CEVA INC
Form 10-Q
May 10, 2007

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, DC 20549**
**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended: March 31, 2007**

**OR**

o **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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 19,477,431 shares of common stock, $0.001 par value, as of May 1, 2007.

**TABLE OF CONTENTS**


| | | Page |
|---|---|---|
| PART I. | FINANCIAL INFORMATION | |
| Item 1. | Interim Condensed Consolidated Balance Sheets at March 31, 2007 and December 31, 2006 | 2 |
| | Interim Condensed Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2007 and 2006 | 3 |
| | Interim Condensed Consolidated Statements of Changes in Stockholders Equity (unaudited) for the three months ended March 31, 2007 and 2006 | 4 |
| | Interim Condensed Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2007 and 2006 | 5 |
| | Notes to the Interim Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 16 |
| Item 4. | Controls and Procedures | 17 |
| PART II. | OTHER INFORMATION | |
| Item 1. | Legal Proceedings | 17 |
| Item 1A. | Risk Factors | 17 |
| Item 6. | Exhibits | 24 |
| SIGNATURES | | 25 |
| EXHIBIT 31.1 | | |
| EXHIBIT 31.2 | | |
| EXHIBIT 32 | | |

Table of Contents

## FORWARD-LOOKING STATEMENTS
## FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

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

Our belief that given the complexity of applications for DSPs, there is increasingly an industry shift away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications;

Our belief that the industry is indicating a continued demand for highly integrated, licensable application platforms incorporating DSP cores and all the necessary hardware and software and that the growth in the demand for these platforms will drive demand for our technology and that we are well positioned to take full advantage of these major industry shifts;

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 a successful surrender of our long-term lease in Dublin, Ireland in 2007 will result in an associated cash outflow of approximately $3.6 million in 2007, which amount is fully provided for in our financial statements.

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**

| | March 31, 2007 Unaudited | December 31, 2006 Audited |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 37,177 | $ 37,968 |
| Short term bank deposits | 3,067 | 3,029 |
| Marketable securities (see Note 3) | 24,184 | 23,237 |
| Trade receivables, net | 8,663 | 8,421 |
| Deferred tax assets | 537 | 613 |
| Prepaid expenses | 727 | 564 |
| Other current assets | 2,116 | 1,890 |
| Total current assets | 76,471 | 75,722 |
| Severance pay fund | 2,220 | 2,338 |
| Deferred tax assets | 624 | 382 |
| Property and equipment, net | 1,941 | 1,706 |
| Investment in other company, net | 4,233 | 4,233 |
| Goodwill | 36,498 | 36,498 |
| Other intangible assets, net | 159 | 201 |
| Total assets | $ 122,146 | $ 121,080 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Trade payables | $ 838 | $ 718 |
| Accrued expenses and other payables | 9,575 | 9,462 |
| Taxes payable | 140 | 135 |
| Deferred revenues | 385 | 406 |
| Total current liabilities | 10,938 | 10,721 |
| Long term liabilities: | | |
| Accrued severance pay | 2,402 | 2,519 |
| Accrued liabilities | 1,536 | 1,697 |
| Total long-term liabilities | 3,938 | 4,216 |
| Stockholders equity: | | |
| Common Stock: | | |
| $0.001 par value: 60,000,000 shares authorized; 19,467,113 and 19,330,144 shares issued and outstanding at March 31, 2007 and December 31, 2006, | 19 | 19 |

| | | |
|---|---|---|
| respectively | | |
| Additional paid in-capital | 143,956 | 142,826 |
| Other comprehensive loss | (3) | |
| Accumulated deficit | (36,702) | (36,702) |
| Total stockholders equity | 107,270 | 106,143 |
| Total liabilities and stockholders equity | $ 122,146 | $ 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**

| | Three months ended March 31, | |
|---|---|---|
| | 2007 | 2006 |
| | Unaudited | Unaudited |
| Revenues: | | |
| Licensing and royalties | $ 6,596 | $ 7,160 |
| Other revenue | 1,130 | 974 |
| Total revenues | 7,726 | 8,134 |
| Cost of revenues | 1,007 | 895 |
| Gross profit | 6,719 | 7,239 |
| Operating expenses: | | |
| Research and development, net | 4,700 | 5,016 |
| Sales and marketing | 1,555 | 1,771 |
| General and administrative | 1,246 | 1,484 |
| Amortization of intangible assets | 42 | 190 |
| Total operating expenses | 7,543 | 8,461 |
| Operating loss | (824) | (1,222) |
| Financial income, net | 824 | 541 |
| Income (loss) before taxes on income | | (681) |
| Taxes on income | | 120 |
| Net income (loss) | $ | $ (801) |
| Basic and diluted net income (loss) per share | $ 0.00 | $ (0.04) |
| Weighted-average number of shares of Common Stock used in computation of net income (loss) per share (in thousands): | | |
| Basic and diluted | 19,420 | 19,061 |

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**

| Three months ended March 31, 2007 | Common stock Shares | Amount | Additional paid-in capital | Accumulated other comprehensive loss | Accumulated deficit | Total stockholders equity |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2007 | 19,330,144 | $ 19 | $ 142,826 | $ | $ (36,702) | $ 106,143 |
| Net income | | | | | | |
| Stock-based compensation | | | 472 | | | 472 |
| Unrealized loss from available-for-sale securities, net | | | | (3) | | (3) |
| Issuance of Common Stock upon exercise of employee stock options | 34,843 | (*) | 220 | | | 220 |
| Issuance of Common Stock under employee stock purchase plan | 102,126 | (*) | 438 | | | 438 |
| Balance as of March 31, 2007 | 19,467,113 | $ 19 | $ 143,956 | $ (3) | $ (36,702) | $ 107,270 |

| Three months ended March 31, 2006 | Common stock Shares | Amount | Additional paid-in capital | Accumulated other comprehensive income | Accumulated deficit | Total stockholders equity |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2006 | 18,923,071 | $ 19 | $ 138,818 | $ | $ (36,604) | $ 102,233 |
| Net loss | | | | | (801) | (801) |
| Stock-based compensation | | | 645 | | | 645 |
| Issuance of Common Stock upon exercise of employee stock options | 27,028 | (*) | 139 | | | 139 |
| Issuance of Common Stock under employee stock purchase plan | 186,392 | (*) | 797 | | | 797 |
| Balance as of March 31, 2006 | 19,136,491 | $ 19 | $ 140,399 | $ | $ (37,405) | $ 103,013 |

(*) 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**

| | Three months ended March 31, | |
|---|---|---|
| | 2007 | 2006 |
| | Unaudited | Unaudited |
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ | $ (801) |
| Adjustments required to reconcile net income (loss) to net cash (used in) provided by operating activities: | | |
| Depreciation | 246 | 432 |
| Amortization of intangible assets | 42 | 190 |
| Stock-based compensation | 472 | 645 |
| (Gain) loss on marketable securities | (18) | 52 |
| Accrued interest on short term bank deposits | (38) | (46) |
| Unrealized foreign exchange loss (gain) | 22 | (15) |
| Marketable securities | 4,535 | (572) |
| Changes in operating assets and liabilities: | | |
| Increase in trade receivables | (242) | (2,931) |
| Increase in other current assets and prepaid expenses | (380) | (107) |
| Increase in deferred income taxes | (166) | |
| Increase in trade payables | 120 | 39 |
| Decrease in deferred revenues | (21) | (47) |
| (Decrease) increase in accrued expenses and other payables | (98) | 229 |
| Increase (decrease) in taxes payable | 5 | (50) |
| Decrease in accrued severance pay, net | (2) | (57) |
| Net cash provided by (used in) operating activities | 4,477 | (3,039) |
| **Cash flows from investing activities:** | | |
| Purchase of property and equipment | (481) | (57) |
| Investment in short term bank deposits | | (1,349) |
| Investment in marketable securities | (5,467) | |
| Transaction cost related to the GPS divestment | (36) | |
| Net cash used in investing activities | (5,984) | (1,406) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of Common Stock upon exercise of employee stock options | 220 | 139 |
| Proceeds from issuance of Common Stock under employee stock purchase plan | 438 | 797 |
| Net cash provided by financing activities | 658 | 936 |
| Effect of exchange rate movements on cash | 58 | 88 |
| Changes in cash and cash equivalents | (791) | (3,421) |
| Cash and cash equivalents at the beginning of the period | 37,968 | 35,111 |

| | | |
|---|---|---|
| Cash and cash equivalents at the end of the period | $ 37,177 | $ 31,690 |

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 CONTINUED**
**(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 months ended March 31, 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).

**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 purchasing and reevaluates 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 March 31, 2007, $18,720 from its marketable debt securities as trading securities and $5,464 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 March 31, 2007 | | |
|---|---|---|---|
| | Cost | Accumulated other comprehensive loss | Market Value |
| Available-for-sale securities | | | |
| Corporate bonds and securities | $ 2,495 | $ (1) | $ 2,494 |
| U.S. government and agency securities | 2,972 | (2) | 2,970 |

| | | | |
|---|---|---|---|
| | $ 5,467 | $ (3) | $ 5,464 |

Table of Contents

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

| | As at March 31, 2007 | | |
|---|---|---|---|
| | Cost | Gain (loss) | Market Value |
| Trading securities | | | |
| Corporate bonds and securities | $ 13,319 | $ (85) | $ 13,234 |
| U.S. government and agency securities | 5,451 | 35 | 5,486 |
| | $ 18,770 | $ (50) | $ 18,720 |
| Total marketable securities | $ 24,237 | | $ 24,184 |

**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:

| | Three months ended March 31, | |
|---|---|---|
| | 2007 (unaudited) | 2006 (unaudited) |
| Revenues based on customer location: | | |
| United States | $ 1,633 | $ 5,376 |
| Europe, Middle East and Africa | 2,462 | 1,621 |
| Asia Pacific (1) | 3,631 | 1,137 |
| | $ 7,726 | $ 8,134 |

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

| | | |
|---|---|---|
| (1) Japan | $ 844 | $ |

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.

| | Three months ended March 31, | |
|---|---|---|
| | 2007 (unaudited) | 2006 (unaudited) |
| Customer A | | 59% |
| Customer B | | 10% |
| Customer C | 22% | |

**NOTE 5: NET INCOME (LOSS) PER SHARE OF COMMON STOCK**

Basic net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during each period, plus potential dilutive shares of common stock considered outstanding during the period, in accordance with Statement of Financial Accounting Standard No. 128, Earnings Per Share.

Table of Contents

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

| | Three months ended March 31, | |
|---|---|---|
| | 2007 (unaudited) | 2006 (unaudited) |
| **Numerator:** | | |
| Numerator for basic and diluted net income (loss) per share | $ | $ (801) |
| **Denominator:** | | |
| Denominator for basic net income (loss) per share | | |
| Weighted-average number of shares of Common Stock | 19,420 | 19,061 |
| Effect of employee stock options | | |
| | 19,420 | 19,061 |
| Net income (loss) per share | | |
| Basic and diluted | $ 0.00 | $ (0.04) |

The weighted average number of shares related to the outstanding options excluded from the calculation of diluted net income (loss) per share since their effect was anti-dilutive was 4,432,002 for the three months period ended March 31, 2007, and 4,980,740 for the corresponding period of 2006.

**NOTE 6: COMMON STOCK AND STOCK-BASED COMPENSATION PLANS**

During the first quarter of 2007, the Company granted options to purchase 565,500 shares of common stock, at an exercise prices of $7.22 per share, and the Company issued 136,969 shares of common stock under its stock option and purchase programs for an aggregate consideration of $658. Options to purchase 4,613,093 shares of common stock were outstanding at March 31, 2007. During the comparable period of 2006, the Company granted options to purchase 53,500 shares of common stock, at exercise prices ranging from $6.05 to $6.59 per share, and the Company issued 213,420 shares of common stock under its stock option and purchase programs for an aggregate consideration of $936. Options to purchase 4,941,096 shares were outstanding at March 31, 2006.

The weighted average fair value per share of the options granted during the three months ended March 31, 2007 and 2006 was $7.22 and $6.52 respectively.

A summary of options granted to purchase the Company s common stock under the Company s stock option plans is as follows:

| | Three months ended March 31, 2007 (unaudited) | | | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |

| | | | | | |
|---|---|---|---|---|---|
| Outstanding at the beginning of the year | 4,250,910 | $ | 8.15 | | |
| Granted | 565,500 | | 7.22 | | |
| Exercised | (34,843) | | 6.32 | | |
| Forfeited or expired | (168,474) | | 9.55 | | |
| Outstanding at the end of the period | 4,613,093 | $ | 8.00 | 4.6 | $ |
| Exercisable, vested or expected to vest as of March 31, 2007 | 2,894,581 | $ | 8.80 | 3.4 | $ |

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard No. 123R, Share-Based Payment ( SFAS 123(R) ), which requires the Company to measure all employee stock-based compensation awards

Table of Contents

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

using a fair value method and record the related expense in the financial statements. The Company used the Black-Scholes option pricing model through December 31, 2006 and the Monte-Carlo simulation model for options granted thereafter.

The Monte-Carlo model considers characteristics of fair value option pricing that are not available under the Black-Scholes model. Similar to the Black-Scholes model, the Monte-Carlo model takes into account variables such as volatility, dividend yield rate, and risk free interest rate. However, the Monte-Carlo model also considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option. For these reasons, the Company believes that the Monte-Carlo model provides a fair value that is more representative of actual experience and future expected experience than that calculated using the Black-Scholes model.

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

| | Three months ended March 31, 2007 (unaudited) | Three months ended March 31, 2006 (unaudited) |
|---|---|---|
| Cost of revenue | $ 18 | $ 15 |
| Research and development expenses | 196 | 219 |
| Sales and marketing expenses | 82 | 102 |
| General and administrative expenses | 176 | 309 |
| Total | $ 472 | $ 645 |

Net income for the three months period ended March 31, 2007 was $42 lower than had the Company continued to account for share-based compensation using the Black-Scholes option pricing model. There were no changes in basic and diluted net income per share for the three months period ended March 31, 2007 had the Company continued to account for share-based compensation using the Black-Scholes option pricing model.

Under SFAS 123(R), the share-based compensation charge has been determined as if CEVA had accounted for its employee stock options under the fair value method of SFAS 123(R). The fair value for these options was estimated on the date of grant using the Black-Scholes option pricing model through December 31, 2006 and the Monte-Carlo simulation model for options granted thereafter with the following weighted average assumptions:

| | Three months ended March 31 2007 (unaudited) | Three months ended March 31, 2006 (unaudited) |
|---|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility | 40% | 35% |
| Risk-free interest rate | 5% | 5% |
| Expected forfeiture | 20% | 10% |
| Expected life | | 4 Years |
| Contractual term of up to | 7 Years | |

| | |
|---|---|
| Suboptimal exercise multiple | 1.6 |

The fair value for rights to purchase awards under the Company s employee share purchase plan was estimated on the date of grant using the same weighted average assumptions set forth above except the expected life which was assumed to be six to 24 months.

As at March 31, 2007 and 2006, there were balances of $1,880 and $2,500, respectively, of unrecognized compensation expense related to unvested awards. The impact of stock-based compensation expense on basic and diluted net income per share for the three months ended March 31, 2007 was $0.02 per share. The impact of stock-based compensation expense on basic and diluted loss per share for the three months ended March 31, 2006 was $0.03 per share.

Table of Contents

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

**NOTE 7: REORGANIZATION AND SEVERANCE CHARGE**

During the first quarter of 2007, the Company s management continued exit negotiations with the landlord in respect of one of its properties in Dublin, Ireland. The Company s management updated their provision in respect of this property to reflect an exit strategy when required. At March 31, 2007, exit negotiations had not concluded. There was no additional charge to the income statement of operation during the first quarter of 2007.

The balance as of March 31, 2007 relating to restructuring and other charges was $3,317, of which $1,781 was included in accrued expenses and other payables, and $1,536 was included in long term accrued liabilities.

**NOTE 8: ADOPTION OF NEW ACCOUNTING STANDARDS**

In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS Statement No. 109.

The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. FIN 48 is effective for the Company beginning in the first quarter of fiscal 2007. The adoption of FIN 48 by the Company did not have any material impact on its consolidated financial statements.

**NOTE 9: RECENTLY ISSUED ACCOUNTING STANDARDS**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for the fiscal year beginning after November 15, 2007 and interim periods thereafter. Management believes SFAS No. 157 will not have a material effect on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS No. 159 ). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. SFAS No. 159 requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for financial statements issued for the fiscal year beginning after November 15, 2007 and interim periods thereafter, although earlier adoption is permitted. The Company is currently evaluating the impact that SFAS No. 159 will have on its consolidated financial statements.

Table of Contents

## Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### BUSINESS OVERVIEW

The financial information presented in this quarterly report includes the results of CEVA, Inc. and its subsidiaries. CEVA is one of the world s leading licensor of DSP cores and related application solutions to the semiconductor and electronics industry. For more than ten years, CEVA has been licensing DSP cores and application-specific intellectual property IP to leading semiconductor and electronics companies worldwide.

CEVA addresses the requirements of the wireless, wired communications, multimedia and VoIP markets by designing and licensing programmable DSP cores, DSP-based subsystems, application-specific platforms, and a range of software components which enable the rapid design of DSP-based chips or application-specific solutions for developing a wide variety of applications. Our offerings include a family of programmable DSP cores with a range of cost, power-efficiency and performance points; DSP-based subsystems (the essential hardware components integrated with the DSP core to form a System-on-Chip (SoC) design); and a portfolio of application platforms, including multimedia, audio, Voice over Internet Protocol (VoIP), Serial ATA (SATA) and Bluetooth (BT). In addition, we offer design services to our customers mainly in the form of porting our technology to customer foundries and processes.

Given the complexity of applications for DSPs, there is increasingly an industry shift away from the traditional approach of licensing standalone DSPs and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications. With more complex designs and shorter design cycles we believe it is no longer cost efficient and becoming progressively more difficult for most semiconductor companies and designers to develop the technology in-house. Therefore, companies increasingly rely on licensing other intellectual property, such as DSP cores, from third parties like CEVA. Such business models also enable semiconductor companies to further enhance their open-architecture-based offerings with complementary products, available through a third-party community of developers, such as CEVAnet, CEVA s third-party network.

In order to capitalize on this industry shift and grow our business, as well as maintain profitability, we will need to introduce new products and penetrate new markets. In that regard, 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. We demonstrated for the first time in February 2006 at the 3GSM conference in Barcelona, Spain, the MobileMedia2000 silicon running a full video solution. In March 2007, CEVA introduced a new family of application-optimized multimedia solutions enabling the development of high-volume, low-cost mobile consumer electronics with advanced multimedia capabilities. Building on CEVA s established Mobile-Media(TM) architecture, the Mobile-Media-Lite(TM) family offers a complete feature set for a range of applications such as MobileTV Players, entry-level Portable Media players (PMPs) and multimedia phones. In this respect we plan to extend our offering and develop new video codecs based on market need. We are continuing to develop new DSP cores and solutions aimed at the mobile WiMAx and Home Entertainment audio markets.

Our business operates in a highly competitive environment with varieties of implementations, both software-based and hardware-based IP solutions. Although our MobileMedia2000 silicon generated a good amount of interest at the 3GSM conference, we anticipate that our customers will take a very cautious approach in adopting such technology and therefore the time to market of products incorporating our new technology may be prolonged and we may not realize any revenue from this technology in the near future, if at all. In addition, it is widely known in the industry that software-based video, though providing flexibility and shorter time to market, has a larger die size which may concern

customers, especially those that manufacture consumer products that target the low end market. Additionally the markets for our technology are rapidly changing with divergent trends and end-user needs emerging at a pace that makes current technology obsolete in a short amount of time. This obsolesce trend as well as aggressive competition has resulted, and could result in the future, in substantial declines in the prices that we are able to charge for our existing intellectual property. We will need to enter into additional licensing arrangements to offset the continuing decline of licensing fees generated by

Table of Contents

our existing technology or introduce new products and expand into new markets to boost our revenue. However, the introduction of new products and the penetration of new markets will require the expenditure of greater research and development resources and cause us to re-assess the viability of our older product lines and less productive business divisions, all of which may increase our operating expenses without the offset of additional revenue. We cannot provide any assurances that we will succeed in growing our business or maintain profitability.

**RESULTS OF OPERATIONS**

*Total Revenues*

Total revenues decreased 5% to $7.7 million for the first quarter of 2007 from $8.1 million for the comparable quarter of 2006. The decrease in total revenues reflects lower licensing revenues of our different technology product lines slightly off-set by higher overall royalty revenues.

Licensing and royalty revenues accounted for 85% of our total revenues for the first quarter of 2007, compared to 88% for the first quarter of 2006. One customer accounted 22% of revenues for the first quarter of 2007 compared to two customers that accounted for 59% and 10% of revenues for the first quarter of 2006. Due to the nature of our license agreements and the associated large individual contract amounts, our major customers generally vary from quarter to quarter.

We generate our revenues from licensing our IP, which in certain circumstances is modified to customer-specific requirements. Revenues from license fees that involve customization of our IP to customer specifications are recognized in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. We account for all of our other IP license revenues in accordance with Statement of Position ( SOP ) 97-2, Software Revenue Recognition , as amended.

We generate royalties from licensing activities in two manners: (1) royalties paid by our customers over the period in which they ship units incorporating our technology, which we refer to as per unit royalties, and (2) royalties which are paid in a lump sum which cover a fixed number of shipments of future units incorporating our technology, which we refer to as prepaid royalties. Prepaid royalties may be negotiated as part of an initial license agreement or may be subsequently negotiated with an existing licensee who has begun or is about to begin making shipments of units incorporating our technology and has used up all of the prepayments covered in their initial license agreement. In the latter case, we negotiate an additional lump sum payment to cover a fixed number of additional future unit shipments. In either case, these prepaid royalties are non-refundable payments that do not require any continuing commitment by us and are recognized when payment become due, provided that no future obligation exists. Only royalty revenue from customers who are paying as they ship units incorporating our technology is recognized in our royalty revenue line. These per unit royalties are invoiced and recognized on a quarterly basis as we receive quarterly shipment reports from our licensees for the prior quarter.

*Licensing and Royalty Revenues*

| | First Quarter 2007 | First Quarter 2006 |
|---|---|---|
| Licensing and royalty revenues (in millions) | $ 6.6 | $ 7.2 |
| ***of which:*** | | |
| Licensing revenues (in millions) | $ 4.6 | $ 5.4 |
| Royalty revenues (in millions) | $ 2.0 | $ 1.8 |

Licensing revenue for the first quarter of 2007 was $4.6 million, a decrease of 13% from the first quarter of 2006. During the first quarter of 2007, we signed nine new license agreements. Six agreements were for CEVA DSP cores and platforms, and three agreements were for CEVA SATA technology. Target applications for customer deployment are next generation 3G cellular phones, smart phones, personal video recorder, Voice over IP and networking equipment. Geographically, four of the nine deals signed were in the U.S., two were in Europe and three were in the Asia Pacific region. The decrease in licensing revenues for the first three months of 2007 as compared to the corresponding period of 2006 reflects lower revenues from our Teak and TeakLite technologies offset by revenue growth from our Ceva-X core and SATA technologies.

Royalty revenue for the first quarter of 2007 was $2.0 million, an increase of 8% over the first quarter of 2006 and 18% sequentially higher than the fourth quarter of 2006. The increase was mainly due to a substantial production ramp-up by one of our customers in the consumer electronics market. The increase represents two quarters of double digit sequential growth in our royalty revenue since the third quarter of 2006. During the first quarter of 2007, we also witnessed an increase in per unit royalty revenue as compared to the corresponding period in 2006. This increase resulted from the introduction of new products utilizing our technology

Table of Contents

that bear higher royalty rates, offset by a decrease in the underlying unit shipments of customers products incorporating our IP. Our per unit and prepaid royalty customers reported aggregate sales of 41 million units incorporating our technology for the first quarter of 2007 compared to 49 million units for the comparable period of 2006. Five largest customers paying per unit royalty accounted for 71% of total royalty revenues for the first quarter of 2007, compared to 85% for the comparable period of 2006.

We had 25 customers shipping units incorporating our technology during the first quarter of 2007 compared to 23 customers during the first quarter of 2006. As of March 31, 2007, we had 18 per unit royalty customers and 7 prepaid royalty customers, compared to 16 per unit royalty customers and 7 prepaid royalty customers as of March 31, 2006. One new Asian customer was added during the first quarter of 2007, and started to pay quarterly per unit royalties for incorporation of our technology in mobile products, and another customer consumed its prepaid unit quota during the quarter and started paying per unit royalties.

*Other Revenues*

Other revenues for the first quarter of 2007 was $1.1 million, an increase of 16% compared to the first quarter of 2006. Other revenues accounted for 15% of our total revenues for the first quarter of 2007 compared to 12% for the first quarter of 2006. Other revenues include support for licensees and sale of development systems. The increase in other revenues for the first quarter of 2007 compared to the first quarter of 2006 was mainly as a result of higher sales of development systems.

*Geographic Revenue Analysis*

| | **First Quarter 2007** | | **First Quarter 2006** | |
|---|---|---|---|---|
| | **(in millions, except percentages)** | | | |
| United States | $1.6 | *21%* | $5.4 | *66%* |
| Europe, Middle East, Africa | $2.5 | *32%* | $1.6 | *20%* |
| Asia Pacific | $3.6 | *47%* | $1.1 | *14%* |

Within the Asian Pacific region, we derived more than 10% of total revenues from Japan during the first quarter of 2007. Due to the nature of our license agreements and the associated large individual contract amounts, the geographic split of revenues both in absolute and percentage terms generally varies from quarter to quarter depending on the timing of deals in each region.

*Divestment of GPS Technology*

On June 23, 2006, we divested our GPS technology and associated business to GloNav Inc. in return for an equity ownership of 19.9% in GloNav on a fully diluted basis. Out of the 19.9%, CEVA received as consideration 10% in Series A-1 Convertible Voting Preferred Stock and 9.9% in Series A-2 Convertible Non-Voting Preferred Stock. The Series A-1 and Series A-2 are Convertible into voting common stock and non-voting common stock, respectively, of GloNav on a one-for-one basis. Subject to certain limitations, if GloNav engages in future equity funding of up to $20 million, we also will receive additional shares of GloNav s Series A-2 for no consideration as anti-dilution protection. The additional share issuance is capped at 6.8% of GloNav s then outstanding shares of capital stock calculated on a post-funding basis after completion of equity funding of up to $20 million. Although we have transferred the GPS customer contracts and GPS intellectual property to GloNav, we will continue to share with GloNav certain revenues relating to the GPS assets. Our valuation of our equity investment in GloNav is $5,984,000 based on the value of the assets and cash attributable to GloNav and the investment was recorded as an investment in other company, net on our condensed consolidated balance sheets and stated at cost. Since GloNav is a highly leveraged entity, and according to its forecast additional funding will be required to continue operation of the company, the gain resulting from the divestment of the GPS technology and associated business in the total amount of $1,751 has been deferred and presented in the balance sheets as a deduction from investment in other company.

*Cost of Revenues*

Cost of revenues accounted for 13% of total revenues for the first quarter of 2007, compared to 11% for the first quarter of 2006. Gross margins for the first quarter of 2007 were 87% compared to 89% for the first quarter of 2006. The absolute dollar and percentage increase in cost of revenues for the first quarter of 2007 as compared to the

corresponding period in 2006 principally reflects the execution of a greater number of license agreements with more customization requirements which lowered the gross margins for those agreements during the first quarter of 2007 as compared to the corresponding period in 2006. Included in cost of revenues for the first quarter of 2007 and 2006 was a non-cash stock compensation charge of $18,000 and $15,000, respectively, following the adoption of SFAS 123(R) on January 1, 2006.

Table of Contents

*Operating Expenses*

Total operating expenses were $7.5 million for the first quarter of 2007, down from $8.5 million for the first quarter of 2006. The decrease in total operating expenses principally reflects cost saving measures taken as a result of the divestment of our GPS technology and associated business during the second quarter of 2006, lower professional costs and lower non-cash compensation expenses, offset by the effects of the devaluation of the U.S. dollar against the Euro and the New Israeli Shekel (NIS).

*Research and Development Expenses, Net*

Our research and development expenses decreased to $4.7 million for the first quarter of 2007 from $5.0 million for the first quarter of 2006. The net decrease primarily reflects lower expenses as a result of the divestment of our GPS technology and associated business which led to a lower number of research and development personal, as well as decrease in investment in design tools, offset by the effects of the devaluation of the U.S. dollar against the Euro and the NIS. Included in research and development expenses for the first quarter of 2007 and 2006 was a non-cash stock compensation charge of $196,000 and $219,000, respectively, following the adoption of SFAS 123(R) on January 1, 2006. Research and development expenses as a percentage of total revenues were 61% and 62% for the first quarter of 2007 and 2006, respectively.

The number of research and development personnel was 134 at March 31, 2007, compared to 153 at March 31, 2006.

*Sales and Marketing Expenses*

Our sales and marketing expenses decreased to $1.6 million for the first quarter of 2007 from $1.8 million for the first quarter of 2006. The decrease primarily reflects lower labor costs due to a change in headcount mix. Included in sales and marketing expenses for the first quarter of 2007 and 2006 was a non-cash stock compensation charge of $82,000 and $102,000, respectively, following the adoption of SFAS 123(R) on January 1, 2006. Sales and marketing expenses as a percentage of total revenues were 20% and 22% for the first quarter of 2007 and 2006, respectively.

The total number of sales and marketing personnel was 20 at March 31, 2007, compared to 19 at March 31, 2006.

*General and Administrative Expenses*

Our general and administrative expenses decreased to $1.2 million for the first quarter of 2007 from $1.5 million for the first quarter of 2006. The decrease in primarily reflects lower professional services costs as well as lower non-cash stock compensation expenses. Included in general and administrative expenses for the first quarter of 2007 and 2006 was a non-cash stock compensation charge of $176,000 and $309,000, respectively, following the adoption of SFAS 123(R) on January 1, 2006. General and administrative expenses as a percentage of total revenues were 16% and 18% for the first quarter of 2007 and 2006, respectively.

The number of general and administrative personnel was 26 at March 31, 2007, compared to 30 at March 31, 2006.

*Amortization of Other Intangibles*

Our amortization charge decreased to $42,000 for the first quarter of 2007 from $190,000 for the first quarter of 2006. The amount of other intangible assets was $0.2 million at March 31, 2007 and $1.3 million at March 31, 2006. The decrease was mainly due to a decrease in the amount of other intangible assets, net of $0.85 million, as a result of the divestment of our GPS technology and associated business to GloNav in the second quarter of 2006.

*Reorganization and severance charge*

We are required to review and make certain estimates and assumptions in assessing the under-utilized building operating lease charges arising from the reduction in facility requirements. Management takes into account current market conditions and our ability to either exit the lease property or sub-let the property, as well as exit scenario, in determining the estimates and assumptions used. We expect to revise our assumptions quarterly, as appropriate, in respect of future vacancy rates and sublet rents in light of current market conditions and the applicable discount rate based on projected interest rates, as well as the status of exit negotiations.

During the first quarter of 2007, our management continued exit negotiations with the landlord in respect of one of our properties in Dublin, Ireland. Our management updated our provision in respect of this property to reflect an exit strategy when required. At March 31, 2007, exit negotiations had not concluded. There was no additional charge

to the income statement of operation during 2006 and first quarter of 2007. If we are successful in surrendering the long term lease in respect of the above

Table of Contents

property, we would expect an associated cash outflow of approximately $3.3 million associated with restructuring charges. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and assumptions either change or do not materialize.

*Financial Income, Net (in millions)*

| | First Quarter 2007 | First Quarter 2006 |
|---|---|---|
| Financial income, net | $ 0.82 | $ 0.54 |
| ***of which:*** | | |
| Interest income and gains from marketable securities | $ 0.84 | $ 0.55 |
| Foreign exchange loss | $ (0.02) | $ (0.01) |

Financial income, net, consists of interest earned on investments, gains from marketable securities and foreign exchange movements. The increase in interest earned during the first quarter of 2007 as compared to the corresponding period of 2006 reflects higher interest rates and higher combined cash and marketable securities balances held.

We review our monthly expected non-US dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations, and this resulted in a foreign exchange loss of $17,000 and $7,000 in the first quarter of 2007 and 2006, respectively.

*Provision for Income Taxes*

The provision for income taxes during the first quarter of 2007 and 2006 reflects income earned domestically and in certain foreign jurisdictions. The difference in income tax rates arises primarily due to lower income earned domestically for the first quarter of 2007. We have significant operations in Israel and the Republic of Ireland and a substantial portion of our taxable income is generated in those two countries. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

The Irish operating subsidiary currently qualifies for a 10 percent tax rate, which under current legislation will remain in force until December 31, 2010. The Israeli operating subsidiary s production facilities have been granted Approved Enterprise status under Israeli law in connection with six separate investment plans. Accordingly, income from an Approved Enterprise is tax-exempt for a period of two or four years and is subject to a reduced corporate tax rate of 10 percent to 25 percent (based on percentage of foreign ownership) for an additional period of six or eight years. Certain expenditure in connection with the investment plans is allowable as a tax deduction over a three year period which has resulted in higher deferred tax asset in 2007.

**LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2007, we had approximately $37.2 million in cash and cash equivalents and $27.2 million in deposits and marketable securities, totaling $64.4 million compared to $64.2 million at December 31, 2006. During the first quarter of 2007, we invested $5.5 million of our cash in corporate bonds and securities and U.S. government and agency securities. In addition, corporate bonds and securities and U.S. government and agency securities were sold or redeemed for cash amounting to $4.5 million. These instruments are classified as marketable securities. The purchase and sale or redemption of available-for-sale marketable securities are considered part of operating cash flow, whereas the purchase and sale or redemption of trading marketable securities are considered part of investing cash flow. In accordance with Statement of Financial Accounting Standard No. 115 Accounting for Certain Investments in Debt and Equity 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. Deposits are short-term bank deposits with maturities of more than three months but less than one year. The deposits are in U.S.

dollars and are presented at their cost, including accrued interest and purchases and sales are considered part of cash flows from investing activities.

Net cash provided by operating activities during the first quarter of 2007 was $4.5 million, compared to $3.0 million of net cash used in operating activities for the comparable period of 2006. Included in the operating cash inflow for the first quarter of 2007 was net proceeds of $4.5 million from the sale or redemption of marketable securities. Included in the operating cash outflow for the

Table of Contents

first quarter of 2006 was a net investment of $0.6 million in marketable securities and $0.1 million outflow in connection with restructuring and reorganization costs.

Cash flows from operating activities may vary significantly from quarter to quarter depending on the timing of our receipts and payments. During the first quarter of 2007, we continued exit negotiations with the landlord in respect of one of our properties in Dublin, Ireland. If we are successful in surrendering our long term lease relating to the under-utilized premises in Ireland, we would expect an associated cash outflow of approximately $3.6 million in 2007, of which approximately $3.3 million is associated with restructuring charges and approximately $300,000 is associated with related expenses. The amount is fully provided for in our financial statements. Our ongoing cash outflows from operating activities principally relate to payroll-related costs and obligations under our property leases and design tool licenses. Our primary sources of cash inflows are receipts from our accounts receivable and interest earned from our cash and marketable securities holdings. The timing of receipts from customers is based upon the completion of agreed milestones or agreed dates as set out in the contracts.

Net cash used in investing activities for the first quarter of 2007 was $6.0 million compared to $1.4 million of net cash used in investing activities for the first quarter of 2006. We had a cash outflow of $5.5 million in respect of investments in marketable securities during the first quarter of 2007. We had a cash outflow of $1.3 million in respect of investments in short term bank deposits during the first quarter of 2006. Capital equipment purchases of computer hardware and software used in engineering development, furniture and fixtures amounted to approximately $481,000 for the first quarter of 2007 compared to $57,000 for the comparable period in 2006. The main increase in capital expenditure for the first quarter of 2007 was associated with tester equipment for the SATA product line.

Net cash provided by financing activities during the first quarter of 2007 and 2006 was $0.7 and $0.9 million, respectively, and reflects proceeds from the issuance of shares upon exercise of employee stock options and issuance of shares under our employee stock purchase plan.

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

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

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars, and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the bulk of our expenses are denominated in currencies other than the U.S. dollar, principally the Euro and the Israeli NIS. Increases in the volatility of the exchange rates of the Euro and the NIS 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 expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations, and this has resulted in a foreign exchange loss of $17,000 and $7,000 during the first quarter of 2007 and 2006, respectively.

As a result of such currency fluctuations and the conversion to U.S. dollars for financial reporting purposes, we may experience fluctuations in our operating results on annual and quarterly basis going forward. We have not in the past, but may in the future, hedge against fluctuations in exchange rates. Future 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; although the impact of currency fluctuations has not been material to date.

We invest our cash in high grade certificates of deposits, U.S. government and agency securities and corporate bonds. Cash held by foreign subsidiaries is generally held in short-term deposits denominated in the local currency.

Table of Contents

Interest income and gains from marketable securities were $841,000 and $548,000 for the first quarter of 2007 and 2006, respectively. The increase in interest and gains from marketable securities earned reflects a combination of higher interest rates and higher combined cash and marketable securities balances held.

We are exposed primarily to fluctuations in the level of U.S. and EMU (European Monetary Union) interest rates. To the extent that interest rates rise, fixed interest investments may be adversely impacted, whereas a decline in interest rates may decrease the anticipated interest income for variable rate investments.

We are exposed to financial market risks, including changes in interest rates. 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.

The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of our investment portfolio. All the potential changes noted above are based on sensitivity analysis performed on our balances as of March 31, 2007.

**Item 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in this report.

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**

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

**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, 2006 other than (1) changes to the Risk Factor below entitled Our quarterly operating results fluctuate from quarter to quarter due to a variety of factors, including our lengthy sales cycle, and may not be a meaningful indictor of future performance; (2) changes to the Risk Factor below entitled We rely significantly on revenue derived from a limited number of customers; (3) changes to the Risk Factor below entitled We are exposed to fluctuations in currency exchange rates; (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; and (5) changes to the Risk Factor below entitled The Israeli benefits that we currently receive and the government programs in which we participate require us to meet certain conditions and may be terminated or reduced in the future, which could increase our tax expenses.

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

The markets for the products in which our technology is incorporated are highly competitive; for example, semiconductor customers may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly integrated chips that embed our technologies. 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 large companies that have significantly greater financial and other resources than we have. The following factors may have an impact on our competitiveness:

17

Table of Contents

Microprocessor IP providers, such as ARM, MIPS Technologies, Tensilica and ARC, are offering DSP extensions to their IP.

SATA IP market is highly standardized with several vendors offering similar products, leading to price pressure for both licensing and royalty revenue.

Our video solution is software based and competes with hardware implementation offered by companies such as Hantro and other software solution offered by Hantro, Imagination Technologies, Tensilica and Chips & Media.

ARC is offering a licensing model based on royalty payments specifically for Chinese customers that waives initial licensee fees.

Lower license fees and overall erosion of average selling prices of our IP.

In addition, we may face increased competition from smaller, niche semiconductor design companies in the future. Some of our customers may also decide to satisfy their needs through in-house design. We compete on the basis of processor performance, overall system cost, power consumption, flexibility, reliability, software availability, design cycle time, ease of implementation, customer support, name recognition and reputation, and financial strength. Our inability to compete effectively on these basis could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

the gain or loss of significant licensees;

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

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

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

increased operating expenses and fluctuations in the gross margin associated with the introduction of new or enhanced technologies;

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

restructuring, asset impairment and related charges.

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

We expect that a limited number of customers, varying in identity from period-to-period, will account for a substantial portion of our revenues in any period. One customer accounted for 22% of our total revenues for the first quarter of 2007. Moreover, license agreements for our DSP cores have not historically provided for substantial ongoing license payments. Significant portions of our anticipated future revenue, therefore, will likely depend upon our success in attracting new customers or expanding our relationships with existing customers. Our ability to succeed in these efforts will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products, as well as our sales and marketing skills. In addition, some of our licensees may decide to satisfy their needs through in-house design and production. Our failure to obtain future customer licenses would impede our future revenue growth and could materially harm our business.

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

The semiconductor intellectual property (SIP) industry is a relatively new and emerging trend. Our future growth will depend on the level of acceptance by the market 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 the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications. These trends that will enable our growth are largely beyond our control. Semiconductor customers may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly integrated chips that embed our technologies. Semiconductor customers may also decide to design programmable DSP core products in-house rather than license them from us. If

Table of Contents

the market shifts and third-party SIP is no longer desired by our customers, our business, results of operations and financial condition could be materially harmed.

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

We do not sell our IP solutions directly to end-users; we license our technology primarily to semiconductor companies and electronic equipment manufacturers, who then incorporate our technology into the products they sell. As a result, we rely upon our customers to incorporate our technology into their end products at the design stage. Once our customer incorporates a competitor s technology into its end product, it becomes significantly more difficult for us to sell our technology to that customer because changing suppliers involves significant cost, time, effort and risk for the customer. As a result, we may incur significant expenditures on the development of a new technology without any assurance that our customer will select our technology for incorporation into its own product and without this design win, it becomes significantly difficult to sell our IP solutions. Moreover, even after our 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 to reach the market until long after the initial design win with our customer. From initial product design-in to volume production, many factors could impact the timing and/or amount of sales actually realized from the design-in. These factors include, but are not limited to, changes in the competitive position of our technology, our customers financial stability, and our ability to ship products according to our customers schedule.

Further, because we do not control the business practices of our customers, we do not influence the degree to which they promote our technology or set the prices at which they sell products incorporating our technology. We cannot assure you that our customers will devote satisfactory efforts to promote our IP solutions. In addition, our unit royalties from licenses are totally dependent upon the success of our customers in introducing products incorporating our technology and the success of those products in the marketplace. The primary customers for our products are semiconductor design and manufacturing companies, system OEMs and electronic equipment manufacturers, particularly in the telecommunications field. These industries are highly cyclical and have been subject to significant economic downturns at various times, particularly in recent periods. 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 a limited number of key personnel who would be difficult to replace.**

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

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

The sales cycle for our IP solutions is lengthy, often lasting three months to a year. Our customers generally conduct significant technical evaluations, including customer trials, of our technology as well as competing technologies prior to making a purchasing decision. In addition, purchasing decisions may also be delayed because of a customer s internal budget approval process. Because of the lengthy sales cycle and the size of customer orders, if orders forecasted for a specific customer for a particular period do not occur in that period, our revenues and operating results for that particular quarter could suffer. Moreover, a portion of our expenses related to an anticipated order is fixed and difficult to reduce or change, which may further impact our operating results for a particular period.

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

On an ongoing basis, we evaluate our various product offerings and technology developments in order to determine whether any should be discontinued or, to the extent possible, divested. For example, in connection with our reorganization and restructuring plans in 2003 and 2005, we ceased manufacturing of our hard IP products and certain

non-strategic technology areas. In June 2006, we divested our GPS technology and related business. We cannot guarantee that we have correctly forecasted, or will correctly forecast in the future, the right product lines and technology developments to dispose or discontinue or that our decision to dispose of or discontinue various investments, products lines and technology developments is prudent if market conditions change. In addition, there are no assurances that the discontinuance of various product lines will reduce our operating expenses or will not cause us to incur material charges associated with such decision. Furthermore, the discontinuance of existing product lines entails various risks, including the risk that we will not be able to find a purchaser for a product line or the purchase price obtained will not be equal to at

Table of Contents

least the book value of the net assets for the product line. Other risks include managing the expectations of, and maintaining good relations with, our customers who previously purchased products from our disposed or discontinued product lines, which could prevent us from selling other products to them in the future. We may also incur other significant liabilities and costs associated with our disposal or discontinuance of product lines, including employee severance costs and excess facilities costs.

**Our restructuring efforts in 2005 and 2006, as well as the divestment of our GPS technology and related business, could disrupt the operation of our business, distract our management from focusing on revenue-generating efforts, result in the erosion of employee morale, and impair our ability to respond rapidly to growth opportunities in the future.**

We implemented reorganization and restructuring plans in 2005, including personnel reduction of 9 people in 2005. In connection with the implementation of our reorganization and restructuring plan in 2005, we had excess facilities in Dublin, Ireland. Throughout 2006 and during the first quarter of 2007, our management had exit negotiations with the landlord in respect of this property. If we are successful in surrendering the long term lease in respect of this property, we would expect an associated cash outflow of approximately $3.6 million in 2007, of which approximately $3.3 million is associated with restructuring charges and approximately $300,000 is associated with related expenses. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and assumptions either change or do not materialize. In June 2006, we divested our GPS technology and related business, including the transfer of 25 employees. The employee reductions and changes in connection with our restructuring activities could result in an erosion of morale, and affect the focus and productivity of our remaining employees, including those directly responsible for revenue generation, which in turn may adversely affect our revenue in the future. Additionally, employees directly affected by the reductions may seek future employment with our business partners, customers or competitors. Such matters could divert the attention of our employees, including management, away from our operations, harm productivity, harm our reputation and increase our expenses.

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

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

**Our operating results may fluctuate significantly due to the cyclicality of the semiconductor industry, which could adversely affect the market price of our stock.**

Our primary operations are in the semiconductor industry, which is cyclical and subject to rapid technological change and evolving industry standards. From time to time, the semiconductor industry has experienced significant downturns such as the one we experienced during the 2000 and 2001 periods and from which the industry is slowly recovering. These downturns are characterized by diminished product demand, excess customer inventories, accelerated erosion of prices and excess production capacity. These factors could cause substantial fluctuations in our revenues and in our results of operations. The downturn we inexperienced during the 2000 and 2001 periods was, and future downturns in the semiconductor industry may be, severe and prolonged. Also the slow recovery from the downturn during the 2000 and 2001 periods and the failure of this industry to fully recover or any future downturn could seriously impact our revenue and harm our business, financial condition and results of operations. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which

may affect our ability to ship products in future periods. Our financial results may vary significantly as a result of the general conditions in the semiconductor industry, which could cause our stock price to decline.

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

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

Table of Contents

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

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

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

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

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

**We are exposed to fluctuations in currency exchange rates.**

A significant portion of our business is conducted outside the United States. Although most of our revenue is transacted in U.S. Dollars, we may be exposed to currency exchange fluctuations in the future as business practices evolve and we are forced to transact business in local currencies. Moreover, the bulk of our expenses in Israel and Europe are paid in Israeli currency (NIS) and Euros, which subjects us to the risks of foreign currency fluctuations. Our primary expenses paid in NIS and Euro are employee salaries and lease payments on our Israeli and Dublin facilities. Increases in the volatility of the exchange rates of the Euro and the NIS versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur in Euros and NIS when remeasured into U.S. dollars for financial reporting purposes. For example, the devaluation of the U.S. dollar against the Euro and NIS during the past year had a margin impact on increasing our operating expenses for the first quarter of 2007 which was offset by other cost saving measures. We expect to continue to experience the effect of exchange rate currency fluctuations on annual and quarterly basis. We review our monthly expected non-U.S. dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations and this has resulted in a foreign exchange loss of $17,000 and $7,000 for the first quarter of 2007 and 2006, respectively. In the future, we may use derivative instruments in order to minimize the effects of currency fluctuations, but any hedging positions may not succeed in minimizing our foreign currency fluctuation risks.

**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 79% of our total revenues for the first quarter of 2007 and 34% of our total revenues for the first quarter of 2006 were derived from customers located outside of the United States. We expect that international customers will continue to account for a significant portion of our revenue for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;
- fluctuations in the exchange rate for the U.S. dollar;
- imposition of tariffs and other barriers and restrictions;

burdens of complying with a variety of foreign laws;

political and economic instability; and

changes in diplomatic and trade relationships.

**If we are unable to meet the changing needs of our end-users or to address evolving market demands, our business may be harmed.**

The markets for programmable DSP cores and application IP are characterized by rapidly changing technology, emerging markets and new and developing end-user needs, requiring significant expenditure for research and development. We cannot assure

Table of Contents

you that we will be able to introduce systems and solutions that reflect prevailing industry standards on a timely basis, to meet the specific technical requirements of our end-users or to avoid significant losses due to rapid decreases in market prices of our products, and our failure to do so may seriously harm our business. For example, we have already licensed our multimedia solutions; however, this technology has not yet been deployed by our licensees to their end markets and may be subject to further modifications to address evolving market demands. In addition, the reduction in the number of our employees in connection with our recent restructuring efforts could adversely affect our ability to attract or retain customers who require certain research and development capabilities from their IP providers.

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

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

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

- issuance of equity securities that would dilute our current stockholders percentages of ownership;
- large one-time write-offs;
- the incurrence of debt and contingent liabilities;
- difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;
- diversion of management s attention from other business concerns;
- contractual disputes;
- risks of entering geographic and business markets in which we have no or only limited prior experience; and
- potential loss of key employees of acquired organizations.

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

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

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

**Our business will suffer if we are sued for infringement of the intellectual property rights of third parties or if we cannot**

Table of Contents

**obtain licenses to these rights on commercially acceptable terms.**

Although we are not currently involved in any litigation, we are subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others. There are a large number of patents held by others, including our competitors, pertaining to the broad areas in which we are active. We have not, and cannot reasonably, investigate all such patents. From time to time, we have become aware of patents in our technology areas and have sought legal counsel regarding the validity of such patents and their impact on how we operate our business, and we will continue to seek such counsel when appropriate in the future. Infringement claims may require us to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of these claims. Any necessary licenses may not be available or, if available, may not be obtainable on commercially reasonable terms. If we cannot obtain necessary licenses on commercially reasonable terms, we may be forced to stop licensing our technology, and our business would be seriously harmed.

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

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

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

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

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

We enjoy certain tax benefits in Israel, particularly as a result of the Approved Enterprise status of our facilities and programs. To maintain our eligibility for these tax benefits, we must continue to meet certain conditions, relating principally to adherence to the investment program filed with the Investment Center of the Israeli Ministry of Industry and Trade and to periodic reporting obligations. Should we fail to meet such conditions in the future, however, these benefits would be cancelled and we would be subject to corporate tax in Israel at the standard corporate rate of (29% for 2007) and could be required to refund tax benefits already received. In addition, we cannot assure you that these tax benefits will be continued in the future at their current levels or otherwise. The tax benefits under our current investment programs are scheduled to gradually expire by 2014. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as a result of the Approved Enterprise status of our facilities and programs) or a requirement to refund tax benefits already received may seriously harm our business, operating results and financial condition.

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

We have significant operations in Israel and the Republic of Ireland and a substantial portion of our taxable income historically has been generated there. Currently, some of our Israeli and Irish subsidiaries are taxed at rates substantially lower than the U.S. tax rates. Although there is no expectation of any changes to Israeli and Irish tax law, if our Israeli and Irish subsidiaries were no longer to qualify for these lower tax rates or if the applicable tax laws were rescinded or changed, our operating results could be materially adversely affected. In addition, because our Israeli and Irish operations are owned by subsidiaries of a U.S. corporation, distributions to the U.S. Corporation, and in certain circumstances undistributed income of the subsidiaries, may be subject to U.S. tax. Moreover, if U.S. or other

authorities were to change applicable tax laws or successfully challenge the manner in which our subsidiaries profits are currently recognized, our overall tax expenses could increase, and our business, cash flow, financial condition and results of operations could be materially adversely affected.

Table of Contents

**Item 6. EXHIBITS**

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

Table of Contents

**SIGNATURES**

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

CEVA, INC.

Date: May 10, 2007

By: /s/ GIDEON WERTHEIZER

Gideon Wertheizer
Chief Executive Officer
(principal executive officer)

Date: May 10, 2007

By: /s/ YANIV ARIELI

Yaniv Arieli
Chief Financial Officer
(principal financial officer and principal accounting officer)