loss) before reclassifications | 145 | (98) | 47 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 13 | 65 | 78 |
| Net current period other comprehensive income (loss) | 158 | (33) | 125 |

| | | | | | |
|----------------|----|-------|----|------|----------|
| Ending balance | \$ | (221) | \$ | (90) | \$ (311) |
|----------------|----|-------|----|------|----------|

Three months ended March 31, 2014

| | | Unrealized gains (losses) on available-for-sale marketable securities | Unrealized gains (losses) on cash flow hedges | Total |
|---|----|--|--|--------------|
| Beginning balance | \$ | (65) | \$ (16) | \$ (81) |
| Other comprehensive income (loss) before reclassifications | | (2) | 28 | 26 |
| Amounts reclassified from accumulated other comprehensive income (loss) | | | (1) | (1) |
| Net current period other comprehensive income (loss) | | (2) | 27 | 25 |
| Ending balance | \$ | (67) | \$ 11 | \$ (56) |

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(in thousands, except share data)

The following table provides details about reclassifications out of accumulated other comprehensive income (loss):

| Details about Accumulated Other Comprehensive Income (Loss) Components | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three months ended March 31, | | Affected Line Item in the Statements of Income |
|--|---|---------------------|---|
| | 2015 (unaudited) | 2014 (unaudited) | |
| Unrealized gains (losses) on cash flow hedges | \$ (1) | \$ | Cost of revenues |
| | (62) | 1 | Research and development |
| | (5) | | Sales and marketing |
| | (5) | | General and administrative |
| | (73) | 1 | Total, before income taxes |
| | (8) | | Income tax benefit |
| | (65) | 1 | Total, net of income taxes |
| Unrealized losses on available-for-sale marketable securities | (13) | (1) | Financial income, net |
| | | (1) | Income tax benefit |
| | (13) | | Total, net of income taxes |
| | \$ (78) | \$ 1 | Total, net of income taxes |

NOTE 11: SHARE REPURCHASE PROGRAM

During the first quarter of 2015, the Company repurchased 93,903 shares of common stock at an average purchase price of \$20.41 per share for an aggregate purchase price of \$1,917. During the first quarter of 2014, the Company repurchased 235,619 shares of common stock at an average purchase price of \$17.51 per share for an aggregate purchase price of \$4,127. As of March 31, 2015, 906,097 shares of common stock remained available for repurchase pursuant to the Company's share repurchase program.

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. 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.

NOTE 12: IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED

In May 2014, the Financial Accounting Standards Board issued guidance related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for the Company in the first quarter of 2017. The Company has not yet selected a transition method, and it is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

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

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

BUSINESS OVERVIEW

The financial information presented in this quarterly report includes the results of CEVA, Inc. and its subsidiaries.

CEVA is a leading licensor of cellular, multimedia and connectivity technologies to semiconductor companies and OEMs serving the mobile, consumer, automotive and Internet-of-Things (IoT) markets. Our DSP intellectual property portfolio includes comprehensive platforms for multimode 2G/3G/LTE/LTE-A baseband processing in terminals and infrastructure, computer vision and computational photography for any camera-enabled device, audio/voice/speech and ultra-low power always-on/sensing applications for multiple IoT markets. For connectivity, we offer the industry's most widely adopted IPs for Bluetooth (Smart and Smart Ready), Wi-Fi (802.11 b/g/n/ac up to 4x4) and serial storage (SATA and SAS). Our technologies are widely licensed and power many of the world's leading semiconductor and original equipment manufacturer (OEM) companies. One in three cellular handsets sold worldwide is powered by CEVA. To date, more than 6 billion CEVA-powered devices have shipped, illustrating the strong market deployment of our technology.

Our DSPs power many leading handset OEMs in the world today, including Coolpad, HTC, Huawei, Lenovo, LG, Meizu, Micromax, Samsung, Xiaomi and ZTE, as well as hundreds of local handset manufacturers in China and India. Based on internal data and Strategy Analytics' provisional worldwide shipment data, CEVA's worldwide market share of cellular baseband chips that incorporate our technologies was approximately 33% of the worldwide shipment volume in 2014.

In July 2014, we acquired RivieraWaves SAS (RivieraWaves), a privately-held, French-based company and a leading provider of wireless connectivity intellectual property for Wi-Fi and Bluetooth technologies. We agreed to pay an aggregate of \$18,378,000 to acquire RivieraWaves with \$14,678,000 paid at closing of the acquisition and the remaining amount of \$3,700,000 is payable upon the satisfaction of certain milestones (the Contingent Consideration). During the first quarter of 2015, we paid \$2,700,000 of the Contingent Consideration and the remaining amount of \$1,000,000 is expected to be paid during the remainder of 2015. In addition, we established an employee retention plan for RivieraWaves' employees at an expense of approximately \$3.4 million to be payable on a semi-annual basis for a period of two years after closing of the acquisition. As of March 31, 2015, we paid \$329,000 of the employee retention plan expenses.

We believe the adoption of our DSP cores, software and connectivity IPs in connected device and IoT application markets continues to progress. Applications for such markets include smartphones, tablets, smart home appliances, wearables, surveillance, connected car, industrial and medical. As a testament to our progress in those markets, during the first quarter of 2015, we signed a record twelve licensing agreements, five of which were for our connectivity IPs and seven for customers who will incorporate our DSPs into smartphones, LTE routers, Advanced Driver Assistance

Systems (ADAS), surveillance cameras, wearables and storage systems. Included in those deals were our lead licensees for our newest, best of breed CEVA-XM4 Intelligent Vision processor and precertified next generation Bluetooth 5.0 type IP. Overall, eight of the twelve deals signed during the first quarter of 2015 were with first-time customers. We anticipate this expansion strategy will result in future royalty growth and a more diversified royalty base.

We believe the following key elements represent significant growth drivers for the company:

CEVA is firmly established in the largest space in the semiconductor industry – baseband for mobile handsets. In particular, our presence in the 3G & LTE smartphone markets continue to grow as our customers targeting those markets are gaining market share at the expense of the incumbents. As a testament to this, recent flagship LTE smartphone launches by a number of tier one OEMs included our DSPs for the first time, and we anticipate our market share will continue to grow. The royalty we derive from a smartphone is higher on average than that of a feature phone, so we are set to benefit as handset markets around the world continue to transition and shift away from feature phones to smartphones.

Our competitive edge in software-defined radio technology for next generation LTE and Wi-Fi technologies in base stations, and the inherent low cost and power performance balance of our technologies, put us in a strong position to simultaneously capitalize on mass market adoption of such technologies and address multiple market sectors, including small cells, macrocells, routers and machine-to-machine.

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Together with our presence in cellular-based machine-to-machine, small cells and macrocells, our acquisition of RivieraWaves allows us to expand further into Internet-of-Things applications. This acquisition substantially increased our overall addressable market to cover all categories of connected devices. Our addressable market size is expected to be 35 billion devices by 2020, per recent data from ABI Research. Already, shipments of products incorporating our Bluetooth IP are starting to become sizeable, with more than 20 million Bluetooth chips now shipping each quarter by our customers. We anticipate this growth in Bluetooth IP will continue.

The market potential for intelligent audio processing required for IoT applications, including mobile, automotive and consumer devices, offers a new growth segment for the company. Our CEVA-TeakLite-4 DSP was specifically designed to address the increasingly complex processing and stringent low-power requirements of advanced voice pre-processing and audio post-processing algorithms, including always-on voice activation, voice trigger, noise elimination and audio rendering. Many companies are looking to replace their older in-house DSPs due to the power and performance requirements outlined above. Furthermore, the programmable nature of our audio/voice DSP combined with a large ecosystem of audio partners developing software enable our customers to significantly differentiate their products and feature sets. Our proven track record in audio/voice, with more than 4 billion audio chips shipped to date, puts us in a strong position to power audio roadmaps across this new range of addressable end markets.

The market potential for vision processing in IoT applications offers another new growth segment for the company. At Mobile World Congress in March 2015, we announced our newest, best of breed CEVA-XM4 Intelligent Vision processor, a follow-up to our highly successful predecessor, the CEVA-MM3101. The CEVA-XM4 achieves up to 8x performance improvement with 2.5 greater energy efficiency, compared to the CEVA-MM3101, providing a highly compelling product offering for any camera-enabled device such as smartphones, tablets, automotive safety (ADAS) robotics, security and surveillance, augmented reality (AR) and virtual reality (VR), drones, and signage. Per ABI Research, one billion cameras were shipped in 2012, and this number is predicted to grow to 2.7 billion by 2017. 80% of this volume is attributable to smartphones, where we already have a strong foothold through our other technologies. Mobile OEMs are looking for new DSLR features such as smarter autofocus, better picture using super resolution algorithms, and better image capture in low-light environments. Furthermore, with the addition of video analytics support, cameras will enable new services like augmented reality, gesture recognition and advanced safety capabilities in cars. We see this new revolution in vision processing as an opportunity for us to significantly expand our footprint in smartphones and further into tablets, PCs and automotive applications.

As a result of our diversification strategy beyond cellular baseband and our progress in addressing these new markets under the umbrella of the Internet-of-Things, we expect significant growth in our unit shipments for non-cellular baseband applications over the next few years, up from approximately 86 million royalty-bearing units annually in 2014 to 700 to 900 million units annually by 2018. This will be in addition to our existing cellular baseband business, which we believe will continue to be a significant growth driver for us. Moreover, as a result of our acquisition of RivieraWaves and our existing DSP products, our quarterly licensing revenues is now in the range of \$6 million to \$7.5 million, as compared to our historical revenue figures in the range of \$5 million to \$6 million per quarter in the last few years.

Notwithstanding the various growth opportunities we have outlined above, our business operates in a highly competitive and cyclical environment. The maintenance of our competitive position and our future growth 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 Internet-of-Things, cellular baseband, connectivity, and voice, audio and video convergence in the markets that we operate. Also, our business relies significantly on revenues derived from a limited number of customers. The discontinuation of product lines or market sectors that incorporate our technology by our significant customers or a change in direction of their business and our inability to adapt our technology to their new business needs could have material negative implications for our future royalty revenues. For example, the shift away from feature phones by our customer Intel and the exiting of the handset baseband market by our customer Broadcom and ST have negatively impacted our royalty revenues. Moreover, 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, lower royalty rates negotiated with customers due to competitive pressure or consolidation among our customers. 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. Furthermore, since our products are incorporated into end products of our OEM and semiconductor customers, our business is very dependent on their ability to achieve market acceptance of their end products in the handset and consumer electronic markets, which are similarly very competitive. In addition, macroeconomic trends may significantly affect our

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operating results. For example, consolidation among our customers may negatively affect our revenue source, increase our existing customers' negotiation leverage and make us more dependent on a limited number of customers. Also, since we derive a significant portion of our revenues from the handset market, any negative trends in that market would adversely affect our financial results.

Moreover, the semiconductor and consumer electronics industries remain volatile, which makes it extremely difficult for our customers and us to accurately forecast financial results and plan for future business activities. Our license arrangements have not historically provided for substantial ongoing license payments so revenue recognized from licensing arrangements vary significantly from period to period, depending on the number and size of deals closed during a quarter, and is difficult to predict. Moreover, our royalty revenues are based on the sales of products incorporating the semiconductors or other products of our customers, and as a result we do not have direct access to information that will help us anticipate the timing and amount of future royalties. We have very little visibility into the timetable of product shipments incorporating our technology by our customers. As a result, our past operating results should not be relied upon as an indication of future results.

RESULTS OF OPERATIONS*Total Revenues*

Total revenues were \$13.8 million for the first quarter of 2015, representing an increase of 1%, as compared to the corresponding period in 2014. The increase in total revenues for the first quarter of 2015 principally reflected higher royalty revenues.

Five largest customers accounted for 55% of our total revenues for the first quarter of 2015, as compared to 77% for the comparable period in 2014. Two customers accounted for 25% and 14% of our total revenues for the first quarter of 2015, as compared to three customers that accounted for 16%, 22% and 22% of our total revenues for the first quarter of 2014. Sales to Spreadtrum represented 25% and 16% of our total revenues for the first quarter of 2015 and 2014, respectively. Generally, the identity of our other customers representing 10% or more of our total revenues varies from period to period, especially with respect to our licensing customers as we generate licensing revenues generally from new customers on a quarterly basis. With respect to our royalty revenues, two royalty paying customers each represented 10% or more of our total royalty revenues for the first quarter of 2015, and collectively represented 69% of our total royalty revenues for the first quarter of 2015; three royalty paying customers each represented 10% or more of our total royalty revenues for the first quarter of 2014, and collectively represented 71% of our total royalty revenues for the first quarter of 2014. We expect that a significant portion of our future revenues will continue to be generated by a limited number of customers. The concentration of our customers is explainable in part by consolidation in the semiconductor industry. The loss of any significant customer could adversely affect our near-term future operating results.

Our total revenues derived from the cellular baseband market represented 53% of our total revenues for the first quarter of 2015, as compared to 56% for the comparable period in 2014.

Licensing and Related Revenues

Licensing and related revenues were \$7.8 million for the first quarter of 2015, representing a slight decrease of 1%, as compared to the corresponding period in 2014. The decrease in licensing and related revenues for the first quarter of 2015 reflected lower revenues from our CEVA-X DSP core family of products and CEVA-TeakLite core family of products, partially offset by higher revenues from our connectivity IP products, mainly Bluetooth IP acquired from RivieraWaves.

Licensing and related revenues accounted for 57% of our total revenues for the first quarter of 2015, compared to 58% for the comparable period of 2014. During the first quarter of 2015, we concluded 12 new license agreements. Of the 12 new license agreements signed during the quarter, ten are for non-baseband applications, and eight are with first time customers. Seven agreements were for CEVA DSP cores, platforms and software, and five agreements were for CEVA connectivity IP consisting of SATA/SAAS and Bluetooth technologies. Target applications for customer deployment are smartphones, LTE routers, Advanced Driver Assistance Systems (ADAS), surveillance cameras, wearables and storage systems. Geographically, six of the agreements concluded were in the Asia Pacific region, including Japan, five were in the U.S and one was in Europe. Our licensing business is progressing in line with our expectations with a good pipeline and diverse customer base and target markets.

Royalty Revenues

Royalty revenues were \$6.0 million for the first quarter of 2015, an increase of 4% from the first quarter of 2014. Royalty revenues accounted for 43% of our total revenues for the first quarter of 2015, as compared to 42% for the comparable period of 2014. The increase in royalty revenues for the first quarter of 2015 reflected an increase in overall baseband shipments, especially LTE products which have higher royalty average selling prices. This increase was partially offset by lower non-baseband revenue from end of life legacy products.

Our customers reported sales of 233 million chipsets incorporating our technologies for the first quarter of 2015, as compared to 212 million for the comparable period of 2014. Part of this increase is attributed to a significant increase in Bluetooth product

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shipments, which bear a significant lower royalty average selling prices than the baseband products. The five largest royalty-paying customers accounted for 87% of our total royalty revenues for the first quarter of 2015, as compared to 85% for the comparable period of 2014.

As of March 31, 2015 and 2014, 28 licensees were shipping products incorporating our technologies.

Geographic Revenue Analysis

| | First Quarter 2015 | | First Quarter 2014 | |
|------------------------|--|-----|-------------------------------|-----|
| | (in millions, except percentages) | | | |
| United States | \$ 2.0 | 14% | \$ 5.2 | 38% |
| Europe and Middle East | \$ 1.4 | 11% | \$ 1.8 | 13% |
| Asia Pacific (1) (2) | \$ 10.4 | 75% | \$ 6.7 | 49% |
| (1) China | \$ 7.5 | 54% | \$ 2.7 | 20% |
| (2) Taiwan | \$ *) | *) | \$ 3.1 | 23% |

*) Less than 10%

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

Cost of Revenues

Cost of revenues were \$1.2 million for the first quarter of 2015, as compared to \$1.1 million for the comparable period of 2014. Cost of revenues accounted for 9% of our total revenues for the first quarter of 2015, as compared to 8% for the comparable period of 2014. The slight increase for the first quarter of 2015 principally reflected higher payments to the Office of the Chief Scientist of Israel (the OCS). Included in cost of revenues for the first quarter of 2015 was a non-cash equity-based compensation expense of \$35,000, as compared to \$58,000 for the comparable period of 2014.

Gross Margin

Gross margin for the first quarter of 2015 was 91%, compared to 92% for the comparable period of 2014.

Operating Expenses

Total operating expenses were \$12.1 million for the first quarter of 2015, as compared to \$10.4 million for the comparable period of 2014. The increase in total operating expenses for the first quarter of 2015 principally reflected: (1) higher salary and related costs, which mainly included first time salary and related costs associated with the RivieraWaves employees and retention costs for the RivieraWaves employees; (2) higher project-related expenses; (3) higher commission expenses; and (4) amortization charges for intangible assets acquired from RivieraWaves, partially offset by higher research grants received from the OCS, higher research tax benefits applicable to French technology companies (CIR) and lower non-cash equity-based compensation expenses.

Research and Development Expenses, Net

Our research and development expenses, net, were \$7.4 million for the first quarter of 2015, as compared to \$6.0 million for the comparable period of 2014. The net increase for the first quarter of 2015 principally reflected: (1) higher salary and related costs, which mainly included first time salary and related costs associated with the RivieraWaves employees and retention costs for the RivieraWaves employees; and (2) higher project-related expenses, partially offset by higher research grants received from the OCS, higher research tax benefits applicable to CIR, and lower non-cash equity-based compensation expenses. Included in research and development expenses for the first quarter of 2015 were non-cash equity-based compensation expenses of \$391,000, as compared to \$601,000 for the comparable period of 2014. Research and development expenses as a percentage of our total revenues were 53% for the first quarter of 2015, as compared to 44% for the comparable period of 2014.

The number of research and development personnel was 182 at March 31, 2015, compared to 146 at March 31, 2014.

Sales and Marketing Expenses

Our sales and marketing expenses were \$2.4 million for both the first quarter of 2015 and 2014. The net effect for the first quarter of 2015 primarily reflected higher commission expenses, offset by lower non-cash equity-based compensation expenses. Included in sales and marketing expenses for the first quarter of 2015 were non-cash equity-based compensation expenses of \$79,000, as compared to \$302,000 for the comparable period of 2014. Sales and marketing expenses as a percentage of our total revenues were 18% for both the first quarter of 2015 and 2014.

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The total number of sales and marketing personnel was 30 at March 31, 2015, compared to 28 at March 31, 2014.

General and Administrative Expenses

Our general and administrative expenses were \$2.0 million for both the first quarter of 2015 and 2014. The net effect for the first quarter of 2015 primarily reflected higher salary and related costs, offset by lower non-cash equity-based compensation expenses. Included in general and administrative expenses for the first quarter of 2015 were non-cash equity-based compensation expenses of \$344,000, as compared to \$552,000 for the comparable period of 2014.

General and administrative expenses as a percentage of our total revenues were 14% for the first quarter of 2015, as compared to 15% for the comparable period of 2014.

The number of general and administrative personnel was 21 at March 31, 2015, compared to 20 at March 31, 2014.

Amortization of intangible assets

Our amortization charges were \$0.3 million for the first quarter of 2015. The charges were incurred in connection with the amortization of intangible assets associated with the acquisition of RivieraWaves in July 2014. As of March 31, 2015, the net amount of intangible assets was \$5.2 million. There were no amortization charges for the first quarter of 2014.

Financial Income, Net (in millions)

| | First Quarter 2015 | First Quarter 2014 |
|--|-------------------------------|-------------------------------|
| Financial income (loss), net | | |
| <i>of which:</i> | \$ (0.03) | \$ 0.46 |
| Interest income and gains and losses from marketable securities, net | \$ 0.42 | \$ 0.47 |
| Foreign exchange loss | \$ (0.40) | \$ (0.01) |
| Accretion of Contingent Consideration | \$ (0.05) | |

Financial income, net, consists of interest earned on investments, gains and losses from sale of marketable securities, accretion (amortization) of discounts (premiums) on marketable securities, foreign exchange movements and changes in fair value related to contingent consideration as part of the acquisition of RivieraWaves.

The decrease in interest income and gains and losses from marketable securities, net, during the first quarter of 2015, principally reflected less combined cash, bank deposits and marketable securities balances held.

We review our monthly expected major non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. However, our Euro cash balances increased significantly beyond our ordinary course Euro business liabilities as a result of the acquisition of RivieraWaves because we acquired cash balances of RivieraWaves on hand at the time of closing of the transaction. This has resulted in an increase in foreign exchange loss during the first quarter of 2015 due to the devaluation of our Euro cash balances as the U.S. dollar strengthened significantly during the first quarter of 2015 as compared to the Euro.

Provision for Income Taxes

Our income tax expenses were \$0.1 million for the first quarter of 2015, as compared to \$0.6 million for the comparable period of 2014. The decrease for the first quarter of 2015 primarily reflected lower income before taxes on income and income tax benefit related to the RivieraWaves acquisition. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

Our Irish subsidiary qualified for a 12.5% tax rate on its trade. Interest income generated by our Irish subsidiary is taxed at a rate of 25%. Our French subsidiary qualified for a 33.3% tax rate on its profits.

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. In accordance with the Investment Law, our Israeli subsidiary's first six investment programs were subject to corporate tax rate of 26.5% for the first quarter of 2015, and our Israeli subsidiary's seventh and eighth investment programs were subject to corporate tax rate of 10% for the first quarter of 2015. However, our Israeli subsidiary received an approval for the erosion of tax basis with respect to its second, third, fourth, fifth and sixth investment programs, and this resulted in an increase in the taxable income attributable to the seventh and eighth investment programs, which were subject to a reduced tax rate of 10% for the first quarter of 2015. The tax benefits under our Israeli subsidiary's active investment programs are scheduled to gradually expire starting in 2017.

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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.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, fair value of financial instruments, equity-based compensation and income taxes have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

See our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 13, 2015, for a discussion of additional critical accounting policies and estimates. There have been no changes in our critical accounting policies as compared to what was previously disclosed in the Form 10-K for the year ended December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2015, we had approximately \$14.0 million in cash and cash equivalents, \$27.0 million in short term bank deposits, \$47.9 million in marketable securities, and \$39.2 million in long term bank deposits, totaling \$128.1 million, as compared to \$129.9 million at December 31, 2014. The decrease for the first quarter of 2015 principally reflected cash used for the acquisition of RivieraWaves, the repurchase of 93,903 shares of common stock, and net cash used in operating activities, partially offset by cash proceeds from exercise of stock-based awards. During the first quarter of 2015, we invested \$25.5 million of cash in bank deposits and marketable securities with maturities up to 35 months from the balance sheet date. In addition, during the same period, bank deposits and marketable securities were sold or redeemed for cash amounting to \$24.8 million. 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 interim condensed consolidated statements of income. We did not recognize any other-than-temporarily-impaired charges on marketable securities during the first quarter of 2015. For more information about our marketable securities, see Notes 4 to the attached Notes to the Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2015.

Bank deposits are classified as short-term bank deposits and long-term bank deposits. Short-term bank deposits are deposits with maturities of more than three months but no longer than one year from the balance sheet date, whereas long-term bank deposits are deposits with maturities of more than one year as of the balance sheet date. Bank 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 used in operating activities for the first quarter of 2015 was \$0.7 million and consisted of net income of \$0.5 million, adjustments for non-cash items of \$1.9 million, and changes in operating assets and liabilities of \$3.1 million. Adjustments for non-cash items primarily consisted of \$0.6 million of depreciation and amortization of intangible assets, \$0.8 million of equity-based compensation expenses, \$0.3 million of amortization of premiums on available-for-sale marketable securities and \$0.2 million of unrealized foreign exchange loss. The decrease in cash from changes in operating assets and liabilities primarily consisted of an increase in trade receivables of \$3.0 million, an increase in prepaid expenses and other current assets of \$1.5 million, an increase in deferred tax assets, net, of \$0.5 million, and a decrease in accrued expenses and other payables of \$0.3 million, partially offset by an increase in trade payables of \$0.4 million, an increase in deferred revenues of \$0.4 million, an increase in accrued payroll and related benefits of \$1.2 million, and an increase in accrued severance pay, net, of \$0.2 million.

Cash provided by operating activities for the first quarter of 2014 was \$4.8 million and consisted of net income of \$2.0 million, adjustments for non-cash items of \$2.1 million, and changes in operating assets and liabilities of \$0.7 million. Adjustments for non-cash items primarily consisted of \$1.7 million of depreciation and equity-based compensation expenses, \$0.3 million of amortization of premiums on available-for-sale marketable securities, and \$0.1 million of accrued interest on bank deposits. The increase in cash

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from changes in operating assets and liabilities primarily consisted of a decrease in trade receivables of \$2.6 million, a decrease in deferred taxes, net, of \$0.1 million, an increase in deferred revenues of \$0.2 million, and an increase in accrued payroll and related benefits of \$0.2 million, partially offset by an increase in prepaid expenses and other current assets of \$1.5 million, a decrease in trade payables of \$0.5 million, a decrease in accrued expenses and other payables of \$0.3 million, and a classification of excess tax benefit from equity-based compensation expenses of \$0.2 million as financing cash flows.

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, to some extent, funding from the OCS, CIR 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 for the first quarter of 2015 was \$1.0 million, compared to \$2.4 million of net cash provided by investing activities for the comparable period of 2014. We had a cash outflow of \$3.4 million and a cash inflow of \$3.1 million with respect to investments in marketable securities during the first quarter of 2015, as compared to cash outflow of \$10.1 million and a cash inflow of \$12.9 million with respect to investments in marketable securities during the first quarter of 2014. For both the first quarter of 2015 and 2014, we had net investment of \$0.4 million in bank deposits. We had a cash outflow of \$0.4 million and \$0.1 million during the first quarter of 2015 and 2014, respectively, from purchase of property and equipment.

Financing Activities

Net cash used in financing activities for the first quarter of 2015 was \$0.5 million, compared to \$3.0 million of net cash used in financing activities for the comparable period of 2014.

In August 2008, we announced that our board of directors approved a share repurchase program for up to one million shares of common stock which was further extended by an additional four million shares in 2010 and 2013. In October 2014, our board of directors authorized the repurchase of an additional one million shares of common stock pursuant to Rule 10b-18 of the Exchange Act. During the first quarter of 2015, we repurchased 93,903 shares of common stock pursuant to our share repurchase program, at an average purchase price of \$20.41 per share, for an aggregate purchase price of \$1.9 million. During the first quarter of 2014, we repurchased 235,619 shares of common stock pursuant to our share repurchase program, at an average purchase price of \$17.51 per share, for an aggregate purchase price of \$4.1 million.

During the first quarter of 2015, we received \$4.2 million from the exercise of stock-based awards, as compared to \$0.9 million received for the comparable period of 2014. We had a cash outflow of \$2.7 million during the first quarter of 2015 to settle part of the Contingent Consideration in connection with the acquisition of RivieraWaves. During the first quarter of 2014, we classified \$0.2 million of excess tax benefit from equity-based compensation expenses as financing cash flows.

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

In addition, as part of our business strategy, we occasionally evaluate potential acquisitions of businesses, products and technologies 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 assurances that additional financing will be available to us in any required time frame and on commercially reasonable terms, if at all. See Risk Factors We may seek to expand our business in ways that could result in diversion of resources and extra expenses. for more detailed information.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the majority of our expenses are denominated in currencies other than the U.S. dollar, principally the NIS and the Euro. 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. However, during the second half of 2014, our Euro cash balances increased significantly beyond our ordinary course Euro business liabilities as a result of the acquisition of RivieraWaves. This has resulted in a foreign exchange loss of \$402,000 and \$12,000 for the first quarter of 2015 and 2014, respectively. The foreign exchange losses during the first quarter of 2015 principally reflected a significant devaluation of our Euro cash balances as the U.S. dollar strengthened significantly as compared to the Euro during the first quarter of 2015.

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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 follow a foreign currency cash flow hedging program. We hedge portions of the anticipated payroll for our non-U.S. employees denominated in currencies other than the U.S. dollar for a period of one to twelve months with forward and option contracts. During the first quarter of 2015 and 2014, we recorded accumulated other comprehensive loss of \$33,000 and accumulated other comprehensive gain of \$27,000, respectively, from our forward and option contracts, net of taxes, with respect to anticipated payroll expenses for our non-U.S. employees. As of March 31, 2015, the amount of other comprehensive loss from our forward and option contracts, net of taxes, was \$90,000, which will be recorded in the consolidated statements of income during the following nine months. We recognized a net loss of \$73,000 and a net gain of \$1,000 for the first quarter of 2015 and 2014, respectively, 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 March 31, 2015, we believe the losses associated with our investments are temporary and no impairment loss was recognized during the first quarter of 2015. 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 \$0.42 million and \$0.47 million for the first quarter of 2015 and 2014, respectively. The decrease in interest income and gains and losses from marketable securities, net, during the first quarter of 2015 principally reflected less combined cash, bank deposits and marketable securities balances held.

We are exposed primarily to fluctuations in the level of U.S. 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 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2015.

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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Item 1A. RISK FACTORS

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

There are no material changes to the Risk Factors described under the title **Factors That May Affect Future Performance** in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 other than (1) changes to the Risk Factor below entitled: **We rely significantly on revenue derived from a limited number of customers who contribute to our royalty and license revenues;** (2) changes to the Risk Factor below entitled **Royalty rates could decrease for existing and future license agreements which could materially adversely affect our operating results;** (3) changes to the Risk Factor below entitled **We generate a significant amount of our total revenues from the cellular baseband market and our business and operating results may be materially adversely affected if we do not continue to succeed in these highly competitive markets;** (4) changes to the Risk Factor below entitled **Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our revenues and business;** (5) changes to the Risk Factor below entitled **Our research and development expenses may increase if the grants we currently receive from the Israeli government and European Union are reduced or withheld;** (6) changes to the Risk Factor below entitled **Our product development efforts are time-consuming and expensive and may not generate an acceptable return, if any;** (7) changes to the Risk Factor below entitled **If we are unable to integrate the RivieraWaves acquisition successfully, our business may be harmed;** and (8) addition of the risk factor entitled **We are exposed to the credit risk of our customers, which could result in material losses.**

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

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 Verisilicon and Cadence;

we compete with CPU IP or configurable CPU IP (offering DSP configured CPU and/or DSP acceleration to their IP) providers, such as ARM Holdings, Imagination Technologies (resulting from its acquisition of MIPS Technologies), Synopsys and Cadence;

we compete with internal engineering teams at companies such as Broadcom, Mediatek, Qualcomm, Samsung, Huawei, 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 revenues;

we compete in the digital photography and embedded vision market with Cadence and GPU IP providers such as ARM, Imagination Technologies and Vivante;

we compete in the VoIP applications market with ARM Holdings, Imagination Technologies and Verisilicon; and

we compete in the audio applications market with ARM Holdings, Synopsys, Cadence 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:

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 revenue recognition for some license agreements based on percentage of completion of customized work;

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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;

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

earnings or other financial announcements by our major customers that include shipment data or other information that implicates expectations for our future royalty revenues;

the mix of revenues among licensing and related revenues, and royalty revenues;

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

our ability to integrate the RivieraWaves acquisition and the impact to operating expenses of such integration;

the discontinuation, or public announcement thereof, of product lines or market sectors that incorporate our technology by our significant customers;

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;

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

currency fluctuations, mainly the Euro and the 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 Israeli R&D government grants from the Office of the Chief Scientist of Israel, EU grants and French research tax credits;

the timing of our payment of royalties to the Office of the Chief Scientist, which is impacted by the timing and magnitude of license agreements and royalty revenues derived from technologies that were funded by grant programs of the Office of the Chief Scientist;

statutory changes associated with research tax benefits applicable to French technology companies as a result of our acquisition of RivieraWaves SAS;

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 OEMs and semiconductor companies 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 second quarter in any given year is usually a sequentially down quarter for us in relation to royalty revenues as this period represents lower post-Christmas first quarter consumer product shipments and little to no new introduction of handsets during the first quarter of the year. However, the magnitude of this second quarter decrease varies annually and has been impacted by global economic conditions, market share changes, exiting or refocusing of market sectors by our customers and the timing of introduction of new and existing handset devices powered by CEVA technology sold in any given quarter compared to the prior quarter.

Moreover, the semiconductor and consumer electronics industries remain volatile, which makes it extremely difficult for our customers and us to accurately forecast financial results and plan for future business activities. As a result, our past operating results should not be relied upon as an indication of future performance.

We rely significantly on revenues derived from a limited number of customers who contribute to our royalty and license revenues.

We derive a significant amount of revenues from a limited number of customers. Two customers accounted for 25% and 14% of our total revenues for the first quarter of 2015. Sales to Spreadtrum represented 25% and 16% of our total revenues for the first quarter of 2015 and 2014, respectively. With respect to our royalty revenues, two royalty paying customers each represented 10% or more of our total royalty revenues for the first quarter of 2015, and collectively represented 69% of our total royalty revenues for the first quarter of 2015, compared to three royalty paying customers each representing 10% or more of our total royalty revenues for the first quarter of 2014, and collectively representing 71% of our total royalty revenues for the first quarter of 2014. We expect that a significant portion of our future revenues will continue to be generated by a limited number of customers. The loss of any significant royalty paying customer could adversely affect our near-term future operating results. For example, the shift away from feature phones by Intel and the exiting of the handset baseband market by Broadcom in 2014 negatively impacted our

revenues for the first

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quarter of 2015 as compared to corresponding period in 2014. Furthermore, consolidation among our customers may negatively affect our revenue source, increase our existing customers' negotiation leverage and make us further dependent on a limited number of customers. Moreover, the discontinuation of product lines or market sectors that incorporate our technology by our significant customers or a change in direction of their business and our inability to adapt our technology to their new business needs could have material negative implications for our future royalty revenues.

Our business is dependent on licensing revenues which may vary period to period.

License agreements for our DSP cores and platforms have not historically provided for substantial ongoing license payments so past licensing revenues may not be indicative of the amount of such revenues in any future period. We believe that there is a similar risk with the newly acquired RivieraWaves operations associated with Bluetooth and Wi-Fi connectivity technologies. Significant portions of our anticipated future revenues, therefore, will likely depend upon our success in attracting new customers or expanding our relationships with existing customers. However, revenues recognized from licensing arrangements vary significantly from period to period, depending on the number and size of deals closed during a quarter, and is difficult to predict. In addition, as we expand our business into the non-baseband markets, our licensing deals may be smaller but greater in volume which may further fluctuate our licensing revenues quarter to quarter. Our ability to succeed in our licensing 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 revenues and cash flow. Royalty revenues were approximately 43% and 42% of our total revenues for the first quarter of 2015 and 2014, respectively. Therefore, a significant decrease in our royalty revenues could materially adversely affect our operating results.

Moreover, royalty rates may be negatively affected by macroeconomic trends or changes in products mix. For example, our royalty revenues decreased in 2013 and 2012 in connection with a significant decline in the average selling prices of low-cost feature phones. Furthermore, consolidation among our customers may increase the leverage of our existing customers to extract concessions from us in royalty rates. Moreover, changes in products mix such as an increase in lower royalty bearing products shipped in high volume like low-cost feature phones and Bluetooth-based products in lieu of higher royalty bearing products like LTE phones could lower our royalty revenues.

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

Our total revenues derived solely from the cellular baseband market represented 53% and 56% of our total revenues for the first quarter of 2015 and 2014, respectively. A significant portion of such revenues is derived from feature phones. However, the shift away from feature phones by our customer Intel and the exiting of the handset baseband market by our customer Broadcom have negatively impacted our royalty revenues. Moreover, although next generation products generally have higher average selling prices, the shift towards LTE technology has been slower than expected and we can provide no assurances that the trend towards next generation products will continue on pace. Furthermore, we can provide no assurances that we will be successful in offsetting any decline in revenues from feature phones with increased revenues from next generation products such as low-cost smartphones or LTE phones. Any adverse change in our ability to compete and maintain our competitive position in the cellular baseband market, including through the introduction by competitors of enhanced technologies that attract OEM customers that target those markets, would harm our business, financial condition and results of operations. Moreover, the cellular baseband market is extremely competitive and are facing intense pricing pressures, and we expect that competition and pricing pressures will only increase. Furthermore, it can be very volatile with regards to volume shipments of different phones, standards and connected devices due to inventory build out or consumer demand changes or geographical macroeconomics, pricing changes and timing of introduction of new phones and products. Our existing OEM customers also may fail to introduce new handset devices that attract consumers, or encounter significant delays in developing, manufacturing or shipping new or enhanced products in those 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

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material adverse effect on our business, financial condition and results of operations. Since a significant portion of our revenues are derived from the cellular baseband market, adverse conditions in this market would have a material adverse effect on our business, financial condition and results of operations.

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 customers' 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 their end products which incorporate our IP solutions.

In addition, our royalties from licenses and therefore the growth of our business, 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 competitive, cyclical and have been subject to significant economic downturns at various times. These downturns are characterized by production overcapacity and reduced revenues, which at times may 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.

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 and connectivity IPs towards licensing open DSP cores, platforms and connectivity IPs. Furthermore, the third-party licensable intellectual property model is highly dependent on the market adoption of new services and products, such as low cost smartphones in emerging markets, LTE smartphones, mobile broadband, small cell base stations and the increased use of advanced audio, voice, computational photography and embedded vision in mobile, automotive and consumer products, as well as in IoT and connectivity applications. 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.

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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 86% of our total revenues for the first quarter of 2015 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 revenues 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;