

CEVA INC
Form 10-K
March 13, 2015
Table of Contents

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

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 000-49842

CEVA, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0556376 (I.R.S. Employer Identification No.)
1943 Landings Drive, Mountain View, California (Address of principal executive offices)	94043 (Zip Code)
(650) 417-7900 (Registrant's telephone number, including area code)	

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer x
 Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
 Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No x

As of June 30, 2014, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$164,036,000 based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation System National Market System on June 30, 2014. Shares of common stock held by each officer, director, and holder of 5% or more of the outstanding common stock of the Registrant have been excluded from this calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

Class	Outstanding at March 5, 2015
Common Stock, \$0.001 par value per share	20,563,580 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 20, 2015 (the 2015 Proxy Statement) are incorporated by reference into Item 5 of Part II and Items 10, 11, 12, 13, and 14 of Part III.

Table of Contents**TABLE OF CONTENTS****PART I**

	Page
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	13
Item 1B. <u>Unresolved Staff Comments</u>	24
Item 2. <u>Properties</u>	24
Item 3. <u>Legal Proceedings</u>	25
Item 4. <u>Mine Safety Disclosures</u>	25

PART II

Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
Item 6. <u>Selected Financial Data</u>	29
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 8. <u>Financial Statements and Supplementary Data</u>	50
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	50
Item 9A. <u>Controls and Procedures</u>	50
Item 9B. <u>Other Information</u>	50

PART III

Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	51
Item 11. <u>Executive Compensation</u>	51
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stock Holder Matters</u>	51
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	51
Item 14. <u>Principal Accountant Fees and Services</u>	51

PART IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>	52
<u>Financial Statements</u>	F-1
<u>Signatures</u>	

Table of Contents

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

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

Our belief that the adoption of our DSP cores, connectivity IP and software platforms in markets of connected devices and Internet-of Things (IoT) applications continues to progress;

Our expectation that as a result of our diversification strategy beyond cellular baseband and our progress in addressing new markets under the umbrella of the Internet-of-Things, we expect future royalty growth and a more diversified customer base, as well as significant growth in our unit shipments for non-handset baseband applications over the next few years, up from approximately 86 million units annually in 2014 to 700-900 million units annually by 2018; this being in addition to our existing handset baseband business, which we believe will continue to be a significant revenue growth driver for us;

Our belief that the following key elements are the drivers for our growth: (1) our established market presence in the cellular baseband market in particular in the feature phone space and the competitive edge such presence brings which allows us to address the 3G and LTE segments in emerging markets and other cellular enabled devices such as tablets, (2) our proven track record in cellular baseband processing technologies will allow us to expand to other cellular-related end products, including small cells, macrocells and machine-to-machine, (3) the market potential for feature enhancements in audio and voice processing, (4) the market potential for vision processing in the IoT, and (5) the expansion into the connectivity market through our acquisition of RivieraWaves which we anticipate will increase our addressable market size to 35 billion devices in 2020;

Our current anticipation that as a result of our acquisition of RivieraWaves and our existing DSP products that our quarterly licensing revenues will be in the range of \$6 million to \$7.5 million, as compared to our historical revenue figures in the range of \$5 million to \$6 million;

Our belief that our licensing pipeline continues to be healthy across all of our product lines, including our recently acquired RivieraWaves connectivity IP;

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

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

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

Market data prepared by third parties, including ABI Research and Strategy Analytics, such as our addressable market size expected to be 35 billion devices in 2020;

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

Table of Contents

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

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

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

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

Table of Contents

PART I

ITEM 1. BUSINESS

Company Overview

Headquartered in Mountain View, California, CEVA is a leading licensor of cellular, multimedia and connectivity technologies to semiconductor companies and OEMs serving the mobile, consumer, automotive and IoT markets. Our DSP IP portfolio includes comprehensive platforms for multimode 2G/3G/LTE/LTE-A baseband processing in cellular and infrastructure, computer vision and computational photography for any camera-enabled device, audio/voice/speech and ultra-low power always-on/sensing applications for multiple IoT markets. For connectivity, we offer the industry's most widely adopted IPs for Bluetooth (Smart and Smart Ready), Wi-Fi (802.11 b/g/n/ac up to 4x4) and serial storage (SATA and SAS).

Our technologies are licensed to leading semiconductor and OEM companies throughout the world. These companies incorporate our IP into application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) that they manufacture, market and sell into wireless, consumer electronics, automotive and IoT companies. Our IP is primarily deployed in high volume markets, including mobile (smartphones, mobile computing tablets, notebooks and machine-to-machine modules), digital home (smart TVs, set-top boxes and home gateways) and networking (wireless infrastructure, storage, VoIP and smart grid). Our state-of-the-art technology has shipped in more than 6 billion chips to date for a wide range of diverse end markets. One in three cellular handsets sold worldwide is powered by CEVA.

Our revenue mix comprises primarily of IP licensing fees, royalties generated from the shipments of products deploying our IP and other revenues. Other revenues include revenues from post contract support, training and sale of development systems. As post contract support, training and sale of development systems are directly associated with licensing revenues and none of them separately is significant in relation to our total revenues, starting in the first quarter of 2013, we consolidated licensing revenues and other revenues into one revenue line titled "licensing and related revenue" for the sake of simplicity. Prior period numbers were conformed to our current period presentation.

We have built a strong network of licensing customers who rely on our technologies to deploy their silicon solutions. Our comprehensive customer base includes many of the world's leading semiconductors and OEMs. Actions, Atmel, Beken, Broadcom, Dialog Semiconductor, DSP Group, FujiFilm, Fujitsu, Intel, Leadcore, LG Electronics, Mediatek, MegaChips, Novatek, NXP, Panasonic, Renesas, Rockchip, Rohm, Samsung, Sharp, Sigma, Sony, Spreadtrum, STMicroelectronics, Toshiba, VIA Technologies, VIA Telecom, Yamaha and ZTE all leverage CEVA's industry-leading platform solutions and DSP cores.

CEVA was created through the combination of the DSP IP licensing division of DSP Group, Inc. and Parthus Technologies plc (Parthus) in November 2002. We have over 240 employees worldwide, with research and development facilities in Israel, France, Ireland and the United Kingdom, and sales and support offices throughout Asia Pacific (APAC), Japan, Sweden, Germany, Israel and the United States.

CEVA is traded on the NASDAQ Global Market under the symbol "CEVA".

Industry Background

DSP Cores

Table of Contents

Digital signal processing is a key technology that is powering many of today's fastest growing electronics markets. Digital signal processors (DSPs) are specialized high-speed processors that are optimized for performing repetitive arithmetic calculations on an array of data. DSPs provide the foundation supporting a vast majority of today's electronic products that are connected and offer multimedia and wireless communications capabilities (e.g. video, audio, imaging, vision and cellular).

Table of Contents

Connectivity IPs

Wi-Fi and Bluetooth have become key connectivity technologies to form the basis for the Internet of Things (IoT), providing the connection between the billions of devices and the networks that they communicate with.

Design Gap

The demand for smartphones, mobile computing, smart wearables, smart cars and advanced home entertainment technologies continues to grow. As consumers demand electronic products with more connectivity, portability and a richer user experience, semiconductor manufacturers face ever growing pressures to make smaller, feature-rich integrated circuits that are more reliable, less expensive and have greater performance, all in the face of decreasing product lifecycles and constrained battery power. The advent of wireless and connectivity technologies like LTE-Advanced, Wi-Fi 802.11ac and Bluetooth Low Energy and multimedia technologies such as advanced image enhancement, computer vision, and voice and audio pre- and post-processing have further increased these pressures. While semiconductor manufacturing processes have advanced significantly to allow a substantial increase in the number of circuits placed on a single chip, resources for design capabilities have not kept pace with the advances in manufacturing processes, resulting in a growing design gap between the increasing manufacturing potential and the constrained design capabilities.

CEVA Business

CEVA addresses the requirements of the cellular, consumer, automotive and IoT markets by designing and licensing a broad range of robust, application-specific platforms which enable the rapid design of solutions for developing a wide variety of applications, including communications & connectivity, audio & voice, imaging & vision and storage.

Given the design gap, as well as the increasing complexity and the unique skill set required to develop a system-on-chip, many semiconductor design and manufacturing companies increasingly choose to license proven intellectual property, such as processor cores (e.g. DSPs), connectivity products, memory and application-specific platforms, from silicon intellectual property (SIP) companies like CEVA rather than develop those technologies in-house. In addition, with more complex designs and shorter time to market, it is no longer cost efficient and becoming progressively more difficult for most semiconductor companies to develop the DSP and software for baseband, image enhancement, and vision, audio and voice applications. For connectivity, with ever-evolving standards and a huge variety of uses, most semiconductor companies cannot develop and maintain this technology in-house. As a result, companies increasingly seek to license application-specific DSP platforms and associated software and connectivity IPs from CEVA or a third-party community of developers, such as CEVAnet, CEVA's third-party network.

Our IP Business Model

Our objective is for our CEVA DSP cores, platforms and connectivity IPs to become the de facto technology across the mobile and consumer electronics, automotive and IoT markets. To enable this goal, we license our technologies on a worldwide basis to semiconductor and OEM companies that design and manufacture products that combine CEVA-based solutions with their own differentiating technology. We believe our business model offers us some key advantages. By not focusing on manufacturing or selling silicon products, we are free to widely license our technology and free to focus most of our resources on research and development. By choosing to license our IP, manufacturers can achieve the advantage of creating their own differentiated solutions and develop their own unique product roadmaps. Through our licensing efforts, we have established a worldwide community developing CEVA-based solutions, and therefore we can leverage their strengths, customer relationships, proprietary technology advantages,

and existing sales and marketing infrastructure. As an example, our CEVA-XCnet partner program focuses on various technology and solution providers with complimentary offerings for our CEVA-XC communication processor addressing wireless,

Table of Contents

infrastructure, smart grid, connectivity and digital TV markets. In addition, as our intellectual property is widely licensed and deployed, system OEM companies can obtain CEVA-based chipsets from a wide range of suppliers, thus reducing dependence on any one supplier and fostering price competition, both of which help to contain the cost of CEVA-based products.

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

Strategy

We believe there is a growing demand for high performance and low power DSP, connectivity IP and application-specific platforms incorporating all the necessary hardware and software for target applications. In addition, the advent of the IoT has resulted in significant demand for connectivity IPs that solve a crucial void in many companies' strategies to address this burgeoning market. We believe the growth in the demand for all these technologies will drive demand for our IP. As CEVA offers expertise developing these complete solutions in a number of key growth markets, including cellular baseband, wireless infrastructure, computational photography, computer vision, audio and voice applications, Wi-Fi, Bluetooth and storage, we believe we are well positioned to take full advantage of this industry shift. To capitalize on this industry shift, we intend to:

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

continue to develop and invest in our connectivity IPs, providing the newest standards and the most complete offerings to address our customers' needs;

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

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

continue to invest in strategic technologies that enable us to strengthen our presence in existing market or enter new addressable markets;

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

capitalize on our technology leadership in the development of advanced DSP technologies and connectivity IPs to create and develop new, strategic relationships with OEMs and semiconductor companies to replace their internal DSPs or incumbent DSP suppliers with CEVA-based solutions; and

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

Products

We are the leading licensor of cellular, multimedia and connectivity technologies to semiconductor companies and OEMs serving the mobile, consumer, automotive and IoT markets. Our DSP IP portfolio includes comprehensive platforms for multimode 2G/3G/LTE/LTE-A baseband processing in terminals and infrastructure, computer vision and computational photography for any camera-enabled device, audio/voice/speech and ultra-low power always-on/sensing applications for multiple IoT markets. For connectivity, we offer the industry's most widely adopted IPs for Bluetooth (Smart and Smart Ready), Wi-Fi (802.11 b/g/n/ac up to 4x4) and serial storage (SATA and SAS).

Table of Contents

CEVA DSP Cores and Platforms

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

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

In order to reduce the cost, complexity, and risk in bringing products to market, CEVA has developed a suite of system platforms and solutions. These platforms and solutions combine the hardware and software elements that are essential for designers deploying CEVA's state-of-the-art DSP and IP cores. Platforms typically integrate a CEVA DSP core, hardware subsystem and application-specific (e.g. LTE, computer vision or audio) software. Our family of DSP-based platforms is targeted for cellular, and satellite baseband, advanced audio and voice, DTV demodulation, computational photography and computer vision.

CEVA Connectivity IPs

Wi-Fi and Bluetooth Smart and Smart Ready are key technologies for any company looking to address the Internet-of-Things in the coming years. Moreover, many companies wish to integrate these connectivity technologies into SoC designs rather than provide connectivity through an additional chip in the system. Through our acquisition of RivieraWaves, a leading licensor of Wi-Fi and Bluetooth connectivity IP, we are able to expand further into the Wi-Fi and Bluetooth smart connectivity markets. The advent of the Internet-of-Things has resulted in significant demand for connectivity IPs that solve a crucial void in many companies' strategies to address this burgeoning market. Wi-Fi and Bluetooth standards are constantly evolving, and the many different end applications where these technologies are being deployed require further customization. By licensing rather than developing these technologies in house, companies can now get access to the latest standards and profiles from CEVA, without undertaking the expensive R&D required to develop these technologies internally. We also offer platform solutions for serial storage technology, addressing both consumer and enterprise uses (SATA and SAS).

Customers

We have licensed our DSP cores, platforms and connectivity IPs platforms to leading semiconductor and OEM companies throughout the world. These companies incorporate our IP into application-specific chipsets or custom-designed chipsets that they manufacture, market and sell to consumer electronics companies. We also license our technologies to OEMs directly. Included among our licensees are the following customers: Actions, Atmel, Beken, Broadcom, Dialog Semiconductor, DSP Group, FujiFilm, Fujitsu, Intel, Leadcore, LG Electronics, Mediatek, MegaChips, Novatek, NXP, Panasonic, Renesas, Rockchip, Rohm, Samsung, Sharp, Sigma, Sony, Spreadtrum, STMicroelectronics, Toshiba, VIA Technologies, VIA Telecom, Yamaha and ZTE. As of the end of 2014, 29 licensees were shipping products incorporating our technologies.

We derive a significant amount of revenues from a limited number of customers. Sales to Spreadtrum represented 25%, 28% and 24% of our total revenues for 2014, 2013 and 2012, respectively. Sales to Intel represented 11% and 13% of our total revenues for 2013 and 2012, respectively, but represented less than 10% for 2014. Sales to Broadcom represented 12% of our total revenues only for 2012. Due to our limited number of

Table of Contents

customers, the shift away from feature phones by Intel and the exiting of the handset baseband market by Broadcom in 2014 negatively impacted our annual 2014 revenues. With respect to our royalty revenues, three royalty paying customers each represented 10% or more of our total royalty revenues for 2014, and collectively represented 79% of our total royalty revenues for 2014, compared to four royalty paying customers each represented 10% or more of our total royalty revenues for 2013 and 2012, and collectively represented 81% and 74% of our total royalty revenues for 2013 and 2012, respectively. In 2014, we signed 36 new licensing deals of which 17 were with first time new customers.

International Sales and Operations

Customers based in EME (Europe and Middle East) and APAC (Asia Pacific) accounted for 77% of our total revenues for 2014, 88% for 2013 and 79% for 2012. Customers in China accounted for greater than 10% of our total revenues for 2014. Customers in each of Germany and China accounted for greater than 10% of our total revenues for 2013. Customers in each of Germany, China and Japan accounted for greater than 10% of our total revenues for 2012. Information on the geographic breakdown of our revenues and location of our long-lived assets is contained in Note 11 to our consolidated financial statements, which appear elsewhere in this annual report.

Moreover, the majority of our expenses, mainly employee salaries, are paid in currencies other than the U.S. dollar, principally the Israeli currency, New Israeli Shekel (NIS), and the Euro, which subjects us to the risks of foreign currency fluctuations and economic pressures in those regions. As a result, an increase in the value of the currencies other than the U.S. dollar in comparison to the U.S. dollar could increase the cost of our operating expenses. To protect against the increase in value of forecasted foreign currency cash flows resulting from salaries paid in currencies other than the U.S. dollar, during the year, we follow a foreign currency cash flow hedging program. We hedge portions of the anticipated payroll for our non-US employees denominated in currencies other than the U.S. dollar for a period of one to twelve months with forward and options contracts.

Sales and Marketing

We license our technology through a direct sales force. As of December 31, 2014, we had 29 employees in sales and marketing. We have sales offices and representation in Asia Pacific (APAC) region, Sweden, Germany, France and the United States.

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

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

Technical Support

We offer technical support services through our offices in Israel, Ireland, Asia Pacific (APAC) region, Sweden, France and the United States. As of December 31, 2014, we had 18 employees in technical support. Our technical support

services include:

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

Table of Contents

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

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

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

Research and Development

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

Our research and development team, consisting of 174 engineers as of December 31, 2014, work in six development centers located in Israel, France, Ireland and the United Kingdom. This team consists of engineers who possess significant experience in developing DSP cores, application platforms, connectivity products (Wi-Fi and Bluetooth) and serial storage technology (SATA and SAS). In addition, we engage third party contractors with specialized skills as required to support our research and development efforts. Our research and development expenses, net of related research grants, included for the first time the RivieraWaves related expenses from July 2014, were approximately \$20 million, \$21 million and \$26 million for 2012, 2013 and 2014, respectively.

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

Competition

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

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

IP vendors that offer programmable or configurable DSP cores;

IP vendors that offers Bluetooth and Wi-Fi connectivity IPs;

Table of Contents

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

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

internal design groups of large chip companies or OEMs that develop proprietary Wi-Fi and Bluetooth IPs for their own connectivity chipsets.

We face direct competition in the DSP and configurable core space mainly from Verisilicon and Cadence- Tensilica, which licenses DSP cores in addition to its semiconductor business. In the connectivity space, we face direct competition from Imagination Technologies which offers a combination of Wi-Fi/Bluetooth, Sunrise Micro and Mindtree in standalone Bluetooth.

In recent years, we also have faced competition from companies that offer Central Processor Unit (CPU) intellectual property. These companies' products are used for host functions in various applications, such as in mobile and home entertainment products. These applications typically also incorporate a programmable DSP accelerator that is responsible for communication and video/audio/voice-related tasks. CPU companies, such as ARM Holdings, Cadence, Imagination Technologies and Synopsys have added DSP acceleration and make use of it to provide platform solutions in the areas of baseband, video, imaging, gesture and audio.

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

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

in the computational photography & vision market Imagination Technologies, ARM and Cadence;

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

in audio applications market ARM Holdings, Cadence, Synopsys and Verisilicon.

Proprietary Rights

Our success and ability to compete are dependent on our ability to develop and maintain the proprietary aspects of our intellectual property and to operate without infringing the proprietary rights of others. We rely on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect the proprietary aspects of our technology. These legal protections afford only limited protection of our technology. We also seek to limit disclosure

of our intellectual property and trade secrets by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code and other intellectual property. Due to rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments and enhancements to existing products are more important than specific legal protections of our technology in establishing and maintaining a technology leadership position.

We have an active program to protect our proprietary technology through the filing of patents. Our patents relate to our DSP cores and application-specific platform technologies. As of December 31, 2014, we hold

Table of Contents

50 patents in the United States, one patent in Canada, 29 patents in the EME (Europe and Middle East) region and seven patents in Asia Pacific (APAC) region, totaling 87 patents, with expiration dates between 2017 and 2033. In addition, as of December 31, 2014, we have 12 patent applications pending in the United States, 7 pending patent applications in Canada, 14 pending patent applications in the EME region and 6 pending patent applications in the APAC region, totaling 39 pending patent applications.

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

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. Questions of infringement in the semiconductor field involve highly technical and subjective analyses. In addition, patent infringement claims are increasingly being asserted by patent holding companies (so-called patent trolls), which do not use technology and whose sole business is to enforce patents against companies, such as us, for monetary gain. Because such patent holding companies do not provide services or use technology, the assertion of our own patents by way of counter-claim may be ineffective. Litigation may in the future be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. We cannot assure you that we would be able to prevail in any such litigation, or be able to devote the financial resources required to bring such litigation to a successful conclusion.

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

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

Table of Contents**Employees**

The table below presents the number of employees of CEVA as of December 31, 2014 by function and geographic location.

	Number
Total employees	242
Function	
Research and development	174
Sales and marketing	29
Administration	21
Technical support	18
Location	
Israel	156
France	33
Ireland	13
China	11
United States	10
United Kingdom	7
Elsewhere	12

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

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

In 2004, we finalized and adopted a new Code of Business Conduct and Ethics regarding the standards of conduct of our directors, officers and employees. The code is reviewed and updated periodically by our Board or Directors and is available on our website at www.ceva-dsp.com.

Corporate History

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

Available Information

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

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

Table of Contents

ITEM 1A. RISK FACTORS

We caution you that the following important factors, among others, could cause our actual future results to differ materially from those expressed in forward-looking statements made by or on behalf of us in filings with the Securities and Exchange Commission, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in this annual report, and in any other public statements we make, may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make in our reports filed with the Securities and Exchange Commission.

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

The markets for the products in which our technology is incorporated are highly competitive. Aggressive competition could result in substantial declines in the prices that we are able to charge for our intellectual property. Many of our competitors are striving to increase their share of the growing DSP market and are reducing their licensing and royalty fees to attract customers. The following industry players and factors may have a significant impact on our competitiveness:

we compete directly in the DSP cores space with Verisilicon and Cadence;

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

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

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

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

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

we compete in the audio applications market with ARM Holdings, Synopsys, Cadence and Verisilicon. In addition, we may face increased competition from smaller, niche semiconductor design companies in the future. Some of our customers also may decide to satisfy their needs through in-house design. We compete on the basis of DSP performance, overall chip cost, power consumption, flexibility, reliability, communication and multimedia software availability, design cycle time, tool chain, customer support, name recognition, reputation and financial strength. Our inability to compete effectively on these bases could have a material adverse effect on our business, results of operations and financial condition.

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

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

the gain or loss of significant licensees, partly due to our dependence on a limited number of customers generating a significant amount of quarterly revenues;

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

fluctuations in operating expenses and gross margins associated with the introduction of new or enhanced technologies and adjustments to operating expenses resulting from restructurings;

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

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

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

our ability to scale our operations in response to changes in demand for our technologies;

entry into new markets, including China, India and Latin America;

changes in our pricing policies and those of our competitors;

restructuring, asset and goodwill impairment and related charges, as well as other accounting changes or adjustments; and

general economic conditions, including the current economic conditions, and its effect on the semiconductor industry and sales of consumer products into which our technologies are incorporated.

Each of the above factors is difficult to forecast and could harm our business, financial condition and results of operations. Also, we license our technology to OEMs and semiconductor companies for incorporation into their end products for consumer markets, including handsets and consumer electronics products. The royalties we generate are reported by our customers and invoiced by us one quarter in arrears. As a result, our royalty revenues are affected by seasonal buying patterns of consumer products sold by our OEM customers that

Table of Contents

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

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

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

We derive a significant amount of revenues from a limited number of customers. Sales to Spreadtrum represented 25%, 28% and 24% of our total revenues for 2014, 2013 and 2012, respectively. Sales to Intel represented 11% and 13% of our total revenues for 2013 and 2012, respectively, but represented less than 10% in 2014. Sales to Broadcom represented 12% of our total revenues for only 2012. With respect to our royalty revenues, three royalty paying customers each represented 10% or more of our total royalty revenues for 2014, and collectively represented 79% of our total royalty revenues for 2014, compared to four royalty paying customers each representing 10% or more of our total royalty revenues for 2013 and 2012, and collectively representing 81% and 74% of our total royalty revenues for 2013 and 2012, respectively. We expect that a significant portion of our future revenues will continue to be generated by a limited number of customers. The loss of any significant royalty paying customer could adversely affect our near-term future operating results. For example, the shift away from feature phones by Intel and the exiting of the handset baseband market by Broadcom in 2014 negatively impacted our annual 2014 revenues. Furthermore, consolidation among our customers may negatively affect our revenue source, increase our existing customers negotiation leverage and make us further dependent on a limited number of customers. Moreover, the discontinuation of product lines or market sectors that incorporate our technology by our significant customers or a change in direction of their business and our inability to adapt our technology to their new business needs could have material negative implications for our future royalty revenues.

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

License agreements for our DSP cores and platforms have not historically provided for substantial ongoing license payments so past licensing revenues may not be indicative of the amount of such revenues in any future period. We believe that there is a similar risk with the newly acquired RivieraWaves operations associated with Bluetooth and Wi-Fi connectivity technologies. Significant portions of our anticipated future revenues, therefore, will likely depend upon our success in attracting new customers or expanding our relationships with existing customers. However, revenues recognized from licensing arrangements vary significantly from period to period, depending on the number and size of deals closed during a quarter, and is difficult to predict. In addition, as we expand our business into the non-baseband markets, our licensing deals may be smaller but greater in volume which may further fluctuate our licensing revenues quarter to quarter. Our ability to succeed in our licensing efforts will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products, as well as our sales and marketing skills. In addition, some of our licensees may in the future decide to satisfy their needs through in-house design and production. Our failure to obtain future licensing customers would impede our future revenue growth and could materially harm our business.

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

Royalty payments to us under existing and future license agreements could be lower than currently anticipated for a variety of reasons. Average selling prices for semiconductor products generally decrease over time during the lifespan of a product. In addition, there is increasing downward pricing pressures in the semiconductor industry on end products incorporating our technology, especially end products for the handsets and consumer electronics markets. As a result, notwithstanding the existence of a license agreement, our customers may demand that royalty rates for our products be lower than our historic royalty rates. We have in the past and may be pressured in the future to renegotiate existing license agreements with our customers. In addition, certain of our license agreements provide that royalty rates may decrease in connection with the sale of larger quantities of products incorporating our technology. Furthermore, our competitors may lower the royalty rates for their comparable products to win market share which may force us to lower our royalty rates as well. As a consequence of the above referenced factors, as well as unforeseen factors in the future, the royalty rates we receive for use of our technology could decrease, thereby decreasing future anticipated revenues and cash flow. Royalty revenues were approximately 44%, 54% and 60% of our total revenues for 2014, 2013 and 2012, respectively. Therefore, a significant decrease in our royalty revenues could materially adversely affect our operating results.

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

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

Our total revenues derived solely from the cellular baseband market represented 49%, 60% and 62% of our total revenues for 2014, 2013 and 2012, respectively. A significant portion of such revenues is derived from feature phones. However, the shift away from feature phones by our customer Intel and the exiting of the handset baseband market by our customer Broadcom have negatively impacted our royalty revenues. Moreover, although next generation products generally have higher average selling prices, the shift towards LTE technology has been slower than expected and we can provide no assurances that the trend towards next generation products will continue on pace. Furthermore, we can provide no assurances that we will be successful in offsetting any decline in revenues from feature phones with increased revenues from next generation products such as low-cost smartphones or LTE phones. Any adverse change in our ability to compete and maintain our competitive position in the cellular baseband market, including through the introduction by competitors of enhanced technologies that attract OEM customers that target these markets, would harm our business, financial condition and results of operations. Moreover, the cellular baseband market is extremely competitive and are facing intense pricing pressures, and we expect that competition and pricing pressures will only increase. Furthermore, it can be very volatile with regards to volume shipments of different phones, standards and connected devices due to inventory build out or consumer demand changes or geographical macroeconomics, pricing changes and timing of introduction of new phones and products. Our existing OEM customers also may fail to introduce new handset devices that attract consumers, or encounter significant delays in developing, manufacturing or shipping new or enhanced products in these markets. The inability of our OEM customers to compete would result in lower shipments of products powered by our technologies which in turn would have a material adverse effect on our

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

Table of Contents

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

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

Further, because we do not control the business practices of our customers, we do not influence the degree to which they promote our technology or set the prices at which they sell products incorporating our technology. We cannot assure you that our customers will devote satisfactory efforts to promote their end products which incorporate our IP solutions.

In addition, our royalties from licenses and therefore the growth of our business, are dependent upon the success of our customers in introducing products incorporating our technology and the success of those products in the marketplace. The primary customers for our products are semiconductor design and manufacturing companies, system OEMs and electronic equipment manufacturers, particularly in the telecommunications field. These industries are highly competitive, cyclical and have been subject to significant economic downturns at various times. These downturns are characterized by production overcapacity and reduced revenues, which at times may encourage semiconductor companies or electronic product manufacturers to reduce their expenditure on our technology. If we do not retain our current customers and continue to attract new customers, our business may be harmed.

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

The semiconductor intellectual property (SIP) industry is a relatively small and emerging industry. Our future growth will depend on the level of market acceptance of our third-party licensable intellectual property model, the variety of intellectual property offerings available on the market, and a shift in customer preference away from in-house development of proprietary DSPs and connectivity IPs towards licensing open DSP cores, platforms and connectivity IPs. Furthermore, the third-party licensable intellectual property model is highly dependent on the market adoption of new services and products, such as low cost smartphones in emerging markets, LTE smartphones, mobile broadband, small cell base stations and the increased use of advanced audio, voice, computational photography and embedded vision in mobile, automotive and consumer products, as well as in IoT and connectivity applications. Such market adoption is important because the increased cost associated with ownership and maintenance of the more complex architectures needed for the advanced services and products may motivate companies to license third-party intellectual property rather than design them in-house.

Table of Contents

The trends that would enable our growth are largely beyond our control. Semiconductor customers also may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly-integrated chipsets that embed our technologies. If the above referenced market shifts do not materialize or third-party SIP does not achieve market acceptance, our business, results of operations and financial condition could be materially harmed.

Because 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 77% of our total revenues for 2014, 88% for 2013 and 79% for 2012 were derived from customers located outside of the United States. We expect that international customers will continue to account for a significant portion of our revenues for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

unexpected changes in regulatory requirements;

fluctuations in the exchange rate for the U.S. dollar;

imposition of tariffs and other barriers and restrictions;

burdens of complying with a variety of foreign laws, treaties and technical standards;

uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;

multiple and possibly overlapping tax structures and potentially adverse tax consequences;

political and economic instability; and

changes in diplomatic and trade relationships.

We depend on a limited number of key personnel who would be difficult to replace.

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

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

The sales cycle for our IP solutions is lengthy, often lasting three to nine months. Our customers generally conduct significant technical evaluations, including customer trials, of our technology as well as competing technologies prior to making a purchasing decision. In addition, purchasing decisions also may be delayed because of a customer's internal budget approval process. Furthermore, given the current market conditions, we have less ability to predict the timing of our customers' purchasing cycle and potential unexpected delays in such a cycle. Because of the lengthy sales cycle and potential delays, our dependence on a limited number of customers to generate a significant amount of revenues for a particular period and the size of customer orders, if orders forecasted for a specific customer for a particular period do not occur in that period, our revenues and operating results for that particular quarter could suffer. Moreover, a portion of our expenses related to an anticipated order is fixed and difficult to reduce or change, which may further impact our operating results for a particular period.

Table of Contents

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

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

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

One of our principal research and development facilities is located in Israel, 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 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 employees due to military service.

Our research and development expenses may increase if the grants we currently receive from the Israeli government and European Union are reduced or withheld.

We currently receive research grants from programs of the Office of the Chief Scientist of Israel of the Israeli Ministry of Industry and Trade and the Seventh Framework Program of the European Union. We recorded an aggregate of \$4,586,000, \$3,304,000 and \$2,849,000 in 2014, 2013 and 2012, respectively. 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. Also, the timing of such payments from the Office of the Chief Scientist and European Union may vary from year to year and quarter to quarter, and we have no control on the

timing of such payment.

Table of Contents

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

We enjoy certain tax benefits in Israel, particularly as a result of the Approved Enterprise and the Benefited Enterprise status of our facilities and programs. To maintain our eligibility for these tax benefits, we must continue to meet certain conditions, relating principally to adherence to the investment program filed with the Investment Center of the Israeli Ministry of Industry and Trade and to periodic reporting obligations. Should we fail to meet such conditions in the future, these benefits would be cancelled and we would be subject to corporate tax in Israel at the standard corporate rate (26.5% in 2014) and could be required to refund tax benefits already received. In addition, we cannot assure you that these tax benefits will be continued in the future at their current levels or otherwise. The tax benefits under our active investment programs are scheduled to gradually expire starting in 2017. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as a result of the Approved Enterprise and the Benefited Enterprise status of our facilities and programs) or a requirement to refund tax benefits already received may seriously harm our business, operating results and financial condition.

Our failure to maintain certain research tax benefits applicable to French technology companies may adversely affect the results of operations of our RivieraWaves operations.

Pursuant to our acquisition of the RivieraWaves operations, we will benefit from certain research tax credits applicable to French technology companies, including, for example, the CIR. The CIR is a French tax credit aimed at stimulating research activities. The CIR can be offset against French corporate income tax due and the portion in excess (if any) may be refunded annually. The French Parliament can decide to eliminate, or reduce the scope or the rate of, the CIR benefit, at any time or challenge our eligibility or calculations for such tax credits, all of which may have an adverse impact on our results of operations and future cash flows.

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 revenues are transacted in U.S. dollars, we may be exposed to currency exchange fluctuations in the future as business practices evolve and we are forced to transact business in local currencies. Moreover, the majority of our expenses are denominated in foreign currencies, mainly New Israeli Shekel (NIS) and Euro, which subjects us to the risks of foreign currency fluctuations. Our primary expenses paid in currencies other than the U.S. dollar are employee salaries. Increases in the volatility of the exchange rates of currencies other than the U.S. dollar versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur in currencies other than the U.S. dollar when remeasured into U.S. dollars for financial reporting purposes. We have instituted a foreign cash flow hedging program to minimize the effects of currency fluctuations. However, hedging transactions may not successfully mitigate losses caused by currency fluctuations, and our hedging positions may be partial or may not exist at all in the future. We also review our monthly expected non-U.S. dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. We expect to continue to experience the effect of exchange rate currency fluctuations on an annual and quarterly basis.

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

Our product development efforts require us to incur substantial research and development expense. Our research and development expenses were approximately \$25.8 million, \$21.2 million and \$20.2 million for 2014, 2013 and 2012, respectively. We may not be able to achieve an acceptable return, if any, on our research and development efforts.

Table of Contents

The development of our products is highly complex. We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. Unanticipated problems in developing products could also divert substantial engineering resources, which may impair our ability to develop new products and enhancements and could substantially increase our costs. Furthermore, we may expend significant amounts on research and development programs that may not ultimately result in commercially successful products. Our research and expense levels have increased from the third quarter of 2014 after the acquisition of RivieraWaves. As a result of these and other factors, we may be unable to develop and introduce new products successfully and in a cost-effective and timely manner, and any new products we develop and offer may never achieve market acceptance. Any failure to successfully develop future products would have a material adverse effect on our business, financial condition and results of operations.

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

The markets for programmable DSP cores, application IPs and connectivity IPs are characterized by rapidly changing technology, emerging markets and new and developing end-user needs, and requiring significant expenditure for research and development. We cannot assure you that we will be able to introduce systems and solutions that reflect prevailing industry standards, on a timely basis, meet the specific technical requirements of our end-users or avoid significant losses due to rapid decreases in market prices of our products, and our failure to do so may seriously harm our business.

If we are unable to integrate the RivieraWaves acquisition successfully, our business may be harmed.

The acquisition of RivieraWaves consummated in July 2014. The integration of RivieraWaves involves a number of risks, including assimilation of new operations and personnel into CEVA, the management of additional operating expenses, the diversion of resources, including our management's time and resources, from our existing business to facilitate the integration, coordination of the respective research and development, and sales and marketing personnel, and the maintenance of standards, controls, procedures and policies. In connection with the acquisition, we incurred additional operating expenses starting from the third quarter of 2014, including: (1) RivieraWaves expenses in the amount of approximately \$1.7 million on a quarterly basis for 2015, which includes the RivieraWaves employee retention scheme expenses, and (2) quarterly amortization of intangible assets and equity-based compensation expenses of approximately \$0.4 million. We cannot provide any assurances that such projected operating expenses will not increase or that we will not incur additional expenses to reflect costs associated with the acquisition or the integration of the RivieraWaves operations. Costs associated with the acquisition, or liabilities and expenses associated with the RivieraWaves operations, that exceed our expectations could materially affect our business, financial condition and results of operations. Furthermore, we cannot provide any assurances that we will realize the synergistic, strategic and financial benefits sought through the acquisition. We currently anticipate that as a result of the acquisition, our initial goal is to reach shipments of 400 million units of royalty-bearing connected devices (exclusive of handsets) by 2018 and a 25% increase in our annual 2015 licensing revenues as compared to our historical revenue figures in the range of \$22 million to \$24 million. Although we view the acquisition as a significant opportunity, we cannot provide any assurances that we will be successful in combining our DSP technology with RivieraWaves' Bluetooth and Wi-Fi connectivity technologies to expand the addressable market, or that the combination would significantly increase our revenues.

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

We may in the future pursue acquisitions of businesses, products and technologies, establish joint venture arrangements, make minority equity investments or enhance our existing CEVA net partner eco-system to expand our

business. We are unable to predict whether or when any prospective acquisition, equity investment or joint venture will be completed. The process of negotiating potential acquisitions, joint ventures or equity investments, as well as the integration of acquired or jointly developed businesses, technologies or products may be prolonged

Table of Contents

due to unforeseen difficulties and may require a disproportionate amount of our resources and management's attention. We cannot assure you that we will be able to successfully identify suitable acquisition or investment candidates, complete acquisitions or investments, or integrate acquired businesses or joint ventures with our operations. If we were to make any acquisition or investment or enter into a joint venture, we may not receive the intended benefits of the acquisition, investment or joint venture or such an acquisition, investment or joint venture may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The expansion of our CEVAnet partner eco-system also may not achieve the anticipated benefits. The occurrence of any of these events could harm our business, financial condition or results of operations. Future acquisitions, investments or joint ventures may require substantial capital resources, which may require us to seek additional debt or equity financing.

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

issuance of equity securities that would dilute our current stockholders' percentages of ownership;

large one-time write-offs or equity investment impairment write-offs;

incurrence of debt and contingent liabilities;

difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;

inability to realize cost efficiencies or synergies, thereby incurring higher operating expenditures as a result of the acquisition;

diversion of management's attention from other business concerns;

contractual disputes;

risks of entering geographic and business markets in which we have no or only limited prior experience; and

potential loss of key employees of acquired organizations.

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

Our success and ability to compete depend in large part upon the protection of our proprietary technologies. We rely on a combination of patent, copyright, trademark, trade secret, mask work and other intellectual property rights, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights. These

agreements and measures may not be sufficient to protect our technology from third-party infringement or protect us from the claims of others. As a result, we face risks associated with our patent position, including the potential need to engage in significant legal proceedings to enforce our patents, the possibility that the validity or enforceability of our patents may be denied, the possibility that third parties will be able to compete against us without infringing our patents and the possibility that our products may infringe patent rights of third parties.

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 obtain licenses to these rights on commercially acceptable terms.

We are subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others. There are a large number of patents held by others, including our competitors, pertaining to the broad areas in which we are active. We have not, and cannot reasonably, investigate all such patents. From time

Table of Contents

to time, we have become aware of patents in our technology areas and have sought legal counsel regarding the validity of such patents and their impact on how we operate our business, and we will continue to seek such counsel when appropriate in the future. In addition, patent infringement claims are increasingly being asserted by patent holding companies (so-called patent trolls), which do not use technology and whose sole business is to enforce patents against companies, such as us, for monetary gain. Because such patent holding companies do not provide services or use technology, the assertion of our own patents by way of counter-claim may be ineffective. Infringement claims may require us to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of these claims. Any necessary licenses may not be available or, if available, may not be obtainable on commercially reasonable terms. If we cannot obtain necessary licenses on commercially reasonable terms, we may be forced to stop licensing our technology, and our business would be seriously harmed.

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

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

Our operating results are affected by the highly cyclical nature of the semiconductor industry.

We operate within the semiconductor industry which experiences significant fluctuations in sales and profitability. Downturns in the semiconductor industry are characterized by diminished product demand, excess customer inventories, accelerated erosion of prices and excess production capacity. These factors could cause substantial fluctuations in our revenues and in our results of operations.

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

On an ongoing basis, we evaluate our various product offerings and technology developments in order to determine whether any should be discontinued or, to the extent possible, divested. We cannot guarantee that we have correctly forecasted, or will correctly forecast in the future, the right product lines and technology developments to dispose of or discontinue or that our decision to dispose of or discontinue various investments, products lines and technology developments is prudent if market conditions change. In addition, there are no assurances that the discontinuance of various product lines will reduce our operating expenses or will not cause us to incur material charges associated with such decision. Furthermore, the discontinuance of existing product lines entails various risks, including the risk that we will not be able to find a purchaser for a product line or the purchase price obtained will not be equal to at least the book value of the net assets for the product line. Other risks include managing the expectations of, and maintaining good relations with, our customers who previously purchased products from our disposed or discontinued product lines, which could prevent us from selling other products to them in the future. We may also incur other significant liabilities and costs associated with our disposal or discontinuance of product lines, including employee severance costs and excess facilities costs.

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

We have significant operations in Israel, as well operations in the Republic of Ireland and in France, and a substantial portion of our taxable income historically has been generated in Israel. Currently, some of our Israeli and Irish subsidiaries are taxed at rates substantially lower than the U.S. tax rates. If our Israeli and Irish

Table of Contents

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, Irish and French operations are owned by subsidiaries of our U.S. parent corporation, distributions to the U.S. parent corporation, and in certain circumstances undistributed income of the subsidiaries, may be subject to U.S. taxes. Moreover, if U.S. or other authorities were to change applicable tax laws or successfully challenge the manner in which our subsidiaries profits are currently recognized, our overall tax expenses could increase, and our business, cash flow, financial condition and results of operations could be materially adversely affected. Also our taxes on the Irish interest income may be double taxed both in Ireland and in the U.S. due to U.S. tax regulations and Irish tax restrictions on NOLs to off-set interest income. In addition, starting in 2012, our Israeli interest income also may be taxed both in Israel and the U.S due to different Controlled Foreigner Corporation rules.

Our stock price may be volatile so you may not be able to resell your shares of our common stock at or above the price you paid for them.

Announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results, changes in the general conditions of the highly dynamic industry in which we compete or the national economies in which we do business, and other factors could cause the price of our common stock to fluctuate, perhaps substantially. In addition, in recent years, the stock market has experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. These factors and fluctuations could have a material adverse effect on the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

We lease buildings for our executive offices, and engineering, sales, marketing, administrative and support operations and design centers. The following table summarizes information with respect to the principal facilities leased by us as of December 31, 2014:

Location	Term	Expiration	Area (Sq. Feet)	Principal Activities
Mountain View, CA, U.S.	5 years	2015	3,643	Headquarters; sales and marketing; administration
Herzeliya, Israel (1)	6 years	2020	35,339	Research and development; administration; sales and marketing
Dublin, Ireland (2)	4 year	2017	2,131	Research and development; administration
Cork, Ireland	5 years	2016	2,870	Research and development
Belfast, UK (3)	15 years	2019	2,600	Research and development

Sophia Antipolis, France (4)	9 years	2021	7,535	Research and development; administration; sales and marketing
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- (1) Break clause in the lease exercisable in 2018.
- (2) Break clause in the lease exercisable in 2016.
- (3) Break clause in the lease exercisable on payment of one year rent.
- (4) Break clause exercisable in 2018.

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Gideon Wertheizer, age 58, has served as our Chief Executive Officer since May 2005. He joined our board of directors in January 2010. Mr. Wertheizer has 31 years of experience in the semiconductor and Silicon Intellectual Property (SIP) industries. He previously served as the Executive Vice President and General Manager of the DSP business unit at CEVA. Prior to joining CEVA in November 2002, Mr. Wertheizer held various executive positions at DSP Group, Inc., including such roles as Executive VP Strategic Business Development, Vice President for Marketing and Vice President of VLSI design. Mr. Wertheizer holds a BsC for electrical engineering from Ben Gurion University in Israel and executive MBA from Bradford University in the United Kingdom.

Yaniv Arieli, age 46, has served as our Chief Financial Officer since May 2005. Prior to his current position, Mr. Arieli served as President of U.S. Operations and Director of Investor Relations of DSP Group beginning in August 2002 and Vice President of Finance, Chief Financial Officer and Secretary of DSP Group's DSP Cores Licensing Division prior to that time. Before joining DSP Group in 1997, Mr. Arieli served as an account manager and certified public accountant at Kesselman & Kesselman, a member of PricewaterhouseCoopers, a leading accounting firm. Mr. Arieli is a CPA and holds a B.A. in Accounting and Economics from Haifa University in Israel and an M.B.A. from Newport University and is also a member of the National Investor Relation Institute.

Issachar Ohana, age 49, has served as our Vice President, Worldwide Sales, since November 2002 and our Executive Vice President, Worldwide Sales, since July 2006. Prior to joining CEVA in November 2002, Mr. Ohana was with DSP Group beginning in August 1994 as a VLSI design engineer. He was appointed Project Manager of DSP Group's research and development in July 1995, Director of Core Licensing in August 1998, and Vice President Sales of the Core Licensing Division in May 2000. Mr. Ohana holds a B.Sc. in Electrical and Computer Engineering from Ben Gurion University in Israel and an MBA from Bradford University in the United Kingdom.

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

Our common stock began trading on The NASDAQ Global Market on November 1, 2002. Our common stock currently trades under the ticker symbol CEVA on NASDAQ. As of February 24, 2015, there were approximately 2,202 holders of record, which we believe represents approximately 8,329 beneficial holders. The closing price of our common stock on The NASDAQ Global Market on March 5, 2015 was \$20.02 per share. The following table sets forth, for the periods indicated, the range of high and low closing prices per share of our common stock, as reported on The NASDAQ Global Market.

	Price Range of Common Stock	
	High	Low
2014		
First Quarter	\$ 18.77	\$ 15.08
Second Quarter	\$ 18.30	\$ 13.88
Third Quarter	\$ 15.49	\$ 13.44
Fourth Quarter	\$ 18.44	\$ 12.67
2013		
First Quarter	\$ 17.77	\$ 14.82
Second Quarter	\$ 19.36	\$ 14.30
Third Quarter	\$ 20.95	\$ 16.42
Fourth Quarter	\$ 17.28	\$ 13.71

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

Equity Compensation Plan Information

Information as of December 31, 2014 regarding options and SARs granted under our stock plans and remaining available for issuance under those plans will be contained in the definitive 2015 Proxy Statement for the 2015 annual meeting of stockholders to be held on May 20, 2015 and incorporated herein by reference.

Issuer Purchases of Equity Securities

There were no repurchases of our common stock during the three months ended December 31, 2014.

2015 Annual Meeting of Stockholders

We anticipate that the 2015 annual meeting of our stockholders will be held on May 20, 2015 in New York City, NY.

Table of Contents**Stock Performance Graph**

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

	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
CEVA, Inc.	100.00	159.41	235.30	122.47	118.35	141.06
NASDAQ Composite	100.00	118.02	117.04	137.47	192.62	221.02
Morningstar Semiconductor	100.00	117.07	110.32	117.75	146.72	189.27

The stock performance graph above compares the percentage change in cumulative stockholder return on the common stock of our company for the period from December 31, 2009, through December 31, 2014, with the cumulative total return on The NASDAQ Global Market (U.S.) Composite Index and the Morningstar Semiconductor Group Index.

This graph assumes the investment of \$100 in our common stock (at the closing price of our common stock on December 31, 2009), the NASDAQ Global Market (U.S.) Composite Index and the Morningstar Semiconductor Group Index on December 31, 2009, and assumes dividends, if any, are reinvested.

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

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

The following selected financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and the related notes, as well as our Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2014, both appearing elsewhere in this annual report.

	2010	Year Ended December 31,			2014
		2011	2012	2013	
	(in thousands)				
Consolidated Statements of Operations Data:					
Revenues:					
Licensing and related revenue	\$ 22,045	\$ 23,836	\$ 21,727	\$ 22,372	\$ 28,348
Royalties	22,866	36,403	31,950	26,528	22,460
Total revenues	44,911	60,239	53,677	48,900	50,808
Cost of revenues	3,712	3,559	3,952	5,163	5,000
Gross profit	41,199	56,680	49,725	43,737	45,808
Operating expenses:					
Research and development, net	17,909	21,543	20,243	21,216	25,828
Sales and marketing	7,308	8,937	9,231	10,092	9,815
General and administrative	6,108	7,639	7,884	7,670	8,054
Amortization of intangible assets					649
Total operating expenses	31,325	38,119	37,358	38,978	44,346
Operating income	9,874	18,561	12,367	4,759	1,462
Financial income, net	2,095	2,909	3,380	2,714	975
Other loss					(404)
Income before taxes on income	11,969	21,470	15,747	7,473	2,033
Income taxes	591	2,908	2,062	788	2,852
Net income (loss)	\$ 11,378	\$ 18,562	\$ 13,685	\$ 6,685	\$ (819)
Basic net income (loss) per share	\$ 0.54	\$ 0.80	\$ 0.60	\$ 0.30	\$ (0.04)
Diluted net income (loss) per share	\$ 0.51	\$ 0.77	\$ 0.59	\$ 0.30	\$ (0.04)

	2010	2011	December 31,		2014
			2012	2013	
	(in thousands)				
Consolidated Balance Sheet Data:					
Working capital	\$ 114,928	\$ 136,483	\$ 131,545	\$ 131,433	\$ 95,181
Total assets	186,608	219,140	216,333	212,327	208,009
Total long-term liabilities	5,486	5,607	6,158	7,255	8,501
Total stockholders' equity	\$ 168,468	\$ 200,920	\$ 196,068	\$ 190,895	\$ 179,049

Table of Contents**QUARTERLY FINANCIAL INFORMATION**

	Three months ended							
	2013				2014			
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
Revenues:								
Licensing and related revenue	\$ 5,034	\$ 6,129	\$ 3,945	\$ 7,264	\$ 7,906	\$ 4,355	\$ 8,728	\$ 7,359
Royalties	7,082	6,684	6,060	6,702	5,768	4,860	5,370	6,462
Total revenues	12,116	12,813	10,005	13,966	13,674	9,215	14,098	13,821
Cost of revenues	1,575	1,093	1,131	1,364	1,112	1,370	1,255	1,263
Gross profit	10,541	11,720	8,874	12,602	12,562	7,845	12,843	12,558
Operating expenses:								
Research and development, net	5,039	5,621	5,619	4,937	5,996	6,051	6,453	7,328
Sales and marketing	2,355	2,540	2,376	2,821	2,393	2,197	2,611	2,614
General and administrative	1,838	1,744	2,006	2,082	2,040	1,861	2,223	1,930
Amortization of intangible assets							326	323
Total operating expenses	9,232	9,905	10,001	9,840	10,429	10,109	11,613	12,195
Operating income (loss)	1,309	1,815	(1,127)	2,762	2,133	(2,264)	1,230	363
Financial income, net	729	707	617	661	460	417	66	32
Other loss							(404)	
Income (loss) before taxes on income	2,038	2,522	(510)	3,423	2,593	(1,847)	892	395
Income taxes expense (benefit)	333	347	(187)	295	608	(321)	236	2,329
Net income (loss)	\$ 1,705	\$ 2,175	\$ (323)	\$ 3,128	\$ 1,985	\$ (1,526)	\$ 656	\$ (1,934)
Basic and diluted net income (loss) per share	\$ 0.08	\$ 0.10	\$ (0.01)	\$ 0.14	\$ 0.09	\$ (0.07)	\$ 0.03	\$ (0.10)
Weighted average shares used to								

compute net income
(loss) per share (in
thousands):

Basic	22,197	22,087	22,072	21,685	21,159	20,778	20,355	20,209
Diluted	22,670	22,546	22,072	22,063	21,590	20,778	20,667	20,209

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

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

BUSINESS OVERVIEW

The following discussion and analysis is intended to provide an investor with a narrative of our financial results and an evaluation of our financial condition and results of operations. The discussion should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2014, both appearing elsewhere in this annual report.

CEVA is a leading licensor of cellular, multimedia and connectivity technologies to semiconductor companies and OEMs serving the mobile, consumer, automotive and IoT markets. Our DSP IP portfolio includes

Table of Contents

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

Our DSPs power many of leading handset OEMs in the world today, including, Coolpad, HTC, Huawei, Lenovo, LG, Meizu, Micromax, Samsung, Xiaomi and ZTE, as well as hundreds of local handset manufacturers in China and India. Based on internal data and Strategy Analytics' provisional worldwide shipment data, CEVA's worldwide market share of cellular baseband chips that incorporate our technologies was approximately 36% of the worldwide shipment volume for the third quarter of 2014.

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

We believe the adoption of our DSP cores, software and connectivity intellectual property in markets of connected devices and Internet-of Things (IoT) applications continue to progress. Applications for such markets include smartphones, tablets, smart home appliances, wearables, surveillance, connected car, industrial, medical and more. As a testament to our progress in these markets, during the fourth quarter of 2014, we signed five new licensing agreements for our connectivity IPs and six DSP licenses for customers who will incorporate our DSPs into smartphones, tablets, advanced driver assistance systems, surveillance systems, satellite communications, G. Fast modems, advanced hearing aids and game consoles. In addition, we signed a comprehensive agreement for our leading edge DSPs with a semiconductor company that is associated with a leading Tier 1 OEM. Overall, six out of the eleven deals signed during the fourth quarter of 2014 were with first-time customers. We anticipate this expansion strategy will result in future royalty growth and a more diversified royalty base.

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

CEVA is firmly established in the largest space in the semiconductor industry – baseband for mobile handsets – as well as the other evolving cellular markets, such as mobile computing and machine to machine. Our competitive edge in software-defined radio technology for the next generations of LTE and Wi-Fi in base stations, and the inherent low cost and power performance balance of our technologies, puts us in a strong position to simultaneously capitalize on mass market adoption and address multiple market sectors.

Our proven track record in cellular baseband processing technologies, in particular our pioneering position in software-defined radio, allows us to expand into other cellular-related end products, including small cells,

macrocells and machine-to-machine.

Together with our presence in cellular-based machine-to-machine, small cells and macrocells, our acquisition of RivieraWaves allows us to expand further into Internet-of-Things applications. This acquisition substantially increased our overall addressable market to cover all categories of connected devices. Our addressable market size is expected to be 35 billion devices in 2020, per recent data from ABI Research.

Table of Contents

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

The market potential for vision processing in the IoT offers a new growth segment for the company. Our CEVA-MM3101 platform is the most mature technology today that offers a unified software-based vision platform that can support these future developments. As a testament to this, we have fifteen customers to date addressing this new growth segment with our CEVA-MM3101 platform, including three mobile OEMs. Per ABI Research, one billion cameras were shipped in 2012, and this number is predicted to grow to 2.7 billion in 2017. 80% of this volume is attributable to smartphones, where we already have a strong foothold through our other technologies. Mobile OEMs are looking for new DSLR features such as smarter autofocus, best picture using super resolution algorithms, and better image capture in low-light environments. Furthermore, with the addition of video analytics support, cameras will enable new services like augmented reality, gesture recognition and advanced safety capabilities in cars. We see this new revolution as an opportunity for us to significantly expand our footprint in smartphones and further into tablets, PCs and automotive applications.

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

Notwithstanding the various growth opportunities we have outlined above, our business operates in a highly competitive and cyclical environment. The maintenance of our competitive position and our future growth are dependent on our ability to adapt to ever-changing technologies, short product life cycles, evolving industry standards, changing customer needs and the trend towards Internet-of-Things, cellular baseband, connectivity, and voice, audio and video convergence in the markets that we operate. Also, our business relies significantly on revenues derived from a limited number of customers. The discontinuation of product lines or market sectors that incorporate our technology by our significant customers or a change in direction of their business and our inability to adapt our technology to their new business needs could have material negative implications for our future royalty revenues. For example, the shift away from feature phones by our customer Intel and the exiting of the handset baseband market by our customer Broadcom, as well as the slower than expected market adoption of LTE technologies, have negatively impacted our royalty revenues. Moreover, competition has historically increased pricing pressures for our products and decreased our average selling prices. Royalty payments under our existing license agreements also could be lower than currently anticipated for a variety of reasons, including decreased royalty rates triggered by larger volume shipments, lower

royalty rates negotiated with customers due to competitive pressure or consolidation among our customers. Some of our competitors have reduced their licensing and royalty fees to attract customers and expand their market share. In order to penetrate new markets and maintain our market share with our existing products, we may need to offer our products in the future at lower prices which may result in lower profits. In addition, our future growth is dependent not only on the

Table of Contents

continued success of our existing products but also the successful introduction of new products, which requires the dedication of resources into research and development which in turn may increase our operating expenses. Furthermore, since our products are incorporated into end products of our OEM and semiconductor customers, our business is very dependent on their ability to achieve market acceptance of their end products in the handset and consumer electronic markets, which are similarly very competitive. In addition, macroeconomic trends may significantly affect our operating results. For example, consolidation among our customers may negatively affect our revenue source, increase our existing customers' negotiation leverage and make us more dependent on a limited number of customers. Also, since we derive a significant portion of our revenues from the handset market, any negative trends in that market would adversely affect our financial results.

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

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

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

revenue recognition;

Business combinations and valuation of goodwill and other acquired intangible assets;

income taxes;

equity-based compensation; and

impairment of marketable securities;

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

Revenue Recognition

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

Table of Contents

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

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

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

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

Revenues that are derived from the sale of a licensee's products that incorporate our IP are classified as royalty revenues. Royalty revenues are recognized during the quarter in which we receive a report from the licensee detailing the shipment of products that incorporate our IP, which receipt is in the quarter following the licensee's sale of such products to its customers. Royalties are calculated either as a percentage of the revenues received by our licensees on sales of products incorporating our IP or on a per unit basis, as specified in the agreements with the licensees. Non-refundable payments on account of future royalties (prepaid royalties) are included within our licensing and related revenue line on the consolidated statements of operations. We may engage a third party to perform royalty audits of our licensees, and if these audits indicate any over- or under-reported royalties, we account for the results when the audits are resolved.

In addition to license fees, contracts with customers generally contain an agreement to provide for post contract support and training, which consists of telephone or e-mail support, correction of errors (bug fixing) and unspecified updates and upgrades. Fees for post contract support, which takes place after delivery to the customer, are specified in the contract and are generally mandatory for the first year. After the mandatory period, the customer may extend the support agreement on similar terms on an annual basis. We recognize revenue for post contract support on a straight-line basis over the period for which technical support is contractually agreed to be provided to the licensee, typically 12 months. Revenues from training are recognized as the training is performed.

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

Table of Contents

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

Business Combinations and Valuation of Goodwill and Other Acquired Intangible Assets

We allocate the fair value of purchase price consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase price consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customers, acquired technology, and trade names from a market participant perspective, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Contingent consideration liability in a business combination is recorded at fair value on the acquisition date. Contingent consideration liability will be adjusted to fair value at each reporting date through earnings until the contingency is resolved. The Contingent consideration fair value was based on management's analysis, forecasts and estimates, regarding the probability of the milestones being achieved and discount rate.

We review goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. If we determine that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test will be performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. As of December 31, 2012, 2013 and 2014, no impairment of goodwill was identified.

Acquired finite-lived intangible assets are amortized over their estimated useful lives. We evaluate the recoverability of our intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. We have not recorded any such impairment charge during the years presented.

In addition to the recoverability assessment, we routinely review the remaining estimated useful lives of our finite-lived intangible assets. If we reduce the estimated useful life assumption for any asset, the remaining unamortized balance would be amortized over the revised estimated useful life.

Income Taxes

We are subject to income taxes mainly in Israel, France, the U.S. and Ireland. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. We recognize income taxes under the liability method. Tax benefits are recognized from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves when facts and

circumstances change, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is

Table of Contents

different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effects of any reserves that are considered appropriate, as well as the related net interest and penalties.

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. To make this judgment, we must make predictions of the amount and category of taxable income from various sources and weigh all available positive and negative evidence about these possible sources of taxable income.

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. While we believe the resulting tax balances as of December 31, 2013 and 2014 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 13 to our Consolidated Financial Statements for the year ended December 31, 2014 for further information regarding income taxes. We have filed or are in the process of filing local and foreign tax returns that are subject to audit by the respective tax authorities. The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statute of limitations on potential assessments expire.

Equity-Based Compensation

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

We estimate the fair value of equity-based awards on the date of grant using an option-pricing model. The value of the portion of an award that is ultimately expected to vest is recognized as an expense over the requisite service period in our consolidated statement of operations. We recognize compensation expenses for the value of our awards, which have graded vesting based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures and the rate is adjusted to reflect changes in facts and circumstances, if any. Estimated forfeiture rate will be revised if actual forfeitures differ from the initial estimates.

We use the Monte-Carlo simulation model for options and stock appreciation rights (*SARs*) granted. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected option and SAR term. We have historically not paid dividends and have no foreseeable plans to pay dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The Monte-Carlo model also considers the suboptimal exercise multiple which is based on the average exercise behavior of our employees over the past years, the contractual term of the options and SARs, and the probability of termination or retirement of the holder of the options and SARs in computing the value of the options and SARs. Although our management believes that their estimates and judgments about equity-based compensation expense are reasonable, actual results and future changes in estimates may differ substantially from our current estimates.

Table of Contents

Impairment of Marketable Securities

Marketable securities consist of certificates of deposits and corporate bonds. We determine the appropriate classification of marketable securities at the time of purchase and re-evaluate such designation at each balance sheet date. In accordance with FASB ASC No. 320, Investment Debt and Equity Securities, we classify marketable securities as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of taxes. Realized gains and losses on sales of marketable securities, as determined on a specific identification basis, are included in financial income, net. The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in financial income, net. We have classified all marketable securities as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date, because we may sell these securities prior to maturity to meet liquidity needs or as part of risk versus reward objectives.

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

During the years ended December 31, 2012, 2013 and 2014, no other-than temporary impairment were recorded related to our marketable securities.

Recently Issued and Adopted Accounting Pronouncement

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

Table of Contents**RESULTS OF OPERATIONS**

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

	2012	2013	2014
Consolidated Statements of Operations Data:			
Revenues:			
Licensing and related revenue	40.5%	45.8%	55.8%
Royalties	59.5%	54.2%	44.2%
Total revenues	100.0%	100.0%	100.0%
Cost of revenues	7.4%	10.6%	9.8%
Gross profit	92.6%	89.4%	90.2%
Operating expenses:			
Research and development, net	37.7%	43.4%	50.8%
Sales and marketing	17.2%	20.6%	19.3%
General and administrative	14.7%	15.7%	15.9%
Amortization of intangible assets			1.3%
Total operating expenses	69.6%	79.7%	87.3%
Operating income	23.0%	9.7%	2.9%
Financial income, net	6.3%	5.6%	1.9%
Other loss			(0.8)%
Income before taxes on income	29.3%	15.3%	4.0%
Income taxes	3.8%	1.6%	5.6%
Net income (loss)	25.5%	13.7%	(1.6)%

Discussion and Analysis

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

Revenues*Total Revenues*

	2012	2013	2014
Total revenues (in millions)	\$ 53.7	\$ 48.9	\$ 50.8

Change year-on-year

(8.9)%

3.9%

The increase in total revenues from 2013 to 2014 reflected higher licensing and related revenue, offset by lower royalty revenues. The decrease in total revenues from 2012 to 2013 reflected principally lower royalty revenues, offset by slightly higher licensing and related revenue.

We generate royalty revenues from our customers which ship units of chipsets incorporating our technologies. The royalties are invoiced and recognized on a quarterly basis in arrears as we receive quarterly shipment reports from our licensees. The royalty rate is based either on a certain percent of the chipset price or a fixed amount per chipset based on volume discounts.

Table of Contents

We derive a significant amount of revenues from a limited number of customers. Sales to Spreadtrum represented 25%, 28% and 24% of our total revenues for 2014, 2013 and 2012, respectively. Sales to Intel represented 11% and 13% of our total revenues for 2013 and 2012, respectively, but represented less than 10% for 2014. Sales to Broadcom represented 12% of our total revenues only for 2012. Due to our limited number of customers, the shift away from feature phones by Intel and the exiting of the handset baseband market by Broadcom in 2014 negatively impacted our annual 2014 revenues. With respect to our royalty revenues, three royalty paying customers each representing 10% or more of our total royalty revenues for 2014, and collectively represented 79% of our total royalty revenues for 2014, compared to four royalty paying customers each represented 10% or more of our total royalty revenues for 2013 and 2012, and collectively representing 81% and 74% of our total royalty revenues for 2013 and 2012, respectively. We expect that a significant portion of our future revenues will continue to be generated by a limited number of customers. The concentration of our customers is explainable in part by consolidation in the semiconductor industry. The loss of any significant customer could adversely affect our near-term future operating results.

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

	Year ended December 31,		
	2012	2013	2014
CEVA-X family	21%	39%	33%
CEVA TeakLite family	54%	38%	45%
CEVA Teak family	14%	*)	*)

*) Less than 10%

We expect these products will continue to generate a significant portion of our revenues for 2015. The remaining amount consists of other families of products and services, some of which are relatively new like the MM3K and connectivity IP product lines that each currently represented less than 10% of our total revenues.

Our total revenues derived from cellular baseband market represented 49%, 60% and 62% of our total revenues for 2014, 2013 and 2012, respectively.

Licensing and related revenue

	2012	2013	2014
Licensing and related revenue (in millions)	\$ 21.7	\$ 22.4	\$ 28.3
<i>Change year-on-year</i>		3.0%	26.7%

The increase in licensing and related revenue from 2013 to 2014 principally reflected higher revenues from our connectivity IP products, mainly from the Bluetooth IP, due to our acquisition of RivieraWaves, and higher revenue from our DSP core family of products licensed to non-baseband applications like vision, audio, voice and sensing. In 2014, we signed 36 license agreements, of which 32 were for non-baseband applications, and 17 were with new first time CEVA customers. The combination of advanced technologies and complimentary software of our new non-baseband technologies lead to strong licensing dynamics and revenue licensing growth opportunities. This trend clearly illustrates the success of our strategy to expand our market reach and licensee base beyond the baseband market.

The increase in licensing and related revenue from 2012 to 2013 principally reflected higher revenues from new market segments and related technologies, especially in the multimedia space. We posted higher revenues from our CEVA-X DSP core family of products and our multimedia core family of products, which was partially offset by lower revenues from our CEVA-TeakLite DSP core family of products.

Table of Contents

Our technologies are now designed in by leading semiconductor companies and OEMs in their base stations, smartphone application processors, imaging chips, audio chips, as well as automotive, smart grid, Wi-Fi, satellite communication, connectivity and GPS devices.

Licensing and related revenue accounted for 55.8% of our total revenues for 2014, compared with 45.8% and 40.5% of our total revenues for 2013 and 2012, respectively. The percentage increase in licensing and related revenue principally reflect lower royalty revenues. In 2014, we signed 36 new license agreements, compared to 30 and 31 in 2013 and 2012, respectively.

Royalty Revenues

	2012	2013	2014
Royalty revenues (in millions)	\$ 32.0	\$ 26.5	\$ 22.5
<i>Change year-on-year</i>		<i>(17.0)%</i>	<i>(15.3)%</i>

Based on internal data and Strategy Analytics' provisional worldwide shipment data, CEVA's worldwide market share of baseband chips that incorporate our technologies represented approximately 34%, 39% and 44% of the worldwide baseband volume in 2014, 2013 and 2012, respectively, and accounted for approximately 86%, 84% and 79% of our total royalty revenues for 2014, 2013 and 2012, respectively.

The decrease in royalty revenues from 2013 to 2014 mainly reflected the decision of a few of our key customers to exit or refocus their efforts in the baseband market, like Broadcom, ST and Intel. The decrease in royalty revenues from 2012 to 2013 reflected consumer electronic business contraction due to stagnant sales for end of life legacy products, ASP erosion in the 2G feature phone space and the overall market decrease in feature phones. The five largest royalty-paying customers accounted for 87% of our total royalty revenues in 2014, compared to 87% and 82% in 2013 and 2012, respectively.

Our customers reported sales of 881 million chipsets incorporating our technologies in 2014, compared to 1,010 million in 2013 and 1,082 million in 2012. The decrease in units shipped in 2014 as compared to 2013 primarily resulted from semiconductor customers exiting or re-focusing their business in baseband. The decrease in units shipped in 2013 as compared to 2012 primarily resulted from lower feature phone shipments by major OEMs like Nokia, partially offset by increased unit shipments in smartphones in emerging economies.

Geographic Revenue Analysis

	2012		2013		2014	
	(in millions, except percentages)					
United States	\$ 11.4	21.2%	\$ 6.1	12.4%	\$ 11.7	23.0%
Europe, Middle East (EME) (1)	\$ 13.7	25.5%	\$ 13.4	27.4%	\$ 5.6	11.1%
Asia Pacific (APAC) (2) (3)	\$ 28.6	53.3%	\$ 29.4	60.2%	\$ 33.5	65.9%
(1) Germany	\$ 6.8	12.7%	\$ 5.5	11.3%	*)	*)
(2) China	\$ 15.9	29.7%	\$ 20.5	41.9%	\$ 20.6	40.5%
(3) Japan	\$ 7.7	14.4%	*)	*)	*)	*)

*) Less than 10%

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

Table of Contents

The increase in revenues in absolute dollars and percentage terms in the United States from 2013 to 2014 reflected higher licensing activities both from DSP technologies and connectivity IP products, partially offset by lower royalty revenues due mainly to Broadcom. The decrease in revenues in absolute dollars and percentage terms in the United States from 2012 to 2013 reflects lower licensing activities due to less new design activities by chip vendors and OEMs, and from prolonged decision-making process for new and advanced designs and technologies.

The decrease in revenues in absolute dollars and as a percentage in the EME region from 2013 to 2014 primarily reflected lower licensing activities and lower royalty revenues mainly due to key customers that decided to exit or refocus their efforts in the baseband market, like ST and Intel. The slight decrease in revenues in absolute dollars in the EME region from 2012 to 2013 primarily reflected lower royalty revenues mainly due to lower shipments of feature phone based baseband chips and the breakup of one of our customers the STE joint venture and the resulting market share loss. The decrease in royalty revenues was partially offset by new strategic licensing revenue from a key new customer.

The increase in revenues in absolute dollars and percentage terms in the APAC region from 2013 to 2014 primarily reflected higher royalty revenues from production ramp up and market share gains of our customers and higher licensing revenues due to new design wins for both baseband and non-baseband customers. The slight increase in revenues in absolute dollars and percentage terms in the APAC region from 2012 to 2013 primarily reflected higher licensing revenues in baseband and new non-baseband markets for our multimedia and audio technologies, as well as higher royalties in the low cost smartphone markets of China and other emerging economies, partially offset by lower royalties from end of life of legacy consumer electronics products.

Cost of Revenues

	2012	2013	2014
Cost of revenues (in millions)	\$ 4.0	\$ 5.2	\$ 5.0
<i>Change year-on-year</i>		30.6%	(3.2)%

Cost of revenues accounted for 9.8% of our total revenues for 2014, compared with 10.6% of our total revenues for 2013 and 7.4% of our total revenues for 2012. The absolute dollar and percentage decrease in cost of revenues for 2014 as compared to 2013 principally reflected lower sub-contractors costs and lower non-cash equity-based compensation expenses, partially offset by higher salary and related costs. The absolute dollar and percentage increase in cost of revenues for 2013 as compared to 2012 principally reflected higher customization work for our licensees (which are allocated from the research and development expense line), higher payments to the Office of the Chief Scientist of Israel and higher sub-contractor costs, partially offset by lower salary and related costs.

Cost of revenues includes labor-related costs and, where applicable, costs related to overhead, subcontractors, materials, travel, royalty expenses payments to the Office of the Chief Scientist of Israel and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in cost of revenues for the years 2014, 2013 and 2012 were \$193,000, \$312,000 and \$241,000, respectively. Royalty expenses relate to royalties payable to the Office of the Chief Scientist of Israel that amount to 3%-3.5% of the actual sales of certain of our products, the development of which previously included grants from the Office of the Chief Scientist of Israel. The obligation to pay these royalties is contingent on actual sales of these products.

Table of Contents*Operating Expenses*

	2012	2013	2014
	(in millions)		
Research and development, net	\$ 20.2	\$ 21.2	\$ 25.8
Sales and marketing	\$ 9.2	\$ 10.1	\$ 9.8
General and administration	\$ 7.9	\$ 7.7	\$ 8.1
Amortization of intangible assets			\$ 0.6
Total operating expenses	\$ 37.3	\$ 39.0	\$ 44.3
<i>Change year-on-year</i>		<i>4.3%</i>	<i>13.8%</i>

The increase in total operating expenses for 2014 as compared to 2013 principally reflected higher salary and related costs as a result of: (i) higher number of research and development personnel; (ii) first time salary and related costs associated with the RivieraWaves employees; (iii) retention costs for the RivieraWaves employees; and (iv) higher currency exchange expenses as a result of the devaluation of the U.S. dollar against the Israeli NIS, partially offset by higher than normal research grants received from the Office of Chief Scientist of Israel (OCS) and higher research tax benefits applicable to French technology companies (CIR). The increase in total operating expenses for 2013 as compared to 2012 principally reflected higher salary and related costs, higher project-related expenses and higher non-cash equity-based compensation expenses, partially offset by higher research grants received from the OCS, higher cost allocation to cost of revenues for customization work for our licensees and lower professional services cost.

Research and Development Expenses, Net

	2012	2013	2014
Research and development expenses, net (in millions)	\$ 20.2	\$ 21.2	\$ 25.8
<i>Change year-on-year</i>		<i>4.8%</i>	<i>21.7%</i>

The net increase in research and development expenses for 2014 as compared to 2013 principally reflected: (1) higher salary and related costs, which mainly include: (i) higher number of research and development personnel; (ii) first time salary and related costs associated with the RivieraWaves employees; (iii) retention costs for the RivieraWaves employees; and (iv) higher currency exchange expenses as a result of the devaluation of the U.S. dollar against the Israeli NIS, and (2) higher project-related expenses, partially offset by significantly higher than normal research grants received from the OCS and higher research tax benefits applicable to CIR. The net increase in research and development expenses for 2013 as compared to 2012 principally reflected higher project-related expenses, higher non-cash equity-based compensation expenses and higher salary and related costs, partially offset by higher research grants received from the OCS and higher cost allocation to cost of revenues for customization work for our licensees. The average number of research and development personnel in 2014 was 155, compared to 129 in 2013 and 128 in 2012. The number of research and development personnel was 174 at December 31, 2014 as compared with 140 at year-end 2013 and 125 at year-end 2012.

Research and development expenses, net of related government grants, were 50.8% of our total revenues for 2014, as compared with 43.4% for 2013 and 37.7% for 2012. We recorded research grants under funding programs of \$4,586,000 in 2014, compared with \$3,304,000 in 2013 and \$2,849,000 in 2012.

Research and development expenses consist primarily of salaries and associated costs and project-related expenses connected with the development of our intellectual property which are expensed as incurred, and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in research and development expenses, net for the years 2014, 2013 and 2012 were \$2,027,000, \$2,014,000 and \$1,810,000, respectively. Research and development expenses are net of related government research grants and research tax benefits applicable to CIR. We view research and development as a principal strategic investment and have

Table of Contents

continued our commitment to invest heavily in this area, which represents the largest of our ongoing operating expenses. We will need to continue to invest in research and development and such expenses may increase in the future to keep pace with new trends in our industry.

We anticipate higher annual operational expenses in 2015 due to higher research and developments costs, mainly as a result of the acquisition of RivieraWaves.

Sales and Marketing Expenses

	2012	2013	2014
Sales and marketing expenses (in millions)	\$ 9.2	\$ 10.1	\$ 9.8
<i>Change year-on-year</i>		9.3%	(2.7)%

The decrease in sales and marketing expenses for 2014 as compared to 2013 principally reflected lower non-cash equity-based compensation expenses. The increase in sales and marketing expenses for 2013 as compared to 2012 principally reflected higher salary and related expenses, higher commission and higher non-cash equity-based compensation expenses.

Sales and marketing expenses as a percentage of our total revenues were 19.3% for 2014, as compared with 20.6% for 2013 and 17.2% for 2012. The total number of sales and marketing personnel was 29 at year-end 2014, as compared with 29 at year-end 2013 and 27 at year-end 2012. Sales and marketing expenses consist primarily of salaries, commissions, travel and other costs associated with sales and marketing activities, as well as advertising, trade show participation, public relations and other marketing costs and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in sales and marketing expenses for the years 2014, 2013 and 2012 were \$909,000, \$1,311,000 and \$1,036,000, respectively.

General and Administrative Expenses

	2012	2013	2014
General and administrative expenses (in millions)	\$ 7.9	\$ 7.7	\$ 8.1
<i>Change year-on-year</i>		(2.7)%	5.0%

The increase in general and administrative expenses for 2014 as compared to 2013 principally reflected higher professional services cost associated with the RivieraWaves transaction and higher salary and related costs, partially offset by lower non-cash equity-based compensation expenses. The decrease in general and administrative expenses for 2013 as compared to 2012 principally reflected lower professional services cost associated with the aborted MIPS transaction, partially offset by higher non-cash equity-based compensation expenses.

General and administrative expenses as a percentage of our total revenues were 15.9% for 2014, as compared with 15.7% for 2013 and 14.7% for 2012. The total number of general and administrative personnel was 21 at year-end 2014, as compared with 21 at year-end 2013 and 22 at year-end 2012. General and administrative expenses consist primarily of fees for directors, salaries for management and administrative employees, accounting and legal fees, expenses related to investor relations and facilities expenses associated with general and administrative activities and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in general and administrative expenses for the years 2014, 2013 and 2012 were \$1,882,000, \$2,283,000 and \$1,996,000, respectively.

Table of Contents*Amortization of Intangible Assets*

Our amortization charges were \$0.6 million for 2014. The charges were incurred in connection with the amortization of intangible assets associated with the acquisition of RivieraWaves in July 2014. As of December 31, 2014, the net amount of intangible assets was \$5.5 million. There were no amortization charges for 2013 and 2012.

Financial Income, net

	2012	2013	2014
	(in millions)		
Financial income, net	\$ 3.38	\$ 2.71	\$ 0.97
<i>of which:</i>			
Interest income and gains and losses from marketable securities, net	\$ 3.42	\$ 2.76	\$ 1.71
Foreign exchange loss	\$ (0.04)	\$ (0.05)	\$ (0.57)
Accretion of Contingent Consideration			\$ (0.17)

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

The decrease in interest income and gains and losses from marketable securities, net, for 2014 as compared to 2013 reflected lower combined cash, bank deposits and marketable securities balances held, lower gains on sale of marketable securities and lower yields. The decrease in interest income and gains and losses from marketable securities, net, for 2013 as compared to 2012 reflected lower combined cash, bank deposits and marketable securities balances held and lower yields, offset by higher gains on sale of marketable securities.

We review our monthly expected major non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. However, during the second half of 2014, our Euro cash balances increased significantly beyond our regular Euro liabilities as a result of the acquisition of RivieraWaves. This has resulted in an increase in foreign exchange loss during the second half of 2014 because of the devaluation of our Euro cash balances, especially the Euro cash balances acquired in the RivieraWaves acquisition, as the U.S. dollar strengthened significantly as compared to the Euro in the second half of 2014.

Other Loss

In August 2014, we received an initial consideration of 773,563 Euro (\$1,032,351) when Antcor Advanced Network Technologies S.A. (Antcor), a company in which we had a minority investment, was acquired. We expect to receive an additional 98,700 Euro (approximately \$120,000) within twelve months after closing of the acquisition, which amount is being held by the buyer to secure indemnification claims. Pursuant to the acquisition agreement, we may receive additional proceeds from the buyer within five years after closing of the acquisition based on achievement of certain performance and other milestones by Antcor. During the year ended December 31, 2014, we recorded a capital loss of \$0.4 million from the sale of our investment in Antcor as a result of the acquisition.

Provision for Income Taxes

During the years 2014, 2013 and 2012, we recorded tax expenses of \$2.9 million, \$0.8 million and \$2.1 million, respectively. The increase in provision for income taxes in 2014 as compared to 2013 principally reflected a one-time write off of a deferred tax asset due to a change in the estimation for taxable income for future years of our U.S operations, partially offset by: (i) tax benefits resulting from expiration of statute of

Table of Contents

limitations in a certain foreign tax jurisdiction, (ii) lower income before taxes on income, and (iii) income tax benefit related to the RivieraWaves acquisition. The decrease in provision for income taxes in 2013 as compared to 2012 principally reflected lower income before taxes on income. We have significant operations in Israel and operations in France and the Republic of Ireland, and a substantial portion of our taxable income is generated in Israel. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

Our Irish subsidiary qualified for a 12.5% tax rate on its trade. Interest income generated by our Irish subsidiary is taxed at a rate of 25%. Our French subsidiary qualified for a 33.33% tax rate on its profits.

Our Israeli subsidiary is entitled to various tax benefits by virtue of the Approved Enterprise and/or Benefited Enterprise status granted to its eight investment programs, as defined by the Israeli Investment Law. In accordance with the Investment Law, our Israeli subsidiary's first six investment programs were subject to corporate tax rate of 26.5% in 2014, and our Israeli subsidiary's seventh and eighth investment programs were subject to corporate tax rate of 10% in 2014. However, our Israeli subsidiary received an approval for the erosion of tax basis with respect to its second, third, fourth, fifth and sixth investment programs, and this resulted in an increase in the taxable income attributable to the seventh and eighth investment programs, which were subject to a reduced tax rate of 10% in 2014. The tax benefits under our Israeli subsidiary's active investment programs are scheduled to gradually expire starting in 2017.

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

For more information about our provision for income taxes, see Note 13 to the attached Notes to Consolidated Financial Statement for the year ended December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2014, we had approximately \$16.2 million in cash and cash equivalents, \$37.5 million in short term bank deposits, \$47.8 million in marketable securities, and \$28.4 million in long term bank deposits, totaling \$129.9 million, as compared to \$151.6 million at December 31, 2013. The decrease in 2014 as compared to 2013 principally reflected cash used for the acquisition of RivieraWaves, net of cash acquired, and the repurchase of 1,227,148 shares of common stock, partially offset by net cash provided by operating activities. During 2014, we invested \$89.9 million of cash in bank deposits and marketable securities. The actual maturity of bank deposits and marketable securities as of December 31, 2014, is up to 36 months from the balance sheet date. In addition, during the same period, bank deposits and marketable securities were sold or redeemed for cash amounting to \$102.9 million. During 2013, we invested \$105.0 million of cash in bank deposits and marketable securities. The actual maturity of bank deposits and marketable securities as of December 31, 2013, is up to 34 months from the balance sheet date. In addition, during the same period, bank deposits and marketable securities were sold or redeemed for cash amounting to \$116.1 million. During 2012, we invested \$125.6 million of cash in bank deposits and marketable securities with maturities up to 36 months. In addition, during the same period, bank deposits and marketable securities were sold or redeemed for cash amounting to \$137.6 million. All of our marketable securities are classified as available-for-sale. The purchase and sale or redemption of available-for-sale marketable securities are considered part of investing cash flow. Available-for-sale marketable securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the

consolidated statements of operations. We did not recognize any other-than-temporarily-impaired charges on marketable securities in 2014, 2013 and 2012. For more information about our marketable securities, see Notes 1 and 2 to the attached Notes to Consolidated Financial Statement for the year ended December 31, 2014.

Table of Contents

Bank deposits are classified as short-term bank deposits and long-term bank deposits. Short-term bank deposits are deposits with maturities of more than three months but no longer than one year from the balance sheet date, whereas long-term bank deposits are deposits with maturities of more than one year as of the balance sheet date. Bank deposits are presented at their cost, including accrued interest, and purchases and sales are considered part of cash flows from investing activities.

Operating Activities

Cash provided by operating activities in 2014 was \$9.1 million and consisted of net loss of \$0.8 million, adjustments for non-cash items of \$8.9 million, and changes in operating assets and liabilities of \$1.0 million. Adjustments for non-cash items primarily consisted of \$6.4 million of depreciation, amortization of intangible assets and equity-based compensation expenses, \$1.1 million of amortization of premiums on available-for-sale marketable securities, \$0.6 million of unrealized foreign exchange loss, 0.4 million of accrued interest on bank deposits and \$0.4 million of loss on realization of investment in Antcor. The increase in cash from changes in operating assets and liabilities primarily consisted of a decrease in prepaid expenses and other current assets of \$0.8 million, a decrease in deferred tax assets, net, of \$2.5 million, an increase in deferred revenues of \$1.0 million and an increase in accrued payroll and related benefits of \$0.8 million, partially offset by an increase in trade receivables of \$2.4 million, a decrease in trade payables of \$0.7 million and a decrease in income tax payable of \$1.1 million.

Cash provided by operating activities in 2013 was \$13.7 million and consisted of net income of \$6.7 million, adjustments for non-cash items of \$7.4 million, and changes in operating assets and liabilities of \$0.4 million. Adjustments for non-cash items primarily consisted of \$6.6 million of depreciation and equity-based compensation expenses and \$1.5 million of amortization of premiums on available-for-sale marketable securities. The slight decrease in cash from changes in operating assets and liabilities primarily consisted of an increase in deferred tax assets, net, of \$1.2 million and a decrease in accrued expenses and other payables of \$0.4 million, partially offset by a decrease in trade receivables of \$0.6 million and an increase of accrued payroll and related benefits of \$0.6 million.

Cash provided by operating activities in 2012 was \$18.6 million and consisted of net income of \$13.7 million, adjustments for non-cash items of \$4.8 million, and changes in operating assets and liabilities of \$0.1 million. Adjustments for non-cash items primarily consisted of \$5.6 million of depreciation and equity-based compensation expenses, \$1.3 million of amortization of premiums on available-for-sale marketable securities, and \$1.8 million of accrued interest on bank deposits. The slight increase in cash from changes in operating assets and liabilities primarily consisted of a decrease in prepaid expenses and other current assets of \$0.9 million, an increase in trade payables of \$0.6 million, an increase of accrued expenses and other payables of \$0.3 million and an increase in income taxes payable of \$1.1 million, partially offset by an increase in trade receivables of \$1.1 million, an increase in deferred tax assets, net, of \$0.7 million, a decrease in deferred revenues of \$0.2 million, and a classification of excess tax benefit from equity-based compensation expenses of \$0.7 million as financing cash flows.

Cash flows from operating activities may vary significantly from quarter to quarter depending on the timing of our receipts and payments. Our ongoing cash outflows from operating activities principally relate to payroll-related costs and obligations under our property leases and design tool licenses. Our primary sources of cash inflows are receipts from our accounts receivable, to some extent funding from the Office of Chief Scientist of Israel and interest earned from our cash, deposits and marketable securities. The timing of receipts of accounts receivable from customers is based upon the completion of agreed milestones or agreed dates as set out in the contracts.

Investing Activities

Net cash used in investing activities in 2014 was \$0.9 million, as compared to net cash provided by investing activities of \$9.3 million and \$9.8 million in 2013 and 2012, respectively. We had a cash outflow of

Table of Contents

\$38.4 million with respect to maturity and sell of marketable securities and a cash inflow of \$57.6 million with respect to investments in marketable securities during 2014 (to some extent, to finance the \$13.5 million cash payment, net of cash acquired, to acquire RivieraWaves in 2014). Included in the cash outflow during 2014 was net investment of \$6.2 million in bank deposits. We had a cash outflow of \$64.8 million and a cash inflow of \$64.2 million in respect of investments in marketable securities during 2013. Included in the cash inflow during 2013 was net proceeds of \$11.7 million from bank deposits. We had a cash outflow of \$60.9 million and a cash inflow of \$60.7 million in respect of investments in marketable securities during 2012. Included in the cash inflow during 2012 was net proceeds of \$12.2 million from bank deposits. Capital equipment purchases of computer hardware and software used in engineering development, furniture and fixtures amounted to approximately \$1.4 million in 2014, \$0.9 million in 2013 and \$0.7 million in 2012. We had a cash inflow of \$1.0 million in 2014 from the sale of our investment in Antcor. We had a cash outflow of \$0.9 million and \$1.5 million in 2013 and 2012, respectively, from a minority investment in two private companies.

Financing Activities

Net cash used in financing activities in 2014, 2013 and 2012 was \$15.7 million, \$17.3 million and \$24.9 million, respectively.

In August 2008, we announced that our board of directors approved a share repurchase program for up to one million shares of common stock which was further extended by an additional four million shares in 2010 and 2013. In October 2014, our board of directors authorized the repurchase of an additional one million shares of common stock pursuant to Rule 10b-18 of the Exchange Act. In 2014, we repurchased 1,227,148 shares of common stock at an average purchase price of \$15.20 per share for an aggregate purchase price of \$18.7 million. In 2013, we repurchased 1,257,004 shares of common stock at an average purchase price of \$15.76 per share for an aggregate purchase price of \$19.8 million. In 2012, we repurchased 1,482,548 shares of common stock at an average purchase price of \$18.33 per share for an aggregate purchase price of \$27.2 million. As of December 31, 2014, 1,000,000 shares of common stock remained authorized for repurchase pursuant to our share repurchase program.

In 2014, 2013 and 2012, we received \$3.0 million, \$2.5 million and \$1.6 million, respectively, from the exercise of stock-based awards.

In 2012 we classified \$0.7 million of excess tax benefit from equity-based compensation expenses as financing cash flows.

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

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

Table of Contents**Contractual Obligations**

The table below presents the principal categories of our contractual obligations as of December 31, 2014:

	Total	Payments Due by Period (\$ in thousands)			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Operating Lease Obligations Leasehold properties	3,526	1,018	1,817	691	
Purchase Obligations design tools	3,437	2,537	900		
Other purchase Obligations	948	948			
Total	7,911	4,503	2,717	691	

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

At December 31, 2014, our income tax payable, net of withholding tax credits, included \$2,859,000 related to uncertain tax positions. Due to uncertainties in the timing of the completion of tax audits, the timing of the resolution of these positions is uncertain and we are unable to make a reasonably reliable estimate of the timing of payments. As a result, this amount is not included in the above table.

In addition, at December 31, 2014, the amount of accrued severance pay was \$7,096,000. Severance pay relates to accrued severance obligations to our Israeli employees as required under Israeli labor laws. These obligations are payable only upon termination, retirement or death of the respective employee. Of this amount, only \$85,000 is unfunded.

Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the majority of our expenses are denominated in currencies other than the U.S. dollar, principally the NIS and the Euro. Increases in volatility of the exchange rates of currencies other than the U.S. dollar versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when remeasured into U.S. dollars. We review our monthly expected non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. This has resulted in a foreign exchange loss of \$0.57 million, \$0.05 million and \$0.04

million for 2014, 2013 and 2012, respectively. However, during the second half of 2014, our Euro cash balances increased significantly beyond our normal Euro liabilities as a result of the acquisition of RivieraWaves. The foreign exchange losses during 2014 principally reflected a significant devaluation of our Euro cash balances, especially the Euro cash balances acquired in the RivieraWaves acquisition, as the U.S. dollar strengthened significantly as compared to the Euro in the second half of 2014.

Table of Contents

As a result of currency fluctuations and the remeasurement of non-U.S. dollar denominated expenditures to U.S. dollars for financial reporting purposes; we may experience fluctuations in our operating results on an annual and quarterly basis. To protect against the increase in value of forecasted foreign currency cash flow resulting from salaries paid in currencies other than the U.S. dollar during the year, we follow a foreign currency cash flow hedging program. We hedge portions of the anticipated payroll for our non-U.S. employees denominated in currencies other than the U.S. dollar for a period of one to twelve months with forward and option contracts. During 2014, 2013 and 2012, we recorded accumulated other comprehensive loss of \$41,000, accumulated other comprehensive loss of \$210,000 and accumulated other comprehensive gain of \$399,000, respectively, from our forward and option contracts, net of taxes, with respect to anticipated payroll expenses for our non-U.S. employees. As of December 31, 2014, the amount of other comprehensive loss from our forward and option contracts, net of taxes, was \$57,000, which will be recorded in the consolidated statements of operations during the following nine months. We recognized a net loss of \$0.38 million for 2014, a net gain of \$0.52 million for 2013 and a net loss of \$0.20 million for 2012, related to forward and options contracts. We note that hedging transactions may not successfully mitigate losses caused by currency fluctuations. We expect to continue to experience the effect of exchange rate and currency fluctuations on an annual and quarterly basis.

The majority of our cash and cash equivalents are invested in high grade certificates of deposits with major U.S., European and Israeli banks. Generally, cash and cash equivalents and bank deposits may be redeemed and therefore minimal credit risk exists with respect to them. Nonetheless, deposits with these banks exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits or similar limits in foreign jurisdictions, to the extent such deposits are even insured in such foreign jurisdictions. While we monitor on a systematic basis the cash and cash equivalent balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit our funds fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss of principal or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be affected if the financial institutions that we hold our cash and cash equivalents fail.

We hold an investment portfolio consisting principally of corporate bonds. We intend, and have the ability, to hold such investments until recovery of temporary declines in market value or maturity; accordingly, as of December 31, 2014, we believe the losses associated with our investments are temporary and no impairment loss was recognized in 2014. However, we can provide no assurance that we will recover present declines in the market value of our investments.

Interest income and gains and losses from marketable securities, net, were \$1.71 million in 2014, \$2.76 million in 2013 and \$3.42 million in 2012. The decrease in interest income and gains and losses from marketable securities, net, for 2014 as compared to 2013 reflected lower combined cash, bank deposits and marketable securities balances held, lower gains on sale of marketable securities and lower yields. The decrease in interest income, and gains and losses from marketable securities, net, for 2013 as compared to 2012 reflected lower combined cash, bank deposits and marketable securities balances held and lower yields, offset by higher gains on sale of marketable securities.

We are exposed primarily to fluctuations in the level of U.S. interest rates. To the extent that interest rates rise, fixed interest investments may be adversely impacted, whereas a decline in interest rates may decrease the anticipated interest income for variable rate investments. We typically do not attempt to reduce or eliminate our market exposures on our investment securities because the majority of our investments are short-term. We currently do not have any derivative instruments but may put them in place in the future. Fluctuations in interest rates within our investment portfolio have not had, and we do not currently anticipate such fluctuations will have, a material effect on our financial position on an annual or quarterly basis.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2014.

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

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

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

Management assessed the effectiveness of CEVA, Inc.'s internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (COSO) in Internal Control-Integrated Framework. Based on its assessment using those criteria, management believes that CEVA, Inc.'s internal control over financial reporting was effective as of December 31, 2014. Our management's evaluation of the effectiveness of internal control over financial reporting did not include the internal controls over financial reporting of RivieraWaves SAS, which we acquired in 2014 and which is included in our 2014 consolidated financial statements, as permitted by the Securities and Exchange Commission. The total assets of RivieraWaves's business represented approximately 4% of the consolidated total assets and approximately 7% of our total consolidated revenues for the year ended December 31, 2014.

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

control over financial reporting, which appears in Item 8 of this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding our directors required by this item is incorporated herein by reference to the 2015 Proxy Statement. Information regarding the members of the Audit Committee, our code of business conduct and ethics, the identification of the Audit Committee Financial Expert, stockholder nominations of directors and compliance with Section 16(a) of the Securities Exchange Act of 1934 is also incorporated herein by reference to the 2015 Proxy Statement.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the 2015 Proxy Statement.

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

The information required by this item is incorporated herein by reference to the 2015 Proxy Statement.

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

The information required by this item is incorporated herein by reference to the 2015 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the 2015 Proxy Statement.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements:

Consolidated Balance Sheets as of December 31, 2014 and 2013.

Consolidated Statements of Operations for the Years Ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2014, 2013 and 2012.

Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012.

Notes to the Consolidated Financial Statements.

2. Financial Statement Schedules:

Schedule II: Valuation and Qualifying Accounts.

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

3. Exhibits:

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

Table of Contents

CEVA, INC.

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

AS OF DECEMBER 31, 2014

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-4
<u>Consolidated Statements of Operations</u>	F-5
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	F-6
<u>Statements of Changes in Stockholders' Equity</u>	F-7
<u>Consolidated Statements of Cash Flows</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

F-1

Table of Contents

CEVA, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of CEVA, Inc.

We have audited the accompanying consolidated balance sheets of CEVA, Inc. as of December 31, 2013 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at item 15(a) 2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CEVA, Inc. at December 31, 2013 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CEVA, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 13, 2015 expressed an unqualified opinion thereon.

/s/ KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel Aviv, Israel

March 13, 2015

Table of Contents

CEVA, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of CEVA, Inc.

We have audited CEVA, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CEVA, Inc.'s management is responsible for maintaining effectiveness of internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of RivieraWaves SAS, which is included in CEVA, Inc. 2014 consolidated financial statements and constituted \$7.4 million and \$0.4 million of the Company's total assets and net assets, respectively, as of December 31, 2014 and \$3.3 million and \$0.4 million of the Company's total revenues and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of CEVA Inc. also did not include an evaluation of the internal control over financial reporting of RivieraWaves SAS.

In our opinion, CEVA, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CEVA, Inc. as of December 31, 2013 and 2014 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 of CEVA, Inc. and our report dated March 13, 2015 expressed an unqualified opinion thereon.

/s/KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel Aviv, Israel

March 13, 2015

F-3

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

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

	December 31, 2013	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,117	\$ 16,166
Short-term bank deposits	41,947	37,444
Marketable securities (Note 2)	68,464	47,833
Trade receivables (net of allowance for doubtful accounts of \$0 and \$25)	5,629	8,347
Deferred tax assets (Note 13)	3,457	1,868
Prepaid expenses and other current assets (Note 5)	1,996	3,982
Total current assets	145,610	115,640
Long-term assets:		
Long term bank deposits	17,066	28,424
Severance pay fund	7,215	7,011
Deferred tax assets (Note 13)	955	399
Property and equipment, net (Note 4)	1,616	2,605
Goodwill (Note 6)	36,498	46,612
Intangible assets, net (Note 6)		5,512
Investments in other companies	3,367	1,806
Total long-term assets	66,717	92,369
Total assets	\$ 212,327	\$ 208,009
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	\$ 1,085	\$ 864
Deferred revenues	623	1,681
Accrued expenses and other payables (Note 7)	2,955	3,518
Contingent consideration (Note 1)		3,603
Accrued payroll and related benefits	7,681	10,054
Income taxes payable, net	1,833	739
Total current liabilities	14,177	20,459
Long-term liabilities:		

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Accrued severance pay	7,255	7,096
Deferred tax liabilities		1,405
Total long-term liabilities	7,255	8,501
Stockholders' equity (Note 8):		
Preferred stock:		
\$0.001 par value: 5,000,000 shares authorized; none issued and outstanding		
Common stock:		
\$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at December 31, 2013 and 2014; 21,181,730 and 20,252,490 shares outstanding at December 31, 2013 and 2014, respectively		
	21	20
Additional paid in-capital	204,415	209,426
Treasury stock at cost (2,413,430 and 3,342,670 shares of common stock at December 31, 2013 and 2014, respectively)	(41,005)	(54,708)
Accumulated other comprehensive loss (Note 10)	(81)	(436)
Retained earnings	27,545	24,747
Total stockholders' equity	190,895	179,049
Total liabilities and stockholders' equity	\$ 212,327	\$ 208,009

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

Table of Contents**CEVA, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(U.S. dollars in thousands, except per share data)**

	Year Ended December 31,		
	2012	2013	2014
Revenues:			
Licensing and related revenue	\$ 21,727	\$ 22,372	\$ 28,348
Royalties	31,950	26,528	22,460
Total revenues	53,677	48,900	50,808
Cost of revenues	3,952	5,163	5,000
Gross profit	49,725	43,737	45,808
Operating expenses:			
Research and development, net	20,243	21,216	25,828
Sales and marketing	9,231	10,092	9,815
General and administrative	7,884	7,670	8,054
Amortization of intangible assets (Note 6)			649
Total operating expenses	37,358	38,978	44,346
Operating income	12,367	4,759	1,462
Financial income, net (Note 12)	3,380	2,714	975
Other loss (Note 1)			(404)
Income before taxes on income	15,747	7,473	2,033
Income taxes (Note 13)	2,062	788	2,852
Net income (loss)	\$ 13,685	\$ 6,685	\$ (819)
Basic net income (loss) per share	\$ 0.60	\$ 0.30	\$ (0.04)
Diluted net income (loss) per share	\$ 0.59	\$ 0.30	\$ (0.04)
Weighted average shares used to compute net income (loss) per share (in thousands):			
Basic	22,798	22,009	20,622
Diluted	23,357	22,465	20,622

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

F-5

Table of Contents**CEVA, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(U.S. dollars in thousands)**

	Year Ended December 31,		
	2012	2013	2014
Net income (loss):	\$ 13,685	\$ 6,685	\$ (819)
Other comprehensive income (loss) before tax:			
Available-for-sale securities:			
Changes in unrealized gains (losses)	1,407	65	(324)
Reclassification adjustments for gains included in net income	(184)	(379)	(6)
Net change	1,223	(314)	(330)
Cash flow hedges:			
Changes in unrealized gains (losses)	246	283	(430)
Reclassification adjustments for (gains) losses included in net income	195	(515)	382
Net change	441	(232)	(48)
Other comprehensive income (loss) before tax	1,664	(546)	(378)
Income tax expense (benefit) related to components of other comprehensive income (loss)	403	(105)	(23)
Other comprehensive income (loss), net of taxes	1,261	(441)	(355)
Comprehensive income (loss)	\$ 14,946	\$ 6,244	\$ (1,174)

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

Table of Contents

CEVA, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

	Common Stock			Treasury stock	Accumulated other comprehensive income (loss)		Retained earnings	Total stockholders equity
	Number of shares outstanding	Amount	Additional paid-in capital					
Balance as of January 1, 2012	23,543,746	\$ 24	\$ 191,945	\$	\$ (901)	\$ 9,852	\$ 200,920	
Net income						13,685	13,685	
Other comprehensive income					1,261		1,261	
Equity-based compensation			5,083				5,083	
Tax benefit related to exercise of stock options			672				672	
Issuance of Common stock upon exercise of stock-based awards	51,414	(*)	795				795	
Purchase of Treasury stock	(1,482,548)	(2)		(27,166)			(27,168)	
Issuance of Treasury stock upon exercise of stock-based awards	74,755	(*)		1,472		(652)	820	
Balance as of December 31, 2012	22,187,367	\$ 22	\$ 198,495	\$ (25,694)	\$ 360	\$ 22,885	\$ 196,068	
Net income						6,685	6,685	
Other comprehensive loss					(441)		(441)	
Equity-based compensation			5,920				5,920	
Purchase of Treasury stock	(1,257,004)	(1)		(19,815)			(19,816)	
Issuance of Treasury stock upon exercise of stock-based awards	251,367	(*)		4,504		(2,025)	2,479	
Balance as of December 31, 2013	21,181,730	\$ 21	\$ 204,415	\$ (41,005)	\$ (81)	\$ 27,545	\$ 190,895	
Net loss						(819)	(819)	
Other comprehensive loss					(355)		(355)	
Equity-based compensation			5,011				5,011	

Purchase of Treasury stock	(1,227,148)	(1)	(18,656)	(18,657)
Issuance of Treasury stock upon exercise of stock-based awards	297,908	(*)	4,953	(1,979) 2,974
Balance as of December 31, 2014	20,252,490	\$ 20	\$ 209,426	\$ (54,708) \$ (436) \$ 24,747 \$ 179,049
Accumulated unrealized loss from available-for-sale securities, net of taxes of \$41				\$ (379)
Accumulated unrealized loss from hedging activities, net of taxes of \$7				\$ (57)
Accumulated other comprehensive loss, net as of December 31, 2014				\$ (436)

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

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

Table of Contents**CEVA, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(U.S. dollars in thousands)**

	Year ended December 31,		
	2012	2013	2014
Cash flows from operating activities:			
Net income (loss)	\$ 13,685	\$ 6,685	\$ (819)
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	525	670	752
Amortization of intangible assets			649
Equity-based compensation	5,083	5,920	5,011
Realized gain, net on sale of available-for-sale marketable securities	(184)	(379)	(6)
Amortization of premiums on available-for-sale marketable securities	1,267	1,504	1,121
Unrealized foreign exchange loss (gain)	(21)	(49)	604
Accrued interest on bank deposits	(1,842)	(245)	351
Loss on realization of investment in other company			404
Changes in operating assets and liabilities:			
Trade receivables	(1,116)	603	(2,381)
Prepaid expenses and other current assets	856	146	819
Deferred tax, net	(656)	(1,191)	2,531
Trade payables	594	(102)	(655)
Deferred revenues	(209)	(242)	950
Accrued expenses and other payables	282	(394)	(188)
Accretion of contingent consideration			169
Accrued payroll and related benefits	57	568	800
Income taxes payable	1,081	207	(1,057)
Excess tax benefit from equity-based compensation	(672)		
Accrued severance pay, net	(106)	6	54
Net cash provided by operating activities	18,624	13,707	9,109
Cash flows from investing activities:			
Acquisition of subsidiary, net of cash acquired (Note 1)			(13,489)
Purchase of property and equipment	(682)	(894)	(1,416)
Investment in bank deposits	(64,695)	(40,190)	(51,511)
Proceeds from bank deposits	76,921	51,850	45,306
Investment in available-for-sale marketable securities	(60,863)	(64,760)	(38,413)
Proceeds from maturity of available-for-sale marketable securities	14,983	8,686	2,033
Proceeds from sale of available-for-sale marketable securities	45,704	55,514	55,566
Investments in other companies	(1,533)	(934)	

Proceeds from realization of investment in other company			1,032
Net cash provided by (used in) investing activities	9,835	9,272	(892)
Cash flows from financing activities:			
Purchase of Treasury Stock	(27,168)	(19,816)	(18,657)
Proceeds from exercise of stock-based awards	1,615	2,479	2,974
Excess tax benefit from equity-based compensation	672		
Net cash used in financing activities	(24,881)	(17,337)	(15,683)
Effect of exchange rate movements on cash	(110)	53	(485)
Increase (decrease) in cash and cash equivalents	3,468	5,695	(7,951)
Cash and cash equivalents at the beginning of the year	14,954	18,422	24,117
Cash and cash equivalents at the end of the year	\$ 18,422	\$ 24,117	\$ 16,166
Supplemental information of cash-flows activities:			
Cash paid during the year for:			
Income and withholding taxes, net of refunds	\$ 926	\$ 1,851	\$ 1,276

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

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization:

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

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

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

Acquisition of RivieraWaves:

On July 4, 2014 (the *Closing Date*), the Company acquired 100% of RivieraWaves SAS (*RivieraWaves*), a privately-held, French-based company and a provider of wireless connectivity intellectual property for Wi-Fi and Bluetooth technologies. The Company agreed to pay an aggregate of \$18,378 to acquire RivieraWaves with \$14,678 paid at the Closing Date and the remaining amount of \$3,700 is payable upon the satisfaction of certain milestones (the *Contingent Consideration*). In January 2015, the Company paid \$1,000 of the Contingent Consideration, and the remaining amount of \$2,700 is expected to be paid within 2015. The Contingent Consideration is recognized as a liability at fair value. As of December 31, 2014, the fair value of the Contingent Consideration was estimated to be \$3,603. Accretion of the Contingent Consideration liability will be included in financial income, net.

In addition, the Company incurred acquisition-related costs in an amount of \$310, which were included in general and administrative expenses for the year ended December 31, 2014.

The acquisition has been accounted in accordance with Financial Accounting Standards Board (*FASB*) Accounting Standards Codification (*ASC*) No. 805, *Business Combinations*. Under the acquisition method of accounting, the total purchase price is allocated to the net tangible and intangible assets of RivieraWaves acquired in the acquisition, based on their fair values on the Closing Date.

The results of operations of RivieraWaves have been included in the Company's consolidated financial statements as of the Closing Date. The primary rationale for this acquisition was to further expand CEVA's non cellular baseband business into advanced technology offerings in connectivity, including Wi-Fi and Bluetooth IP. The goodwill is

primarily attributable to expected synergies resulting from the acquisition.

In addition, as part of the acquisition, the Company established an employee retention plan for the RivieraWaves employees at a cost of approximately \$3,400, to be payable on a semiannual basis for a period of two years after the Closing Date.

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

Details of the fair value of consideration transferred and the purchase price allocation are as follows:

(a) Consideration transferred:

Cash	\$ 14,678
Fair value of Contingent Consideration	3,434
Total	\$ 18,112

(b) Under business combination accounting, the total purchase price was allocated to RivieraWaves net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

Cash and cash equivalents	\$ 1,189
Bank deposits	1,384
Other assets	2,898
Intangible assets	6,161
Goodwill	10,114
Total assets	21,746
Current liabilities	(2,201)
Deferred tax liabilities, net	(1,433)
Total liabilities	(3,634)
Total	\$ 18,112

In performing the purchase price allocation, the Company considered, among other factors, analysis of historical financial performance, highest and best use of the acquired assets and estimates of future performance of RivieraWaves products. In its allocation, the Company also considered the fair value of intangible assets based on a market participant approach to valuation performed by a third party valuation firm using an income approach and estimates and assumptions provided by management. The following table sets forth the components of intangible assets associated with the RivieraWaves acquisition:

	Fair value
Core technologies (1)	\$ 5,796
Customer relationships (2)	272
Customer backlog (3)	93
 Total intangible assets	 \$ 6,161

- (1) Core technologies represent a combination of RivieraWaves processes and trade secrets related to the design and development of its products. This proprietary know-how can be leveraged to develop new technology and improve the Company's products and is amortized using the straight line method.
- (2) Customer relationships represent the underlying relationships and agreements with RivieraWaves installed customer base and are amortized using the straight line method.
- (3) Customer backlog represents an order or production backlog arises from contracts or sales orders and are amortized using the straight line method.

F-10

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

Basis of presentation:

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

Use of estimates:

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

Financial statements in U.S. dollars:

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

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

Principles of consolidation:

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

Cash equivalents:

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

Short-term bank deposits:

Short-term bank deposits are deposits with maturities of more than three months but less than one year from the balance sheet date. The deposits are presented at their cost, including accrued interest. The deposits bear interest annually at an average rate of 2.32%, 1.88% and 1.58% during 2012, 2013 and 2014, respectively.

F-11

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

Marketable securities consist of certificates of deposits and corporate bonds. The Company determines the appropriate classification of marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. In accordance with FASB ASC No. 320 Investments- Debt and Equity Securities, the Company classifies marketable securities as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity, net of taxes. Realized gains and losses on sales of marketable securities, as determined on a specific identification basis, are included in financial income, net. The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in financial income, net. The Company has classified all marketable securities as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date, because it may sell these securities prior to maturity to meet liquidity needs or as part of risk versus reward objectives.

The Company recognizes an impairment charge when a decline in the fair value of its investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired (OTTI), the amount of impairment is recognized in the statement of operations and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (loss). The Company did not recognize OTTI on its marketable securities in 2012, 2013 and 2014.

Long-term bank deposits:

Long-term bank deposits are deposits with maturities of more than one year as of the balance sheet date. The deposits presented at their cost, including accrued interest. The deposits bear interest annually at an average rate of 2.40%, 2.14% and 1.74% during 2012, 2013 and 2014, respectively.

Property and equipment, net:

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

	%
Computers, software and equipment	10-33
Office furniture and equipment	7-25
Leasehold improvements	10

(the shorter of the expected

lease term or useful

economic life)

The Company's long-lived assets are reviewed for impairment in accordance with FASB ASC No. 360-10-35, Impairment or Disposal of Long-Lived Assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the carrying amount of an asset to be held

F-12

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

and used is measured by a comparison of its carrying amount to the future undiscounted cash flows expected to be generated by such asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of such asset exceeds its fair value. In determining the fair value of long-lived assets for purposes of measuring impairment, the Company's assumptions include those that market participants would consider in valuations of similar assets.

An asset to be disposed is reported at the lower of its carrying amount or fair value less selling costs. No impairment was recorded in 2012, 2013 and 2014.

Goodwill:

Goodwill is carried at cost and is not amortized but rather is tested for impairment at least annually or between annual tests in certain circumstances. The Company conducts its annual test of impairment for goodwill on October 1st of each year.

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

There is a two-phase process for impairment testing of goodwill. The first phase screens for potential impairment, while the second phase (if necessary) measures impairment. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In such case, the second phase is then performed, and the Company measures impairment by comparing the carrying amount of the reporting unit's goodwill to the implied fair value of that goodwill. An impairment loss is recognized in an amount equal to the excess. For each of the three years in the period ended December 31, 2014, no impairment of goodwill has been identified.

Intangible assets, net:

Acquired intangible assets with definite lives are amortized over their estimated useful lives. The Company amortizes intangible assets on a straight-line basis with definite lives over periods ranging from one and a half to five and a half years.

Intangible assets with definite lives are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair market value. The Company did not record any impairments during the year ended December 31, 2014.

Investments in other companies:

The Company's investments in two private companies, in which it holds minority equity interests, are presented at cost because the Company does not have significant influence over the underlying investees. The investments are reviewed periodically to determine if their values have been impaired and adjustments are recorded as necessary. During the years ended December 31, 2012, 2013 and 2014, no impairment loss was identified.

F-13

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

During 2014, the Company received an initial consideration of 774 Euro (approximately \$1,032) when one of its private companies, Antcor Advanced Network Technologies S.A. (Antcor), a company in which the Company had a minority investment, was acquired. The Company expects to receive an additional 99 Euro (approximately \$120) within 12 months after closing of the acquisition, which amount is being held by the buyer to secure indemnification claims. Pursuant to the acquisition agreement, the Company may receive additional proceeds from the buyer within five years after closing of the acquisition based on achievement of certain performance and other milestones by Antcor. During the year ended December 31, 2014, the Company recorded a loss of \$404 from the sale of its investment in Antcor.

Revenue recognition:

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

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

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

Revenues from license fees that involve significant customization of the Company's IP to customer-specific specifications are recognized in accordance with the principles set out in FASB ASC No. 605-35-25,

Construction-Type and Production-Type Contracts Recognition, using contract accounting on a percentage of completion method. The amount of revenue recognized is based on the total license fees under the agreement and the percentage of completion achieved. The percentage of completion is measured by the actual time incurred to date on the project compared to the total estimated project requirements, which corresponds to the costs related to earned revenues. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss on the entire contract.

Revenues that are derived from the sale of a licensee's products that incorporate the Company's IP are classified as royalty revenues. Royalty revenues are recognized during the quarter in which the Company receives a report from the

licensee detailing the shipment of products that incorporate the Company's IP, which receipt is in the quarter following the licensee's sale of such products to its customers. Royalties are calculated either as a percentage of the revenues received by the Company's licensees on sales of products incorporating the Company's IP or on a per unit basis, as specified in the agreements with the licensees. Non-refundable payments on account of prepaid units (prepaid royalties) are included within the Company's licensing and related revenue line on the consolidated statements of operations.

F-14

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

In addition to license fees, contracts with customers generally contain an agreement to provide for post contract support and training, which consists of telephone or e-mail support, correction of errors (bug fixing) and unspecified updates and upgrades. Fees for post contract support, which takes place after delivery to the customer, are specified in the contract and are generally mandatory for the first year. After the mandatory period, the customer may extend the support agreement on similar terms on an annual basis. The Company recognizes revenue for post contract support on a straight-line basis over the period for which technical support is contractually agreed to be provided to the licensee, typically 12 months. Revenues from training are recognized as the training is performed.

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

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

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

Cost of revenue:

Cost of revenue includes the costs of products, services and royalty expense payments to the Office of the Chief Scientist of Israel (refer to Note 15c for further details). Cost of product revenue includes materials and the portion of development costs associated with product development arrangements. Cost of service revenue includes salary and related costs for personnel engaged in services, training and customer support, and travel, telephone and other support costs.

Income taxes:

The Company recognizes income taxes under the liability method. It recognizes deferred income tax assets and liabilities for the expected future consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. These differences are measured using the enacted statutory tax rates that are expected to apply to taxable income for the years in which differences are expected to reverse. The effect of a change in tax rates on deferred income taxes is recognized in the statements of operations during the period that includes the enactment date.

Valuation allowance is recorded to reduce the deferred tax assets to the net amount that the Company believes is more likely than not to be realized. The Company considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing tax planning strategies, in assessing the need for a valuation allowance.

Tax benefits are recognized from uncertain tax positions only if the Company believes that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the

position. Adjustments are made to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. The provision for income taxes includes the effects of any reserves that are considered appropriate, as well as the related net interest and penalties.

F-15

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

Research and development:

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

Government grants and tax credits:

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

The Company recorded grants in the amounts of \$2,849, \$3,304 and \$4,586 for the years ended December 31, 2012, 2013 and 2014, respectively. The Company's Israeli subsidiary is obligated to pay royalties amounting to 3%-3.5% of the sales of certain products the development of which received grants from the Office of the Chief Scientist of Israel in previous years. The obligation to pay these royalties is contingent on actual sales of the products. Grants received from the Office of the Chief Scientist of Israel may become repayable if certain criteria under the grants are not met.

The French Research Tax Credit, *Crédit d'Impôt Recherche* (CIR), is a French tax incentive to stimulate research and development (R&D) which is relevant for the Company's French subsidiaries (RivieraWaves and CEVA France). Generally, the CIR offsets the income tax to be paid and the remaining portion (if any) can be refunded. The CIR is calculated based on the claimed volume of eligible R&D expenditures by the Company. As a result, the CIR is presented as a deduction to Research and development expenses in the consolidated statements of operations. During the year ended December 31, 2014, the Company recorded CIR in the amount of \$675.

Employee benefit plan:

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

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

Total contributions for the years ended December 31, 2012, 2013 and 2014 were \$313, \$338 and \$561, respectively.

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

Accrued severance pay:

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

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

Severance pay expenses, net of related income, for the years ended December 31, 2012, 2013 and 2014, were \$826, \$1,014 and \$1,113, respectively.

Equity-based compensation:

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

The Company estimates the fair value of equity-based awards on the date of grant using an option-pricing model. The value of the portion of an award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statements of income. The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures and the rate is adjusted to reflect changes in facts and circumstances, if any. Estimated forfeiture rate will be revised if actual forfeitures differ from the initial estimates.

The Company uses the Monte-Carlo simulation model for options and stock appreciation rights (SARs) granted. The Monte-Carlo simulation model uses the assumptions noted below. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected option and SAR term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The Monte-Carlo model also considers the suboptimal exercise multiple which is based on the average exercise behavior of the Company's employees over the past years, the contractual term of the options and SARs, and the probability of termination or retirement of the holder of the options and SARs in computing the value of the options and SARs.

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

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

	2012	2013	2014
Expected dividend yield	0%	0%	0%
Expected volatility	43%-58%	38%-54%	33%-52%
Risk-free interest rate	0.1%-1.2%	0.1%-2.5%	0.1%-2.5%
Expected forfeiture (employees)	10%	10%	10%
Expected forfeiture (executives)	5%	5%	5%
Contractual term of up to	10 years	10 years	10 years
Suboptimal exercise multiple (employees)	2.1	2.1	2.1
Suboptimal exercise multiple (executives)	2.4	2.4	2.4

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

	2012	2013	2014
Expected dividend yield	0%	0%	0%
Expected volatility	41%-61%	34%-53%	29%-52%
Risk-free interest rate	0.1%-0.6%	0.1%-0.2%	0.1%-0.2%
Expected forfeiture	0%	0%	0%
Contractual term of up to	24 months	24 months	24 months

During the years ended December 31, 2012, 2013 and 2014, the Company recognized equity-based compensation expense related to stock options, SARs and employee stock purchase plan as follows:

	Year ended December 31,		
	2012	2013	2014
Cost of revenue	\$ 241	\$ 312	\$ 193
Research and development, net	1,810	2,014	2,027
Sales and marketing	1,036	1,311	909
General and administrative	1,996	2,283	1,882
Total equity-based compensation expense	\$ 5,083	\$ 5,920	\$ 5,011

As of December 31, 2014, there was \$3,763 of unrecognized compensation expense related to unvested equity awards. This amount is expected to be recognized over a weighted-average period of 1.4 years. To the extent the actual forfeiture rate is different from what the Company has estimated, equity-based compensation related to these awards will be different from the Company's expectations.

FASB ASC No. 718 requires the cash flows resulting from the tax deductions in excess of the equity-based compensation costs recognized for those equity-based awards to be classified as financing cash flows. During the years ended December 31, 2012, 2013 and 2014, the Company classified \$672, \$0 and \$0, respectively, of excess tax benefit from equity-based compensation as financing cash flows.

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

Fair value of financial instruments:

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

Comprehensive income (loss):

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

Concentration of credit risk:

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

The majority of the Company's cash and cash equivalents are invested in high grade certificates of deposits with major U.S., European and Israeli banks. Generally, cash and cash equivalents and bank deposits may be redeemed on demand and therefore minimal credit risk exists with respect to them. Nonetheless, deposits with these banks exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits or similar limits in foreign jurisdictions, to the extent such deposits are even insured in such foreign jurisdictions. While the Company monitors on a systematic basis the cash and cash equivalent balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which the Company deposit its funds fails or is subject to other adverse conditions in the financial or credit markets. To date the Company has experienced no loss of principal or lack of access to its invested cash or cash equivalents; however, the Company can provide no assurance that access to its invested cash and cash equivalents will not be affected if the financial institutions in which the Company holds its cash and cash equivalents fail. Furthermore, the Company holds an investment portfolio consisting principally of corporate bonds. The Company intends, and has the ability, to hold such investments until recovery of temporary declines in market value or maturity; accordingly, as of December 31, 2014, the Company believes the losses associated with its investments are temporary and no impairment loss was recognized during 2014. However, the Company can provide no assurance that it will recover declines in the market value of its investments.

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

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

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

The Company's trade receivables are geographically diverse and are derived from sales to OEMs, mainly in the United States, Europe and Asia. Concentration of credit risk with respect to trade receivables is limited by credit limits, ongoing credit evaluation and account monitoring procedures. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. The Company makes judgments on its ability to collect outstanding receivables and provides allowances for the portion of receivables for which collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding receivables. In determining the provision, the Company considers the expected collectability of receivables. Allowance for doubtful accounts amounted to \$0 and \$25 as of December 31, 2013 and 2014, respectively.

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

Derivative and hedging activities:

The Company follows the requirements of FASB ASC No. 815, *Derivatives and Hedging* which requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging transaction and further, on the type of hedging transaction. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Due to the Company's global operations, it is exposed to foreign currency exchange rate fluctuations in the normal course of its business. The Company's treasury policy allows it to offset the risks associated with the effects of certain foreign currency exposures through the purchase of foreign exchange forward or option contracts (*Hedging Contracts*). The policy, however, prohibits the Company from speculating on such *Hedging Contracts* for profit. To protect against the increase in value of forecasted foreign currency cash flow resulting from salaries paid in currencies other than the U.S. dollar during the year, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll of its non-U.S. employees denominated in the currencies other than the U.S. dollar for a period of one to twelve months with *Hedging Contracts*. Accordingly, when the dollar strengthens against the foreign currencies, the decline in present value of future foreign currency expenses is offset by losses in the fair value of the *Hedging Contracts*. Conversely, when the dollar weakens, the increase in the present value of future foreign currency expenses is offset by gains in the fair value of the *Hedging Contracts*. These *Hedging Contracts* are designated as cash flow hedges.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any gain or loss on a

derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in current earnings during the period of change. As of December 31, 2013 and 2014, the notional principal amount of the Hedging Contracts to sell U.S. dollars held by the Company was \$720 and \$4,200, respectively.

F-20

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*(in thousands, except share data)***Advertising expenses:**

Advertising expenses are charged to consolidated statements of operations as incurred. Advertising expenses for the years ended December 31, 2012, 2013 and 2014 were \$791, \$660 and \$792, respectively.

Treasury stock:

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

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

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

	Year ended December 31,		
	2012	2013	2014
Numerator:			
Net income (loss)	\$ 13,685	\$ 6,685	\$ (819)
Denominator (in thousands):			
Weighted-average common stock outstanding	22,798	22,009	20,622
Effect of stock options and stock appreciation rights	559	456	
Diluted weighted-average common stock outstanding	23,357	22,465	20,622
Basic net income (loss) per share	\$ 0.60	\$ 0.30	\$ (0.04)
Diluted net income (loss) per share	\$ 0.59	\$ 0.30	\$ (0.04)

The weighted-average number of shares related to outstanding options and stock appreciation rights excluded from the calculation of diluted net income per share, since their effect was anti-dilutive, were 973,919 and 1,732,154 shares for the years ended December 31, 2012 and 2013, respectively. The total number of shares related to the outstanding options excluded from the calculation of diluted net loss per share was 3,316,380 as of December 31, 2014.

Recently Issued and Adopted Accounting Pronouncement:

In May 2014, the Financial Accounting Standards Board issued guidance related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for the Company in the first quarter of 2017. The Company has not yet selected a transition method and it is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

NOTE 2: MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable securities at December 31, 2013 and 2014:

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

		As at December 31, 2013		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale matures within one year:				
Corporate bonds	\$ 2,852	\$ 6	\$ (3)	\$ 2,855
Available-for-sale matures after one year through three years:				
Corporate bonds	65,702	134	(227)	65,609

Total	\$ 68,554	\$ 140	\$ (230)	\$ 68,464
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The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2013 and 2014, and the length of time that those investments have been in a continuous loss position:

	Less than 12 months		12 months or greater	
	Fair	Gross	Fair	Gross
	Value	unrealized	Value	unrealized
		loss		loss
As of December 31, 2014	\$ 34,152	\$ (313)	\$ 9,469	\$ (116)
As of December 31, 2013	\$ 28,535	\$ (208)	\$ 4,278	\$ (22)

F-22

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

As of December 31, 2013 and 2014, management believes the impairments are not other than temporary and therefore the impairment losses were recorded in accumulated other comprehensive income (loss). The Company has no intent to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to the recovery of the entire amortized cost basis.

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

	Year ended December 31,		
	2012	2013	2014
Gross realized gain from sale of available-for-sale marketable securities	\$ 301	\$ 400	\$ 99
Gross realized loss from sale of available-for-sale marketable securities	\$ (117)	\$ (21)	\$ (93)

NOTE 3: FAIR VALUE MEASUREMENT

FASB ASC No. 820, Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value. Fair value is an exit price, representing the amount that would be received for selling an asset or paid for the transfer of a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level I	Unadjusted quoted prices in active markets that are accessible on the measurement date for identical, unrestricted assets or liabilities;
Level II	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level III	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company measures its marketable securities, foreign currency derivative contracts and the Contingent Consideration at fair value. Marketable securities and foreign currency derivative contracts are classified within Level II as the valuation inputs are based on quoted prices and market observable data of similar instruments. The Contingent Consideration related to the RivieraWaves acquisition is classified within Level III as it is based on significant inputs not observable in the market.

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

The table below sets forth the Company's assets and liabilities measured at fair value by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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

Description	December 31, 2013	Level I	Level II	Level III
Assets:				
Marketable securities:				
Corporate bonds	\$ 68,464		\$ 68,464	
Liabilities:				
Foreign exchange contracts	16		16	

NOTE 4: PROPERTY AND EQUIPMENT, NET

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

	As at December 31,	
	2013	2014
Cost:		
Computers, software and equipment	\$ 10,329	\$ 12,180
Office furniture and equipment	513	633
Leasehold improvements	870	1,130
	11,712	13,943
Less Accumulated depreciation	(10,096)	(11,338)

Property and equipment, net	\$ 1,616	\$ 2,605
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In 2013, there was a decrease in the amount of property and equipment of \$2,645 as a result of the disposal of redundant assets.

F-24

Table of Contents**CEVA, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***(in thousands, except share data)***NOTE 5: PREPAID EXPENSES AND OTHER CURRENT ASSETS**

	As at December 31,	
	2013	2014
Prepaid leased design tools	\$ 220	\$ 248
Prepaid rent	212	239
Inventories	285	272
Taxes	225	386
IT consumables	302	227
Interest receivable	458	544
Government grants		1,378
Other	294	688
	\$ 1,996	\$ 3,982

NOTE 6: GOODWILL AND INTANGIBLE ASSETS, NET

(a) Goodwill:

Changes in goodwill are as follows:

	2013	2014
Balance as of January 1,	\$ 36,498	\$ 36,498
Acquisition		10,114
Balance as of December 31,	\$ 36,498	\$ 46,612

(b) Intangible assets:

	Year ended December 31, 2014		
Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net

(Years)

Intangible assets amortizable:				
Customer relationships	4.5	272	30	242
Customer backlog	1.5	93	31	62
Core technologies	5.1	5,796	588	5,208
Total intangible assets		\$ 6,161	\$ 649	\$ 5,512

F-25

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

Future estimated annual amortization charges are as follows:

2015	\$ 1,298
2016	1,236
2017	1,236
2018	901
2019	841
	\$ 5,512

NOTE 7: ACCRUED EXPENSES AND OTHER PAYABLES

	As at December 31,	
	2013	2014
Engineering accruals	606	862
Professional fees	637	622
Deferred tax liabilities (Note 13)	73	464
Government grants	480	201
Other	1,159	1,369
	\$ 2,955	\$ 3,518

NOTE 8: STOCKHOLDERS EQUITY*a. Common stock:*

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

b. Preferred stock:

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

c. Share repurchase program:

In August 2008, the Company announced that its Board of Directors approved a share repurchase program for up to one million shares of common stock which was further extended by an additional four million shares in 2010 and 2013. In October 2014, the Company's Board of Directors authorized the repurchase by the Company

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

of an additional one million shares of common stock pursuant to Rule 10b-18 of the Exchange Act. As of December 31, 2014, 1,000,000 shares of common stock remained authorized for repurchase pursuant to the Company's share repurchase program.

In 2012, the Company repurchased 1,482,548 shares of common stock at an average purchase price of \$18.33 per share for an aggregate purchase price of \$27,168. In 2013, the Company repurchased 1,257,004 shares of common stock at an average purchase price of \$15.76 per share for an aggregate purchase price of \$19,816. In 2014, the Company repurchased 1,227,148 shares of common stock at an average purchase price of \$15.20 per share for an aggregate purchase price of \$18,657.

d. Employee and non-employee stock plans:

The Company grants stock options and stock appreciation rights (SARs) capped with a ceiling to employees and stock options to non-employee directors of the Company and its subsidiaries and provides the right to purchase common stock pursuant to the Company's 2002 employee stock purchase plan to employees of the Company and its subsidiaries. The SAR unit confers the holder the right to stock appreciation over a preset price of the Company's common stock during a specified period of time. When the unit is exercised, the appreciation amount is paid through the issuance of shares of the Company's common stock. The ceiling limits the maximum income for each SAR unit. SARs are considered an equity instrument as it is a net share settled award capped with a ceiling (400% for SAR grants made in 2013 and 2014). The options and SARs granted under the Company's stock incentive plans have been granted at the fair market value of the Company's common stock on the grant date. Options and SARs granted to employees under stock incentive plans vest at a rate of 25% of the shares underlying the option after one year and the remaining shares vest in equal portions over the following 36 months, such that all shares are vested after four years. Options granted to non-employee directors vest 25% of the shares underlying the option on each anniversary of the option grant.

In connection with the Company's acquisition of RivieraWaves, on July 7, 2014, the Company issued an aggregate of 113,000 SARs to 27 employees of RivieraWaves who joined the Company in connection with the acquisition. The value of these grants was not included in the acquisition price of RivieraWaves. The SARs were granted outside of the Company's existing equity plans and were granted as a material inducement to such individuals entering into employment with the Company, in accordance with NASDAQ Listing Rule 5635(c)(4). All of the SARs were priced at \$15.17, the fair market value on the grant date, and will vest over four years, with 25% of the SARs vesting after one year and the remaining vest in equal portions over the following 36 months, such that all SARs will vest after four years, subject to the employee's continuous service through each vesting date. The SARs have a ceiling limit for maximum income capped at 400%, expire seven years from the grant date and are subject to the terms and condition of the individual SAR agreements. The SAR grants were approved by the compensation committee of the Board of Directors of the Company.

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

A summary of the Company's stock option and SARs activities and related information for the year ended December 31, 2014, is as follows:

	Number of options and SAR units	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic-value
Outstanding at the beginning of the year	3,115,972	\$ 16.30		
Granted (1)	457,500	14.94		
Options/SAR units exercised	(190,871)	8.85		
Options/SAR units forfeited or expired	(66,221)	18.48		
Outstanding at the end of the year (2)	3,316,380	\$ 16.50	4.5	\$ 10,881,253
Vested or expected to vest as of December 31	3,218,030	\$ 16.51	4.4	\$ 10,656,933
Exercisable as of December 31 (3)	2,031,630	\$ 16.51	3.3	\$ 8,047,463

- (1) Includes 325,500 SAR units which are convertible for a maximum number of shares of the Company's common stock equal to 75% of the SAR units subject to the grant.
- (2) Due to the ceiling imposed on the SAR grants, the outstanding amount equals a maximum of 2,946,669 shares of the Company's common stock issuable upon exercise.
- (3) Due to the ceiling imposed on the SAR grants, the exercisable amount equals a maximum of 1,894,343 shares of the Company's common stock issuable upon exercise.

The weighted average fair value of options and SARs granted during the years ended December 31, 2012, 2013 and 2014 was \$7.4, \$7.2 and \$6.1 per share, respectively. The total intrinsic value of options and SARs exercised during the years ended December 31, 2012, 2013 and 2014 was \$581, \$1,336 and \$1,372, respectively.

The options and SARs granted to employees of the Company and its subsidiaries and the options granted to non-employee directors of the Company and its subsidiaries which were outstanding as of December 31, 2014 have been classified into a range of exercise prices as follows:

Exercise price (range)	Number of options	Outstanding Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Exercisable Weighted average remaining contractual life (years)	Weighted average exercise price
5.76-9.80	599,076	0.9	\$ 8.37	599,076	0.9	\$ 8.37
11.58-15.54	1,074,858	5.4	\$ 14.76	461,119	3.9	\$ 14.51
16.08-17.61	837,156	5.8	\$ 16.48	318,821	5.8	\$ 16.50
18.23-32.34	805,290	4.5	\$ 24.89	652,614	3.9	\$ 25.39
	3,316,380	4.5	\$ 16.50	2,031,630	3.3	\$ 16.51

F-28

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

Stock Plans

As of December 31, 2014, the Company maintains the Company's Amended and Restated 2003 Director Stock Option Plan (the Director Plan) and the 2011 Stock Incentive Plan (the 2011 Plan) and together with the Director Plan, the Stock Plans).

As of December 31, 2014, options and SARs to purchase 872,355 shares of common stock were available for grant under the Stock Plans.

2011 Stock Incentive Plan

The 2011 Plan was adopted by the Company's Board of Directors in February 2011 and stockholders on May 17, 2011. Up to 1,750,000 shares of common stock (subject to adjustment in the event of future stock splits, future stock dividends or other similar changes in the common stock or the Company's capital structure), plus the number of shares that remain available for grant of awards under the Company's 2002 Stock Incentive Plan (the 2002 Plan), plus any shares that would otherwise return to the 2002 Plan as a result of forfeiture, termination or expiration of awards previously granted under the 2002 plan (subject to adjustment in the event of stock splits and other similar events), are reserved for issuance under the 2011 Plan. The 2002 Plan was automatically terminated and replaced and superseded by the 2011 Plan, except that any awards previously granted under the 2002 Plan shall remain in effect pursuant to their term.

The 2011 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code, nonqualified stock options, restricted stock, restricted stock units, dividend equivalent rights and stock appreciation rights. Officers, employees, directors, outside consultants and advisors of the Company and those of the Company's present and future parent and subsidiary corporations are eligible to receive awards under the 2011 Plan. Under current U.S. tax laws, incentive stock options may only be granted to employees. The 2011 Plan permits the Company's Board of Directors or a committee thereof to determine how grantees may pay the exercise or purchase price of their awards.

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

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

2003 Director Stock Option Plan

Under the Director Plan, 1,350,000 shares of common stock (subject to adjustment in the event of future stock splits, future stock dividends or other similar changes in the common stock or the Company's capital structure) are authorized for issuance.

The Director Plan provides for the grant of nonqualified stock options to non-employee directors. Options must be granted at an exercise price equal to the fair market value of the common stock on the date of grant. Options may not be granted for a term in excess of ten years.

Under the terms of the Director Plan, any person who becomes a non-employee director of the Company will automatically be granted an option to purchase 38,000 shares of common stock. On June 30 of each year,

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

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

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

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

2002 Employee Stock Purchase Plan (ESPP)

The ESPP was adopted by the Company's Board of Directors and stockholder in July 2002. The ESPP is intended to qualify as an Employee Stock Purchase Plan under Section 423 of the U.S. Internal Revenue Code and is intended to provide the Company's employees with an opportunity to purchase shares of common stock through payroll deductions. An aggregate of 2,150,000 shares of common stock (subject to adjustment in the event of future stock splits, future stock dividends or other similar changes in the common stock or the Company's capital structure) are reserved for issuance. As of December 31, 2014, 86,970 shares of common stock were available for future issuance under the ESPP.

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

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

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

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

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

The participant's purchase right is exercised in the above noted manner on each exercise date arising during the offer period unless, on the first day of any purchase period, the fair market value of common stock is lower

F-30

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

than the fair market value of common stock on the first day of the offer period. If so, the participant's participation in the original offer period will be terminated, and the participant will automatically be enrolled in the new offer period effective the same date.

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

e. Dividend policy:

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

NOTE 9: DERIVATIVES AND HEDGING ACTIVITIES

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

	As at December 31,	
	2013	2014
Derivative liabilities:		
Derivatives designated as cash flow hedging instruments:		
Foreign exchange option contracts	\$	\$ 52
Foreign exchange forward contracts	16	12
Total	\$ 16	\$ 64

The Company recorded the fair value of derivative liabilities in accrued expenses and other payables on the Company's consolidated balance sheets.

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

	Year ended December 31,		
	2012	2013	2014
Derivatives designated as cash flow hedging instruments:			
Foreign exchange option contracts	\$ 177	\$ 108	\$ (389)

Foreign exchange forward contracts	69	175	(41)
	\$ 246	\$ 283	\$ (430)

F-31

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

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

	Year ended December 31,		
	2012	2013	2014
Derivatives designated as cash flow hedging instruments:			
Foreign exchange option contracts	\$ 124	\$ (266)	\$ 337
Foreign exchange forward contracts	71	(249)	45
	\$ 195	\$ (515)	\$ 382

The Company recorded in cost of revenues and operating expenses, a net loss of \$195, a net gain of \$515 and a net loss of \$382 during the years ended December 31, 2012, 2013 and 2014, respectively, related to its Hedging Contracts. In addition, the Company recorded in financial income, net, a net loss of \$112 and a net gain of \$112 during the years ended December 31, 2012 and 2013, respectively, related to derivatives not qualified as hedging instruments. There were no derivatives not qualified as hedging instruments during 2014.

NOTE 10: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the years ended December 31, 2013 and 2014:

Year ended December 31, 2014	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains (losses) on cash flow hedges	Estimated tax expense (benefit)	Total
Beginning balance	\$ (90)	\$ (16)	\$ (25)	\$ (81)
Other comprehensive income (loss) before reclassifications	(324)	(430)	(56)	(698)
Amounts reclassified from accumulated other comprehensive income (loss)	(6)	382	33	343
Net current period other comprehensive income (loss)	(330)	(48)	(23)	(355)

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Ending balance	\$ (420)	\$ (64)	\$ (48)	\$ (436)
	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains (losses) on cash flow hedges	Estimated tax expense (benefit)	Total
Year ended December 31, 2013				
Beginning balance	\$ 224	\$ 216	\$ 80	\$ 360
Other comprehensive income (loss) before reclassifications	65	283	57	291
Amounts reclassified from accumulated other comprehensive income (loss)	(379)	(515)	(162)	(732)
Net current period other comprehensive income (loss)	(314)	(232)	(105)	(441)
Ending balance	\$ (90)	\$ (16)	\$ (25)	\$ (81)

F-32

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statements of Operations
	Year ended		
	December 31,	December 31,	
	2013	2014	
Unrealized gains (losses) on cash flow hedges	\$ 13	\$ (17)	Cost of revenues
	432	(305)	Research and development
	27	(34)	Sales and marketing
	43	(26)	General and administrative
	515	(382)	Total, before income taxes
	54	(36)	Income tax expense (benefit)
	461	(346)	Total, net of income taxes
Unrealized gains on available-for-sale marketable securities	379	6	Financial income, net
	108	3	Income tax expense
	271	3	Total, net of income taxes
	\$ 732	\$ (343)	Total, net of income taxes

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

FASB ASC No. 280, Segment Reporting, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company manages its business on a basis of one reportable segment: the licensing of intellectual property to semiconductor companies and electronic equipment manufacturers (see Note 1 for a brief description of the Company's business). The following is a summary of revenues within geographic areas:

	Year ended December 31,		
	2012	2013	2014
Revenues based on customer location:			
United States	\$ 11,389	\$ 6,067	\$ 11,671
Europe, Middle East (1)	13,695	13,384	5,655
Asia Pacific (2) (3)	28,593	29,449	33,482
	\$ 53,677	\$ 48,900	\$ 50,808
(1) Germany	\$ 6,840	\$ 5,543	*)
(2) China	\$ 15,919	\$ 20,472	\$ 20,568
(3) Japan	\$ 7,744	*)	*)

*) Less than 10%

F-33

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

	2013	2014
Long-lived assets by geographic region:		
Israel	1,532	2,219
France		328
Other	84	58
	\$ 1,616	\$ 2,605

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

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

	Year ended December 31,		
	2012	2013	2014
Customer A	24%	28%	25%
Customer B	13%	11%	*)
Customer C	12%	*)	*)

*) Less than 10%

c. Information about Products and Services:

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

	Year ended December 31,		
	2012	2013	2014
CEVA-X family	21%	39%	33%
CEVA TeakLite family	54%	38%	45%
CEVA Teak family	14%	*)	*)

*) Less than 10%

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

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*(in thousands, except share data)***NOTE 12: SELECTED STATEMENTS OF OPERATIONS DATA**

Financial income, net:

	Year ended December 31,		
	2012	2013	2014
Interest income	\$ 4,507	\$ 3,884	\$ 2,824
Gain on available-for-sale marketable securities, net	184	379	6
Amortization of premium on available-for-sale marketable securities, net	(1,267)	(1,504)	(1,121)
Foreign exchange loss, net	(44)	(45)	(565)
Accretion of Contingent Consideration			(169)
	\$ 3,380	\$ 2,714	\$ 975

NOTE 13: TAXES ON INCOME

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

1. Irish Subsidiaries

The Irish operating subsidiary qualified for a 12.5% tax rate on its trade. Interest income earned by the Irish subsidiary is taxed at a rate of 25%. As of December 31, 2014, the open tax years, subject to review by the applicable taxing authorities for the Irish subsidiary, are 2010 and subsequent years.

2. Israeli Subsidiary

The Israeli subsidiary has been granted Approved Enterprise and Benefited Enterprise status under the Israeli Law for the Encouragement of Capital Investments. For such Approved Enterprises and Benefited Enterprises, the Israeli subsidiary elected to apply for alternative tax benefits the waiver of government grants in return for tax exemptions on undistributed income. Upon distribution of such exempt income, the Israeli subsidiary will be subject to corporate tax at the rate ordinarily applicable to the Approved Enterprise's or Benefited Enterprise's income. Such tax exemption on undistributed income applies for a limited period of between two to ten years, depending upon the location of the enterprise. During the remainder of the benefits period (generally until the expiration of ten years), a corporate tax rate not exceeding 25% will apply.

The Israeli subsidiary is a foreign investor company, or FIC, as defined by the Investment Law. FICs are entitled to further reductions in the tax rate normally applicable to Approved Enterprises and Benefited Enterprises. Depending

on the foreign ownership in each tax year, the tax rate can range between 10% (when foreign ownership exceeds 90%) to 20% (when foreign ownership exceeds 49%). There can be no assurance that the subsidiary will continue to qualify as an FIC in the future or that the benefits described herein will be granted in the future.

The Company's Israeli subsidiary's tax-exempt profit from Approved Enterprises and Benefited Enterprises is permanently reinvested as the Company's management has determined that the Company does not currently intend to distribute dividends. Therefore, deferred taxes have not been provided for such tax-exempt income. The Company intends to continue to reinvest these profits and does not currently foresee a need to distribute dividends out of such tax-exempt income.

F-35

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

Income not eligible for Approved Enterprise benefits or Benefited Enterprise benefits is taxed at a regular rate, which was 26.5% in 2014.

On July 30, 2013, the Israeli Parliament (the Knesset) passed a law which was designated to increase the tax levy in the years 2013 and 2014. Among other things, the law increases the Israeli corporate tax rate from 25% to 26.5% commencing on January 1, 2014.

The Israeli subsidiary elected to compute their taxable income in accordance with Income Tax Regulations (Rules for Accounting for Foreign Investors Companies and Certain Partnerships and Setting their Taxable Income), 1986. Accordingly, the taxable income or loss is calculated in U.S. dollars. Applying these regulations reduces the effect of the foreign exchange rate (of NIS against the U.S. dollar) on the Company's Israeli taxable income.

As of December 31, 2014, the open tax years, subject to review by the applicable taxing authorities for the Israeli subsidiary, are 2011 and subsequent years.

3. French Subsidiaries

The French operating subsidiaries qualified for a 33.33% tax rate on its profits. As of December 31, 2014, the open tax years, subject to review by the applicable taxing authorities for the French subsidiaries, are 2010 and subsequent years.

b. Taxes on income comprised of:

	Year ended December 31,		
	2012	2013	2014
Domestic taxes:			
Current	\$ 727	\$ (37)	\$ 7
Deferred	(742)	(1,127)	2,987
Foreign taxes:			
Current	1,993	2,016	314
Deferred	84	(64)	(456)
	\$ 2,062	\$ 788	\$ 2,852
Income (loss) before taxes on income:			
Domestic	\$ (1,651)	\$ (4,315)	\$ (2,379)
Foreign	17,398	11,788	4,412

\$ 15,747	\$ 7,473	\$ 2,033
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F-36

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*(in thousands, except share data)**c. Reconciliation between the Company's effective tax rate and the U.S. statutory rate:*

	Year ended December 31,		
	2012	2013	2014
Income before taxes on income	\$ 15,747	\$ 7,473	\$ 2,033
Theoretical tax at U.S. statutory rate	5,511	2,541	691
Foreign income taxes at rates other than U.S. rate	(2,023)	(1,057)	(489)
Approved and benefited enterprises benefits (*)	(1,934)	(1,553)	(785)
Subpart F	529	633	394
Non-deductible items	592	433	723
Non-taxable items			(230)
Decrease in uncertain tax position		(73)	(920)
Valuation allowance	(380)	(111)	3,356
Other, net	(233)	(25)	112
Taxes on income	\$ 2,062	\$ 788	\$ 2,852
Effective tax rate	13%	11%	140%
(*) Basic and diluted earnings per share amounts of the benefit resulting from the Approved Enterprise and Benefited Enterprise status			
	\$ 0.08	\$ 0.07	\$ 0.04

d. Deferred taxes on income:

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

	As at December 31,	
	2013	2014
Deferred tax assets		
Operating loss carryforward	\$ 8,544	\$ 8,933
Accrued expenses	490	706
Temporary differences related to R&D expenses	1,045	922

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Equity-based compensation	2,085	2,563
Tax credit carry forward	622	800
Other	152	273
Total gross deferred tax assets	12,938	14,197
Valuation allowance	(8,526)	(11,930)
Net deferred tax assets	\$ 4,412	\$ 2,267
Deferred tax liabilities		
Other	\$ 73	\$ 26
Intangible assets		1,843
Total gross deferred tax liabilities	\$ 73	\$ 1,869
Net deferred tax assets (*)	\$ 4,339	\$ 398

(*) Net deferred tax for the year ended December 31, 2013 from domestic and foreign jurisdictions was \$2,999 and \$1,340, respectively.

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

Net deferred tax for the year ended December 31, 2014 from domestic and foreign jurisdictions was \$0 and \$398, respectively.

Changes in valuation allowances on deferred tax assets result from management's assessment of the Company's ability to utilize certain future tax deductions, operating losses and tax credit carryforwards prior to expiration. Valuation allowances were recorded to reduce deferred tax assets to an amount that will, more likely than not, be realized in the future. During 2014, the Company increased the valuation allowance by \$3,404 mainly due to a change in the estimation for taxable income in future years of the Company's U.S. operations.

The Company does not have a provision for U.S. Federal income taxes on the undistributed earnings of its international subsidiaries because such earnings are considered to be indefinitely reinvested. Determination of the amount of income tax liability that would be incurred is not practical. In addition, the Company operates within multiple taxing jurisdictions involving complex issues, and it has provisions for tax liabilities on investment activities as appropriate.

e. Uncertain tax positions

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

	Year ended December 31,	
	2013	2014
Beginning of year	\$ 3,520	\$ 3,563
Additions for current year tax positions	116	216
Decrease as a result of a lapse of applicable statute of limitations	(73)	(920)
Balance at December 31	\$ 3,563	\$ 2,859

As of December 31, 2013 and 2014, there were \$3,563 and \$2,859, respectively, of unrecognized tax benefits that if recognized would affect the annual effective tax rate. As of December 31, 2013 and 2014, the Company had accrued interest related to unrecognized tax benefits of \$226 and \$39, respectively. The Company did not accrue penalties during the years ended December 31, 2013 and 2014.

f. Tax loss carryforwards:

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As of December 31, 2014, CEVA and its subsidiaries had net operating loss carryforwards for federal income tax purposes of approximately \$3,929, which are available to offset future federal taxable income. Of that amount, \$3,876 is due to excess tax benefits from stock option exercises. Excess tax benefits related to stock option exercises cannot be recognized until realized through a reduction of current taxes payable. Such loss carryforwards begin to expire in 2030.

As of December 31, 2014, CEVA and its subsidiaries had net operating loss carryforwards for California income tax purposes of approximately \$6,315, which are available to offset future California taxable income. Of

F-38

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

that amount, \$3,424 is due to excess tax benefits from stock option exercises. Excess tax benefits related to stock option exercises cannot be recognized until realized through a reduction of current taxes payable. Such loss carryforwards begin to expire in 2015.

As of December 31, 2014, CEVA's Irish subsidiary had foreign operating losses of approximately \$63,422, which are available to offset future taxable income indefinitely. A full valuation allowance was provided in relation to those carryforward tax losses due to the uncertainty of their utilization in the foreseeable future. As of December 31, 2014, CEVA's French subsidiaries had foreign operating losses of approximately \$2,105, which are available to offset future taxable income indefinitely.

g. Tax returns:

CEVA files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, CEVA is no longer subject to U.S. federal income tax examinations by tax authorities, and state and local income tax examinations, for the years prior to 2010.

NOTE 14: RELATED PARTY TRANSACTIONS

One of the Company's directors, Bruce Mann, is a partner of Morrison & Foerster LLP, the Company's outside legal counsel. Fees attributed to Morrison & Foerster LLP during the years ended December 31, 2012, 2013 and 2014 were \$578, \$279 and \$275, respectively. The accounts payable balance with Morrison & Foerster LLP at December 31, 2013 and 2014 were \$0 and \$10, respectively.

NOTE 15: COMMITMENTS AND CONTINGENCIES

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

b. As of December 31, 2014, the Company and its subsidiaries had several non-cancelable operating leases, primarily for facilities and equipment. These leases generally contain renewal options and require the Company and its subsidiaries to pay all executory costs such as maintenance and insurance. In addition, the Company has several fixed service agreements with sub-contractors.

Rent expenses for the years ended December 31, 2012, 2013 and 2014, were \$821, \$839 and \$955, respectively.

As of December 31, 2014, future purchase obligations and minimum rental commitments for leasehold properties and operating leases with non-cancelable terms are as follows:

	Minimum rental commitments for leasehold properties	Commitments for other lease obligations	Other purchase obligations	Total
2015	\$ 1,018	\$ 2,537	\$ 948	\$ 4,503
2016	938	900		1,838
2017	879			879
2018	691			691
	\$ 3,526	\$ 3,437	\$ 948	\$ 7,911

F-39

Table of Contents

CEVA, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

c. Royalties:

The Company participated in programs sponsored by the Israeli government for the support of research and development activities. Through December 31, 2014, the Company had obtained grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade (the OCS) for certain of the Company's research and development projects. The Company is obligated to pay royalties to the OCS, amounting to 3%-3.5% of the sales of the products and other related revenues (based on the dollar) generated from such projects, up to 100% of the grants received. Royalty payment obligations also bear interest at the LIBOR rate. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required.

During 2012, 2013 and 2014, the Company paid royalties to the OCS in the amount \$12, \$147 and \$300, respectively. As of December 31, 2014, the aggregate contingent liability to the OCS (including interest) amounted to \$11,756.

F-40

Table of Contents**SIGNATURES**

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

CEVA, INC.

By: /S/ Gideon Wertheizer
Gideon Wertheizer
Chief Executive Officer

March 13, 2015

POWER OF ATTORNEY

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

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

Signature	Title	Date
/S/ GIDEON WERTHEIZER Gideon Wertheizer	Chief Executive Officer and Director (Principal Executive Officer & Director)	March 13, 2015
/S/ YANIV ARIELI Yaniv Arieli	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 13, 2015
/S/ PETER MCMANAMON Peter McManamon	Director and Chairman	March 13, 2015
/S/ ELIYAHU AYALON Eliyahu Ayalon	Director	March 13, 2015

/S/ ZVI LIMON

Director

March 13, 2015

Zvi Limon

/S/ BRUCE MANN

Director

March 13, 2015

Bruce Mann

Table of Contents

Signature	Title	Date
/S/ SVEN-CHRISTER-NILSSON Sven-Christer Nilsson	Director	March 13, 2015
/S/ LOUIS SILVER Louis Silver	Director	March 13, 2015
/S/ DAN TOCATLY Dan Tocatly	Director	March 13, 2015

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

	Balance at beginning of period	Additions	Deduction	Balance at end of period
Year ended December 31, 2014				
Allowance for doubtful accounts	\$	\$ 25	\$	\$ 25
Year ended December 31, 2013				
Allowance for doubtful accounts	\$ 9	\$	\$ 9	\$
Year ended December 31, 2012				
Allowance for doubtful accounts	\$ 25	\$	\$ 16	\$ 9

Table of Contents**EXHIBIT INDEX**

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant
3.2(2)	Certificate of Ownership and Merger (merging CEVA, Inc. into ParthusCeva, Inc.)
3.3(3)	Fourth Amended and Restated Bylaws of the Registrant
3.7(4)	Amendment to the Amended and Restated Certificate of Incorporation of the Registrant
4.1(5)	Specimen of Common Stock Certificate
10.1(6)	CEVA, Inc. 2000 Stock Incentive Plan
10.7(6)	CEVA, Inc. 2002 Stock Incentive Plan
10.8(18)	CEVA, Inc. Amended and Restated 2003 Director Stock Option Plan
10.9(6)	Parthus 2000 Share Option Plan
10.10(19)	CEVA, Inc. 2002 Employee Stock Purchase Plan
10.11(1)	Form of Indemnification Agreement
10.12(7)	Employment Agreement between the Registrant and Gideon Wertheizer dated as of November 1, 2002
10.13(7)	Employment Agreement between the Registrant and Issachar Ohana dated as of November 1, 2002
10.14(8)	Personal and Special Employment Agreement between the Registrant and Yaniv Arieli dated as of August 18, 2005
10.15(9)	Form of Stock Option Agreement under the CEVA, Inc. 2002 Stock Incentive Plan
10.16(9)	Form of Israeli Stock Option Agreement under the CEVA, Inc. 2002 Stock Incentive Plan
10.17(9)	Form of Stock Option Agreement under the CEVA, Inc. 2000 Stock Incentive Plan
10.18(9)	Form of Israeli Stock Option Agreement under the CEVA, Inc. 2000 Stock Incentive Plan
10.19(9)	Form of Option Agreement under the CEVA, Inc. 2003 Director Stock Option Plan
10.20(10)	Form of Stock Option Agreement for Directors under the CEVA, Inc. 2000 Stock Incentive Plan
10.21(10)	Yaniv Arieli's Amended and Restated Nonstatutory Stock Option Agreement under the CEVA, Inc. 2002 Stock Incentive Plan, dated as of August 1, 2007
10.22(11)	Amendment, dated July 22, 2003, to the Employment Agreement by and between Issachar Ohana and CEVA, Inc., dated November 1, 2002
10.23(12)	Amendment, effective as of November 1, 2007, to the Employment Agreement by and between Issachar Ohana and CEVA, Inc., dated November 1, 2002 and as amended on July 22, 2003
10.24(13)	CEVA, Inc. 2011 Stock Incentive Plan
10.25(14)	2013 Incentive Plan for Issachar Ohana, effective as of January 1, 2013 (portions of this exhibit is redacted)

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- 10.26(15) 2013 Executive Bonus Plan for Gideon Wertheizer and Yaniv Arieli, effective as of January 1, 2013
(portions of this exhibit is redacted)
- 10.27(16) Amendment to Employment Agreement of Yaniv Arieli, effective as of November 6, 2013
- 10.28(17) 2014 Incentive Plan for Issachar Ohana, EVP Worldwide Sales, effective as of January 1, 2014
(portions of this exhibit is redacted).

Table of Contents

Exhibit Number	Description
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global
24.1*	Power of Attorney (See signature page of this Annual Report on Form 10-K)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32*	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Filed as an exhibit to CEVA's registration statement on Form 10, as amended, initially filed with the Commission on June 3, 2002 (registration number 000-49842), and incorporated herein by reference.
- (2) Filed as an exhibit to CEVA's Report on Form 8-K, filed with the Commission on December 8, 2003, and incorporated hereby by reference.
- (3) Filed as an exhibit to CEVA's Current Report on Form 8-K, filed with the Commission on April 29, 2014, and incorporated hereby by reference.
- (4) Filed as an exhibit to CEVA's Report on Form 8-K, filed with the Commission on July 22, 2005, and incorporated hereby by reference.
- (5) Filed as an exhibit to CEVA's registration statement on Form S-1, as amended, initially filed with the Commission on July 30, 2002 (registration number 333-97353), and incorporated herein by reference.
- (6) Filed as an exhibit to CEVA's 2007 Annual Report on Form 10-K, filed with the Commission on March 14, 2008, and incorporated hereby by reference.
- (7) Filed as an exhibit to CEVA's 2002 Annual Report on Form 10-K, filed with the Commission on March 28, 2003, and incorporated hereby by reference.
- (8) Filed as an exhibit to CEVA's Quarterly Report on Form 10-Q, filed with the Commission on November 9, 2005, and incorporated hereby by reference.
- (9) Filed as an exhibit to CEVA's Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2006, and incorporated hereby by reference.
- (10) Filed as an exhibit of the same number to CEVA's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 9, 2007, and incorporated hereby by reference.
- (11) Filed as Exhibit 10.27 to CEVA's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 9, 2007, and incorporated hereby by reference.
- (12) Filed as Exhibit 99.1 to CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 7, 2007, and incorporated hereby by reference.
- (13) Filed as an appendix to CEVA's proxy statement for its 2011 annual meeting of stockholders filed with the Securities and Exchange Commission on April 8, 2011.
- (14)

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- Description filed as Exhibit 99.1 to CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 5, 2013, and incorporated hereby by reference.
- (15) Description filed in CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 5, 2013, and incorporated hereby by reference.
- (16) Description filed in CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 8, 2013, and incorporated hereby by reference.
- (17) Description filed in CEVA's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 4, 2014, and incorporated hereby by reference.

Table of Contents

- (18) Filed as Exhibit 10.8 to CEVA's Annual Report on Form 10-K filed with the Commission on March 15, 2012, and incorporated hereby by reference.
- (19) Filed as Exhibit 10.10 to CEVA's Annual Report on Form 10-K filed with the Commission on March 10, 2010, and incorporated hereby by reference.
Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(c) of Form 10-K.
- * Filed herewith.