

CEVA INC
Form 10-Q
November 08, 2010

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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: September 30, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 000-49842

CEVA, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

77-0556376

(State or Other Jurisdiction of Incorporation or Organization)

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

1943 Landings Drive, Mountain View, California

94043

(Address of Principal Executive Offices)

(Zip Code)

(408) 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: 22,004,913 shares of common stock, \$0.001 par value, as of November 5, 2010.

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

Our belief that the penetration of Ultra Low Cost (ULC) handsets in emerging markets such as China, India and Africa could generate future growth potential for CEVA;

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

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

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

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

Our belief that we are well-positioned to capitalize on the growth in the ULC, smartphones and mobile broadband markets;

Our belief that our operating expenses will increase in 2010 as compared to 2009;

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

We are experiencing strong interest and pipeline build-up for our DSP cores due to general business improvements in our primary markets, particularly in the cellular baseband market, and CEVA-XC DSP product designed for 4G market;

Our expectation that two customers who are under prepaid royalty arrangements to fully utilize such arrangements by year-end 2010 and revert to per-unit royalty arrangements thereafter;

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

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

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

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

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

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

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

| | September 30, 2010 Unaudited | December 31, 2009 Audited |
|---|---|--|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 23,134 | \$ 12,104 |
| Short term bank deposits | 14,396 | 40,056 |
| Marketable securities (see Note 3) | 64,492 | 48,438 |
| Trade receivables (net of allowance for doubtful accounts of \$700 at both September 30, 2010 and December 31, 2009) | 5,000 | 5,995 |
| Deferred tax assets | 964 | 1,096 |
| Prepaid expenses and other accounts receivable | 5,507 | 5,345 |
| Total current assets | 113,493 | 113,034 |
| Long term bank deposit | 15,153 | |
| Severance pay fund | 5,144 | 4,455 |
| Deferred tax assets | 456 | 309 |
| Property and equipment, net | 1,462 | 1,148 |
| Goodwill | 36,498 | 36,498 |
| Total long-term assets | 58,713 | 42,410 |
| Total assets | \$ 172,206 | \$ 155,444 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Trade payables | \$ 526 | \$ 530 |
| Deferred revenues | 766 | 432 |
| Accrued expenses and other payables | 9,598 | 9,735 |
| Deferred tax liabilities | 989 | 1,168 |
| Total current liabilities | 11,879 | 11,865 |
| Long term liabilities: | | |
| Accrued severance pay | 5,253 | 4,483 |
| Stockholders equity: | | |
| Common Stock: | | |
| \$0.001 par value: 60,000,000 shares authorized; 21,458,459 and 20,429,736 shares issued and outstanding at September 30, 2010 and December 31, 2009, | 21 | 20 |

| | | |
|--|------------|------------|
| respectively | | |
| Additional paid in-capital | 167,549 | 158,325 |
| Accumulated other comprehensive income | 421 | 251 |
| Accumulated deficit | (12,917) | (19,500) |
| Total stockholders' equity | 155,074 | 139,096 |
| Total liabilities and stockholders' equity | \$ 172,206 | \$ 155,444 |

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

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

| | Nine months ended | | Three months ended | |
|---|-------------------|-----------|--------------------|----------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | |
| Licensing | \$ 13,774 | \$ 14,059 | \$ 4,459 | \$ 5,242 |
| Royalties | 15,372 | 11,403 | 5,238 | 3,694 |
| Other revenue | 2,739 | 2,820 | 978 | 723 |
| Total revenues | 31,885 | 28,282 | 10,675 | 9,659 |
| Cost of revenues | 2,578 | 3,211 | 1,001 | 849 |
| Gross profit | 29,307 | 25,071 | 9,674 | 8,810 |
| Operating expenses: | | | | |
| Research and development, net | 13,243 | 12,132 | 4,129 | 4,061 |
| Sales and marketing | 5,248 | 4,914 | 1,664 | 1,628 |
| General and administrative | 4,709 | 4,555 | 1,593 | 1,525 |
| Total operating expenses | 23,200 | 21,601 | 7,386 | 7,214 |
| Operating income | 6,107 | 3,470 | 2,288 | 1,596 |
| Financial income, net | 1,591 | 1,501 | 493 | 551 |
| Other income (see Note 10) | | 1,901 | | |
| Income before income tax | 7,698 | 6,872 | 2,781 | 2,147 |
| Income tax expenses (income) | 527 | 1,436 | (208) | 394 |
| Net income | \$ 7,171 | \$ 5,436 | \$ 2,989 | \$ 1,753 |
| Basic net income per share | \$ 0.34 | \$ 0.28 | \$ 0.14 | \$ 0.09 |
| Diluted net income per share | \$ 0.32 | \$ 0.27 | \$ 0.13 | \$ 0.09 |
| Weighted-average number of shares of Common Stock used in computation of net income per share (in thousands): | | | | |
| Basic | 20,989 | 19,588 | 21,244 | 19,689 |
| Diluted | 22,114 | 20,087 | 22,356 | 20,492 |

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

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

| Nine months ended September 30, 2010 | Common stock | | Additional paid-in capital | Treasury stock | Accumulated other comprehensive income | | Total comprehensive income | Total stockholders equity |
|---|--------------|--------|----------------------------------|-------------------|---|-------------|----------------------------------|---------------------------------|
| | Shares | Amount | | | Accumulated deficit | | | |
| Balance as of January 1, 2010 | 20,429,736 | \$ 20 | \$ 158,325 | \$ | \$ 251 | \$ (19,500) | | \$ 139,096 |
| Net income | | | | | | 7,171 | \$ 7,171 | 7,171 |
| Unrealized gain from available-for-sale securities, net | | | | | 81 | | 81 | 81 |
| Unrealized gain from hedging activities, net | | | | | 89 | | 89 | 89 |
| Total comprehensive income | | | | | | | \$ 7,341 | |
| Equity-based compensation | | | 1,661 | | | | | 1,661 |
| Tax benefit related to exercise of stock options | | | 1,125 | | | | | 1,125 |
| Issuance of Common Stock upon exercise of employee stock options | 894,897 | 1 | 5,642 | | | | | 5,643 |
| Issuance of Common Stock under employee stock purchase plan | 133,826 | (*) | 795 | | | | | 795 |
| Purchase of Treasury Stock | (139,709) | (*) | | (1,567) | | | | (1,567) |
| Issuance of Treasury Stock upon exercise of employee stock options | 91,389 | (*) | 1 | 1,027 | | (340) | | 688 |
| Issuance of Treasury Stock under employee stock purchase plan | 48,320 | (*) | | 540 | | (248) | | 292 |
| Balance as of September 30, 2010 | 21,458,459 | \$ 21 | \$ 167,549 | \$ | \$ 421 | \$ (12,917) | | \$ 155,074 |

| Additional | Accumulated other | Total | Total |
|------------|----------------------|-------|-------|
|------------|----------------------|-------|-------|

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| Nine months ended | Common stock | | paid-in capital | Treasury stock | Comprehensive income | | Accumulated deficit | Comprehensive income | stockholders equity |
|--|--------------|--------|-----------------|----------------|----------------------|-------------|---------------------|----------------------|---------------------|
| | Shares | Amount | | | (loss) | deficit | | | |
| September 30, 2009 | | | | | | | | | |
| Balance as of January 1, 2009 | 19,532,026 | \$ 20 | \$ 153,712 | \$ (5,077) | \$ (24) | \$ (26,972) | | | \$ 121,659 |
| Net income | | | | | | 5,436 | \$ 5,436 | | 5,436 |
| Unrealized gain from available-for-sale securities, net | | | | | 380 | | | 380 | 380 |
| Unrealized gain from hedging activities, net | | | | | 132 | | | 132 | 132 |
| Total comprehensive income | | | | | | | \$ 5,948 | | |
| Equity-based compensation | | | 2,210 | | | | | | 2,210 |
| Purchase of Treasury Stock | (140,828) | (1) | | (822) | | | | | (823) |
| Issuance of Treasury Stock upon exercise of employee stock options | 315,266 | 1 | 38 | 2,312 | | (236) | | | 2,115 |
| Issuance of Treasury Stock under employee stock purchase plan | 168,015 | (*) | | 1,260 | | (281) | | | 979 |
| Balance as of September 30, 2009 | 19,874,479 | \$ 20 | \$ 155,960 | \$ (2,327) | \$ 488 | \$ (22,053) | | | \$ 132,088 |

(*) Amount less than \$1.

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

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

| | Nine months ended | |
|--|--------------------------|-------------|
| | September 30, | |
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 7,171 | \$ 5,436 |
| Adjustments required to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 393 | 368 |
| Equity-based compensation | 1,661 | 2,210 |
| Loss (gain) on available-for-sale marketable securities | (34) | 36 |
| Amortization of premiums on available-for-sale marketable securities | 1,135 | 387 |
| Accrued interest on short term bank deposits | (467) | (809) |
| Unrealized foreign exchange loss (gain) | (34) | 100 |
| Gain on realization of investments | | (1,901) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in trade receivables | 995 | (974) |
| Decrease in prepaid expenses and other accounts receivable | 1,046 | 419 |
| Increase in deferred tax, net | (215) | (58) |
| Decrease in trade payables | (30) | (66) |
| Increase (decrease) in deferred revenues | 334 | (493) |
| Decrease in accrued expenses and other payables | (133) | (2,115) |
| Excess tax benefit from stock-based compensation | (1,125) | |
| Increase (decrease) in accrued severance pay, net | 80 | (88) |
| Net cash provided by operating activities | 10,777 | 2,452 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (707) | (314) |
| Investment in bank deposits | (27,449) | (41,592) |
| Proceeds from bank deposits | 38,725 | 35,496 |
| Investment in available-for-sale marketable securities | (46,721) | (28,449) |
| Proceeds from maturity and sale of available-for-sale marketable securities | 29,665 | 23,645 |
| Proceeds from realization of investments | | 1,901 |
| Net cash used in investing activities | (6,487) | (9,313) |
| Cash flows from financing activities: | | |
| Purchase of Treasury Stock | (1,567) | (823) |
| Proceeds from issuance of Common Stock upon exercise of employee stock options | 5,643 | |
| Proceeds from issuance of Common Stock under employee stock purchase plan | 795 | |
| Proceeds from issuance of Treasury Stock upon exercise of employee stock options | 688 | 2,115 |
| Proceeds from issuance of Treasury Stock under employee stock purchase plan | 292 | 979 |
| Excess tax benefit from stock-based compensation | 1,125 | |

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| | | |
|--|-----------|----------|
| Net cash provided by financing activities | 6,976 | 2,271 |
| Effect of exchange rate movements on cash | (236) | (81) |
| Increase (decrease) in cash and cash equivalents | 11,030 | (4,671) |
| Cash and cash equivalents at the beginning of the period | 12,104 | 13,328 |
| Cash and cash equivalents at the end of the period | \$ 23,134 | \$ 8,657 |

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1: BUSINESS

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

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

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

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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