

CEVA INC
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 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)
(650) 417-7900

94043
(Zip Code)

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 20,191,730 shares of common stock, \$0.001 par value, as of November 4, 2014.

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FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

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

Our belief that the adoption of our DSP cores, software and connectivity intellectual property 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 100 million royalty-bearing units annually in 2013 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 growth driver for us;

Our belief that the following key elements represent growth drivers for us: (1) our established market presence in the cellular baseband market and the competitive edge such presence brings which allows us to address multiple market sectors, (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 an additional \$1.2 million for the fourth quarter of 2014, (2) costs related to the RivieraWaves employee retention plan, which is expected to be approximately \$0.7 million per quarter in 2014 and approximately \$0.4 to \$0.5 million per quarter in 2015 and approximately \$0.2 million in each of the first two quarters of 2016, and (3) amortization of intangible assets and equity-based compensation expenses of \$0.4 million;

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

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

Market data prepared by third parties, including ABI Research and Strategy Analytics. 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.

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

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

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

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

	September 30, 2014 Unaudited	December 31, 2013 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,042	\$ 24,117
Short term bank deposits	58,126	41,947
Marketable securities	39,491	68,464
Trade receivables	8,289	5,629
Deferred tax assets	4,780	3,457
Prepaid expenses and other current assets	4,578	1,996
Total current assets	129,306	145,610
Long term bank deposits	16,592	17,066
Severance pay fund	7,258	7,215
Deferred tax assets	810	955
Property and equipment, net	2,171	1,616
Investments in other companies	1,806	3,367
Intangible assets, net	6,130	
Goodwill	46,415	36,498
Total long-term assets	81,182	66,717
Total assets	\$ 210,488	\$ 212,327
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	\$ 1,159	\$ 1,085
Deferred revenues	2,315	623
Accrued expenses and other payables	6,558	2,882
Accrued payroll and related benefits	9,380	7,681
Income taxes payable, net	2,120	1,833
Deferred tax liabilities	553	73

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Total current liabilities	22,085	14,177
Long term liabilities:		
Accrued severance pay	7,351	7,255
Deferred tax liabilities	1,597	
Total long-term liabilities	8,948	7,255
Stockholders' equity:		
Preferred Stock:		
\$0.001 par value: 5,000,000 shares authorized; none issued and outstanding		
Common Stock:		
\$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at September 30, 2014 and December 31, 2013. 20,184,300 and 21,181,730 shares outstanding at September 30, 2014 and December 31, 2013, respectively		
	20	21
Additional paid in-capital	208,398	204,415
Treasury stock at cost (3,410,860 and 2,413,430 shares of common stock at September 30, 2014 and December 31, 2013, respectively)	(55,824)	(41,005)
Accumulated other comprehensive loss	(339)	(81)
Retained earnings	27,200	27,545
Total stockholders' equity	179,455	190,895
Total liabilities and stockholders' equity	\$ 210,488	\$ 212,327

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

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

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

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
Revenues:				
Licensing and related revenue	\$ 20,989	\$ 15,108	\$ 8,728	\$ 3,945
Royalties	15,998	19,826	5,370	6,060
Total revenues	36,987	34,934	14,098	10,005
Cost of revenues	3,737	3,799	1,255	1,131
Gross profit	33,250	31,135	12,843	8,874
Operating expenses:				
Research and development, net	18,500	16,279	6,453	5,619
Sales and marketing	7,201	7,271	2,611	2,376
General and administrative	6,124	5,588	2,223	2,006
Amortization of intangible assets	326		326	
Total operating expenses	32,151	29,138	11,613	10,001
Operating income (loss)	1,099	1,997	1,230	(1,127)
Financial income, net	943	2,053	66	617
Other loss	(404)		(404)	
Income (loss) before taxes on income	1,638	4,050	892	(510)
Income taxes expense (benefit)	523	493	236	(187)
Net income (loss)	\$ 1,115	\$ 3,557	\$ 656	\$ (323)
Basic and diluted net income (loss) per share	\$ 0.05	\$ 0.16	\$ 0.03	\$ (0.01)
Weighted-average shares used to compute net income (loss) per share (in thousands):				
Basic	20,761	22,118	20,355	22,072
Diluted	21,132	22,601	20,667	22,072

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

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

U.S. dollars in thousands

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income (loss):	\$ 1,115	\$ 3,557	\$ 656	\$ (323)
Other comprehensive income (loss) before tax:				
Available-for-sale securities:				
Changes in unrealized gains (losses)	(126)	(171)	(114)	518
Reclassification adjustments for (gains) losses included in net income	(15)	(301)	1	(62)
Net change	(141)	(472)	(113)	456
Cash flow hedges:				
Changes in unrealized gains (losses)	(219)	295	(279)	77
Reclassification adjustments for (gains) losses included in net income	35	(452)	59	(164)
Net change	(184)	(157)	(220)	(87)
Other comprehensive income (loss) before tax	(325)	(629)	(333)	369
Income tax benefit (expense) related to components of other comprehensive income (loss)	67	148	58	(123)
Other comprehensive income (loss), net of taxes	(258)	(481)	(275)	246
Comprehensive income (loss)	\$ 857	\$ 3,076	\$ 381	\$ (77)

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

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

U.S. dollars in thousands

	Nine months ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 1,115	\$ 3,557
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation	528	495
Amortization of intangible assets	326	
Equity-based compensation	3,983	4,424
Realized gain, net on sale of available-for-sale marketable securities	(15)	(301)
Amortization of premiums on available-for-sale marketable securities	865	1,171
Accrued interest on bank deposits	(303)	(994)
Unrealized foreign exchange loss	416	16
Loss on realization of investment in other company	404	
Changes in operating assets and liabilities:		
Trade receivables	(2,318)	(2,902)
Prepaid expenses and other current assets	269	(231)
Deferred tax, net	(565)	(713)
Trade payables	(335)	(506)
Deferred revenues	1,584	(352)
Accrued expenses and other payables	(270)	