

CEVA INC
Form 10-Q
August 09, 2007

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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: June 30, 2007

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

77-0556376

(State or Other Jurisdiction of Incorporation or Organization)

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

2033 Gateway Place, Suite 150, San Jose, California

95110-1002

(Address of Principal Executive Offices)

(Zip Code)

(408) 514-2900

(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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: 19,564,350 shares of common stock, \$0.001 par value, as of August 1, 2007.

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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, believe, anticipate, intend, plan, or other similar words. Forward-looking statements include the following:

Our belief that given the complexity of applications for DSPs, it is no longer cost efficient and more difficult for most semiconductor companies and designers to develop these technologies in-house and they will increasingly rely on licensing integrated application platforms from third parties;

We are encouraged by a strong pipeline of companies with interest in licensing our newer technologies targeting traditional markets, as well as new market segments and applications.

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

To the extent we are successful in surrendering our long-term lease in Dublin, Ireland in 2007, we believe this arrangement will result in an associated cash outflow of approximately \$3.6 million in 2007.

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, market acceptance of third-party semiconductor IP, our OEM relationships and competition, as well as those risks described in Part II Item 1A Risk Factors of this Form 10-Q.

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

	June 30, 2007 Unaudited	December 31, 2006 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,026	\$ 37,968
Short term bank deposits	2,071	3,029
Marketable securities (see Note 3)	19,809	23,237
Trade receivables, net	9,949	8,421
Deferred tax assets	642	613
Prepaid expenses	765	564
Other current assets	1,858	1,890
Total current assets	78,120	75,722
Severance pay fund	2,291	2,338
Deferred tax assets	703	382
Property and equipment, net	1,887	1,706
Investment in other company, net	4,233	4,233
Goodwill	36,498	36,498
Other intangible assets, net	118	201
Total assets	\$ 123,850	\$ 121,080
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	\$ 884	\$ 718
Accrued expenses and other payables	10,013	9,462
Taxes payable	119	135
Deferred revenues	626	406
Total current liabilities	11,642	10,721
Long term liabilities:		
Accrued severance pay	2,468	2,519
Accrued liabilities	1,370	1,697
Total long-term liabilities	3,838	4,216
Stockholders equity:		
Common Stock:		
\$0.001 par value: 60,000,000 shares authorized; 19,496,295 and 19,330,144 shares issued and outstanding at June 30, 2007 and December 31, 2006,	19	19

respectively		
Additional paid in-capital	144,652	142,826
Other comprehensive loss	(29)	
Accumulated deficit	(36,272)	(36,702)
Total stockholders' equity	108,370	106,143
Total liabilities and stockholders' equity	\$ 123,850	\$ 121,080

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

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

	Six months ended		Three months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	Unaudited	Unaudited	Unaudited	Unaudited
Revenues:				
Licensing and royalties	\$ 14,048	\$ 14,615	\$ 7,452	\$ 7,455
Other revenue	2,193	1,931	1,063	957
Total revenues	16,241	16,546	8,515	8,412
Cost of revenues	1,925	2,030	918	1,135
Gross profit	14,316	14,516	7,597	7,277
Operating expenses:				
Research and development, net	9,310	9,889	4,610	4,873
Sales and marketing	3,174	3,377	1,619	1,606
General and administrative	2,619	2,958	1,373	1,474
Amortization of intangible assets	83	331	41	141
Total operating expenses	15,186	16,555	7,643	8,094
Operating loss	(870)	(2,039)	(46)	(817)
Financial and other income, net	1,450	1,171	626	630
Income (loss) before taxes on income	580	(868)	580	(187)
Taxes on income	150	150	150	30
Net income (loss)	\$ 430	\$ (1,018)	\$ 430	\$ (217)
Basic and diluted net income (loss) per share	\$ 0.02	\$ (0.05)	\$ 0.02	\$ (0.01)
Weighted-average number of shares of Common Stock used in computation of net income (loss) per share (in thousands):				
Basic	19,450	19,104	19,473	19,142
Diluted	19,702	19,104	19,776	19,142

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

Table of Contents**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (unaudited)**

U.S. dollars in thousands, except share data

	Common stock		Accumulated			Total stockholders equity
	Shares	Amount	Additional paid-in capital	other comprehensive loss	Accumulated deficit	
Six months ended June 30, 2007						
Balance as of January 1, 2007	19,330,144	\$ 19	\$ 142,826	\$	\$ (36,702)	\$ 106,143
Net income					430	430
Stock-based compensation			984			984
Unrealized loss from available-for-sale securities, net				(20)		(20)
Unrealized loss from hedging activities, net				(9)		(9)
Issuance of Common Stock upon exercise of employee stock options	64,025	(*)	404			404
Issuance of Common Stock under employee stock purchase plan	102,126	(*)	438			438
Balance as of June 30, 2007	19,496,295	\$ 19	\$ 144,652	\$ (29)	\$ (36,272)	\$ 108,370

	Common stock		Accumulated			Total stockholders equity
	Shares	Amount	Additional paid-in capital	other comprehensive income	Accumulated deficit	
Six months ended June 30, 2006						
Balance as of January 1, 2006	18,923,071	\$ 19	\$ 138,818	\$	\$ (36,604)	\$ 102,233
Net loss					(1,018)	(1,018)
Stock-based compensation			1,150			1,150
Issuance of Common Stock upon exercise of employee stock options	39,945	(*)	206			206
Issuance of Common Stock under employee stock purchase plan	186,392	(*)	797			797
Balance as of June 30, 2006	19,149,408	\$ 19	\$ 140,971	\$	\$ (37,622)	\$ 103,368

(*) Amount less than \$1.

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

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

	Six months ended	
	June 30,	
	2007	2006
	Unaudited	Unaudited
Cash flows from operating activities:		
Net income (loss)	\$ 430	\$ (1,018)
Adjustments required to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation	458	814
Amortization of intangible assets	83	331
Stock-based compensation	984	1,150
(Gain) loss on marketable securities	(16)	79
Accrued interest on short term bank deposits	(68)	(121)
Unrealized foreign exchange loss	44	27
Gain on realization of investment		(57)
Marketable securities	16,842	(5,549)
Changes in operating assets and liabilities:		
(Increase) decrease in trade receivables	(1,528)	73
(Increase) decrease in other current assets and prepaid expenses	(169)	130
Increase in deferred income taxes	(350)	(33)
Increase in trade payables	169	6
Increase (decrease) in deferred revenues	220	(76)
Increase (decrease) in accrued expenses and other payables	142	(98)
Decrease in taxes payable	(16)	(79)
Decrease in accrued severance pay, net	(3)	(56)
Net cash provided by (used in) operating activities	17,222	(4,477)
Cash flows from investing activities:		
Purchase of property and equipment	(639)	(221)
Proceeds from realization of investment		57
Investment in short term bank deposits		(1,380)
Proceeds from short term bank deposits	1,026	
Investment in marketable securities	(14,907)	
Proceeds from marketable securities	1,489	
Transaction cost related to the GPS divestment	(38)	(265)
Net cash used in investing activities	(13,069)	(1,809)
Cash flows from financing activities:		
Proceeds from issuance of Common Stock upon exercise of employee stock options	404	206
Proceeds from issuance of Common Stock under employee stock purchase plan	438	797
Net cash provided by financing activities	842	1,003

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Effect of exchange rate movements on cash	63	285
Changes in cash and cash equivalents	5,058	(4,998)
Cash and cash equivalents at the beginning of the period	37,968	35,111
Cash and cash equivalents at the end of the period	\$ 43,026	\$ 30,113

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

	Six months ended	
	June 30,	
	2007	2006
	Unaudited	Unaudited
Supplemental disclosure of noncash activities		
Investment in other company in regards to the GloNav transaction:		
Goodwill	\$	\$ (1,900)
Intangible asset		(845)
Net working capital		(522)
Transaction cost related to the GPS divestment		(701)
Deferred gain related to GPS divestment transaction		(1,751)

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

Table of Contents**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(U.S. dollars in thousands, except share and per share amounts)****NOTE 1: BUSINESS**

The financial information in this quarterly report includes the results of CEVA, Inc. and its subsidiaries (the Company or CEVA). CEVA licenses to semiconductor companies and electronic equipment manufacturers (also known as original equipment manufacturers, or OEMs) digital signal processor (DSP) cores and related intellectual property (IP) solutions that enable a wide variety of electronic devices. The Company's programmable DSP cores and application-level IP solutions power wireless devices, handheld devices, consumer electronic products, disk drives and automotive applications.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including non-recurring adjustments attributable to reorganization and severance and impairment) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

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

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2006, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2007, have been applied consistently in these unaudited interim condensed consolidated financial statements, except for marketable securities (see note 3) and derivatives and hedging activities (see note 8).

NOTE 3: MARKETABLE SECURITIES AND DEPOSITS

Marketable securities consist of corporate bonds and securities, and U.S. government and agency securities. Management determines the classification of investments in obligations with fixed maturities and marketable securities at the time of purchase and re-evaluates such designations as of each balance sheet date.

In accordance with Statement of Financial Accounting Standard No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115), the Company has classified at June 30, 2007, \$6,407 from its marketable debt securities as trading securities and \$13,402 as available-for-sale securities.

Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the condensed consolidated statement of operations.

Trading securities are held for resale in anticipation of short-term market movements. Under SFAS No. 115, marketable securities classified as trading securities are stated at the quoted market prices at each balance sheet date. Gains and losses (realized and unrealized) related to trading securities, as well as interest on such securities, are included as financial income or expenses, as appropriate.

		As at June 30, 2007	
	Amortized	other	Market
	Cost	comprehensive	Value
		loss	
Available-for-sale securities			
Corporate bonds and securities	\$ 5,445	\$ (8)	\$ 5,437
U.S. government and agency securities	7,977	(12)	7,965

\$ 13,422 \$ (20) \$ 13,402

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

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

		As at June 30, 2007	
	Cost	Gain (loss)	Market Value
Trading securities			
Corporate bonds and securities	\$ 3,978	\$ (65)	\$ 3,913
U.S. government and agency securities	2,484	10	2,494
	\$ 6,462	\$ (55)	\$ 6,407
Total marketable securities			\$ 19,809

NOTE 4: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA

a. Summary information about geographic areas:

The Company manages its business on the basis of one industry segment: the licensing of intellectual property to semiconductor companies and electronic equipment manufacturers (see Note 1 for a brief description of the Company's business).

The following is a summary of operations within geographic areas:

	Six months ended June 30,		Three months ended June 30,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Revenues based on customer location:				
United States	\$ 5,129	\$ 7,731	\$ 3,496	\$ 2,355
Europe, Middle East and Africa	5,216	6,758	2,754	5,137
Asia Pacific (1)	5,896	2,057	2,265	920
	\$ 16,241	\$ 16,546	\$ 8,515	\$ 8,412

Individual countries representing 10% or more of total revenues included in the table above are as follows:

(1) Japan	\$ 1,616	\$	\$	\$
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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 net revenue in each of the periods set forth below.

	Six months ended June 30, 2007	Three months ended June 30,
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