CEVA INC
Form 10-Q
November 06, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2009

OR

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

For the transition period from __________ to __________

Commission file number: 000-49842

CEVA, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**77-0556376**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
2033 Gateway Place, Suite 150, San Jose, California	**95110-1002**
(Address of Principal Executive Offices)	**(Zip Code)**

(408) 514-2900
(Registrant s Telephone Number, Including Area Code)

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 19,938,668 shares of common stock, $0.001 par value, as of November 3, 2009.

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

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

- Our belief that within the handsets market, ultra low cost (ULC) phones, particularly those targeted at emerging markets, and smartphones, continue to present significant growth opportunities for CEVA;

- References in this report to data prepared by third parties, including Frost & Sullivan, Gartner, Inc., Informa Telecoms & Media, Juniper Research and iSuppli, about future market trends and our ability to capitalize on such trends;

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

- Our belief that our new products, including CEVA-HD-Audio and CEVA-XC , highlight the potential for our licensing model and continued royalty revenue growth;

- Our anticipation that our operating expenses will increase during the fourth quarter of 2009 as compared to the prior three quarters of 2009;

- Our anticipation that our royalty revenue for the fourth quarter of 2009 will increase by at least 20% from the third quarter of 2009;

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

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

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

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

This report contains market data prepared by third parties, including Frost & Sullivan, Gartner, Inc., Informa Telecoms & Media, Juniper Research and iSuppli. Actual market results may differ from the projections of such organizations.

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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, 2009 Unaudited	December 31, 2008 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,657	$ 13,328
Short term bank deposits	46,328	39,423
Marketable securities (see Note 3)	36,794	31,878
Trade receivables (net of allowance for doubtful accounts of $743 at both September 30, 2009 and December 31, 2008)	6,364	5,390
Deferred tax assets	1,075	1,085
Prepaid expenses and other accounts receivable	4,675	4,921
Total current assets	103,893	96,025
Severance pay fund	4,071	3,441
Deferred tax assets	419	351
Property and equipment, net	1,217	1,271
Goodwill	36,498	36,498
	42,205	41,561
Total assets	$ 146,098	$ 137,586
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	$ 560	$ 615
Deferred revenues	541	1,034
Taxes payable	99	44
Accrued expenses and other payables	8,290	10,446
Deferred tax liabilities	183	
Total current liabilities	9,673	12,139
Long term liabilities:		
Accrued severance pay	4,337	3,788
Stockholders equity:		
Common Stock:		
$0.001 par value: 60,000,000 shares authorized; 19,874,479 and 19,532,026 shares issued and outstanding at September 30, 2009 and December 31,	20	20

2008, respectively				
Additional paid in-capital		155,960		153,712
Treasury stock		(2,327)		(5,077)
Accumulated other comprehensive income (loss)		488		(24)
Accumulated deficit		(22,053)		(26,972)
Total stockholders equity		132,088		121,659
Total liabilities and stockholders equity	$	146,098	$	137,586

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

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

	Nine months ended September 30,		Three months ended September 30,	
	2009	2008	2009	2008
Revenues:				
Licensing	$ 14,059	$ 17,088	$ 5,242	$ 5,974
Royalties	11,403	10,067	3,694	3,296
Other revenue	2,820	3,201	723	936
Total revenues	28,282	30,356	9,659	10,206
Cost of revenues	3,211	3,543	849	1,105
Gross profit	25,071	26,813	8,810	9,101
Operating expenses:				
Research and development, net	12,132	15,133	4,061	4,778
Sales and marketing	4,914	5,401	1,628	1,822
General and administrative	4,555	4,991	1,525	1,705
Amortization of intangible assets		53		12
Reorganization		3,537		
Total operating expenses	21,601	29,115	7,214	8,317
Operating income (loss)	3,470	(2,302)	1,596	784
Financial income, net	1,501	1,975	551	645
Other income (see Note 11)	1,901	11,251		358
Income before income taxes	6,872	10,924	2,147	1,787
Income taxes expenses	1,436	3,319	394	384
Net income	$ 5,436	$ 7,605	$ 1,753	$ 1,403
Basic net income per share	$ 0.28	$ 0.38	$ 0.09	$ 0.07
Diluted net income per share	$ 0.27	$ 0.37	$ 0.09	$ 0.07
Weighted-average number of shares of Common Stock used in computation of net income per share (in thousands):				
Basic	19,588	20,131	19,689	20,157
Diluted	20,087	20,776	20,492	20,799

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

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

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

Nine months ended	Common stock		Additional paid-in	Treasury	Accumulated other comprehensive income (loss)	Accumulated	Total comprehensive	Total stockholders
September 30, 2009	**Shares**	**Amount**	**capital**	**stock**		**deficit**	**income**	**equity**
Balance as of January 1, 2008	20,033,897	$ 20	$ 149,772	$	$ 7	$ (35,411)		$ 114,388
Net income						7,605	$ 7,605	7,605
Unrealized loss from available-for-sale securities, net					(620)		(620)	(620)

Unrealized gain from hedging activities, net					56		56	56
Total comprehensive income							$ 7,041	
Equity-based compensation			2,084					2,084
Issuance of Common Stock upon exercise of employee stock options	58,693	(*)	410					410
Issuance of Common Stock under employee stock purchase plan	99,631	(*)	608					608
Purchase of Treasury Stock	(198,770)	(*)		(1,638)				(1,638)
Issuance of Treasury Stock upon exercise of employee stock options	21,244	(*)		176		(44)		132
Issuance of Treasury Stock under employee stock purchase plan	69,200	(*)		552		(78)		474
Balance as of September 30, 2008	20,083,895	$ 20	$ 152,874	$ (910)	$ (557)	$ (27,928)		$ 123,499

(*) Amount less than $1.

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

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

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Cash flows from operating activities:		
Net income	$ 5,436	$ 7,605
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	368	522
Amortization of intangible assets		53
Equity-based compensation	2,210	2,084
Gain from sale of property and equipment		(4)
Loss on available-for-sale marketable securities	423	316
Accrued interest on short term bank deposits	(809)	(386)
Unrealized foreign exchange loss	100	227
Gain on realization of investments	(1,901)	(11,247)
Changes in operating assets and liabilities:		
Increase in trade receivables	(974)	(1,336)
Decrease (increase) in other current assets and prepaid expenses	419	(599)
Increase in deferred income taxes	(58)	(600)
Increase (decrease) in trade payables	(66)	9
Increase (decrease) in deferred revenues	(493)	1,005
Decrease in accrued expenses and other payables	(2,170)	(1,748)
Increase in taxes payable	55	542
Increase (decrease) in accrued severance pay, net	(88)	149
Net cash provided by (used in) operating activities	2,452	(3,408)
Cash flows from investing activities:		
Purchase of property and equipment	(314)	(406)
Proceeds from sale of property and equipment		4
Investment in short term bank deposits	(41,592)	(37,966)
Proceeds from short term bank deposits	35,496	5,070
Investment in available-for-sale marketable securities	(28,449)	(24,776)
Proceeds from available-for-sale marketable securities	23,645	16,087
Proceeds from realization of investments	1,901	15,480
Net cash used in investing activities	(9,313)	(26,507)
Cash flows from financing activities:		
Purchase of Treasury Stock	(823)	(1,226)
Proceeds from issuance of Common Stock and Treasury Stock upon exercise of employee stock options	2,115	542
Proceeds from issuance of Common Stock and Treasury Stock under employee stock purchase plan	979	1,082

Net cash provided by financing activities	2,271	398
Effect of exchange rate movements on cash	(81)	(36)
Decrease in cash and cash equivalents	(4,671)	(29,553)
Cash and cash equivalents at the beginning of the period	13,328	40,697
Cash and cash equivalents at the end of the period	$ 8,657	$ 11,144

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

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

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

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

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

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

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, The *FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (the ASC). The ASC is effective for interim and annual periods ending after September 15, 2009 and became the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (U.S. GAAP), other than guidance issued by the Securities and Exchange Commission. All other literature will become non-authoritative. The standard does not have a material impact on the Company s consolidated financial statements and notes. Where applicable, references to pre-codification accounting standards will include an initial parenthetical reference to the ASC and subsequent references will use the ASC reference only.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including non-recurring adjustments attributable to reorganization) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2008, contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2009, have been applied consistently in these unaudited interim condensed consolidated financial statements.

NOTE 3: MARKETABLE SECURITIES

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

In accordance with Statement of Financial Accounting Standard (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities (ASC 320), the Company classified at September 30, 2009 its marketable debt securities as available-for-sale securities. Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the condensed consolidated statement of operations.

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

	As at September 30, 2009			
	Amortized cost (Unaudited)	Gross unrealized gains (Unaudited)	Gross unrealized losses (Unaudited)	Fair value (Unaudited)
Certificates of deposits	$ 686	$ 10	$	$ 696
U.S. government and agency securities	3,118	32		3,150
Corporate bonds and securities	32,624	352	(28)	32,948
	$36,428	$394	$ (28)	$36,794

The amortized cost of available-for-sale debt securities at September 30, 2009, by contractual maturities, is shown below:

	As at September 30, 2009			
	Amortized cost (Unaudited)	Gross unrealized gains (Unaudited)	Gross unrealized losses (Unaudited)	Fair value (Unaudited)
Due in one year or less	$19,576	$188	$ (5)	$19,759
Due after one year to two years	16,852	206	(23)	17,035
	$36,428	$394	$ (28)	$36,794

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer until maturity or for a period of time sufficient to allow for any anticipated recovery in cost.

Management has the ability and intent to hold the securities which incurred present losses until maturity or for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or re-pricing date or if market interest rates decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2009, management believes the losses detailed in the table above are temporary and no impairment loss was realized in the Company s condensed consolidated statement of operations.

NOTE 4: FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 157 *Fair Value Measurements* (ASC 820) defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. ASC 820 applies to other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. The provisions of ASC 820 were adopted by the Company on January 1, 2008 for financial assets and liabilities, and January 1, 2009 for non-financial assets and liabilities. The adoption of ASC 820 for non-financial assets and liabilities did not have a significant impact on the Company financial condition or results of operations.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible on the measurement date for identical, unrestricted assets or liabilities;
Level 2	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

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

Level 3 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).

In accordance with ASC 820, the Company measures its marketable securities and foreign currency derivative contracts at fair value. Marketable securities are classified within Level 1. This is because these assets are valued using quoted market prices. Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The table below sets forth the Company s financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Description	**September 30, 2009**	**Level I**	**Level II**	**Level III**
Marketable securities	$ 36,794	$ 36,794	$	$
Derivative assets	$ 305	$	$ 305	$

In addition to the assets and liabilities described above, the Company s financial instruments also include cash, cash equivalents, bank deposits, trade receivables, other accounts receivable, trade payables and accrued expenses and other payables. The fair values of these financial instruments were not materially different from their carrying values at September 30, 2009 due to the short-term maturity of such instruments.

NOTE 5: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA

a. Summary information about geographic areas:

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

The following is a summary of operations within geographic areas:

	Nine months ended September 30,		**Three months ended September 30,**	
	2009 (unaudited)	**2008 (unaudited)**	**2009 (unaudited)**	**2008 (unaudited)**
Revenues based on customer location:				
United States	$ 3,516	$ 4,471	$ 460	$ 2,408
Europe and Middle East (1) (2)	12,719	15,228	3,947	5,501
Asia Pacific (3) (4) (5)	12,047	10,657	5,252	2,297
	$ 28,282	$ 30,356	$ 9,659	$ 10,206
(1) Sweden	$ 6,104	$ 6,168	$ 1,660	$ 1,379
(2) Switzerland	*)	*)	*)	$ 2,666
(3) Japan	$ 3,292	$ 4,127	*)	*)
(4) S. Korea	*)	*)	*)	$ 1,455
(5) China	$ 5,401	*)	$ 4,239	*)

*) Less than 10%

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS   CONTINUED

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

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 during each of the periods set forth below.

	Nine months ended September 30,		Three months ended September 30,	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
Customer A	19%		23%	
Customer B	16%	(*)	44%	(*)
Customer C	(*)	20%	(*)	14%
Customer D	(*)	(*)	(*)	14%
Customer E	(*)	(*)	(*)	26%

(*) Less than 10%

NOTE 6: NET INCOME PER SHARE OF COMMON STOCK

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each period, plus potential dilutive shares of common stock considered outstanding during the period, in accordance with SFAS No. 128, Earnings Per Share (ASC 260).

	Nine months ended September 30,		Three months ended September 30,	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
Numerator:				
Numerator for basic and diluted net income per share	$ 5,436	$ 7,605	$ 1,753	$ 1,403
Denominator:				
Denominator for basic net income per share				
Weighted-average number of shares of common stock	19,588	20,131	19,689	20,157
Effect of employee stock options	499	645	803	642
	20,087	20,776	20,492	20,799
Net income per share				
Basic	$ 0.28	$ 0.38	$ 0.09	$ 0.07
Diluted	$ 0.27	$ 0.37	$ 0.09	$ 0.07

The weighted average number of shares related to the outstanding options excluded from the calculation of diluted net income per share since their effect was anti-dilutive was 1,138,135 and 2,201,509 for the three and nine months ended September 30, 2009, respectively, and 1,073,927 and 852,468 for the corresponding periods of 2008.

NOTE 7: COMMON STOCK AND STOCK-BASED COMPENSATION PLANS

During the first quarter of 2009, the Company granted options to purchase 299,000 shares of common stock, at an exercise price of $6.99 per share, and the Company issued 98,882 shares of common stock under its stock option and purchase plans for an aggregate consideration of $572. Options totaling 142,565 shares with a weighted average exercise price of $12.69 were forfeited or expired during the first quarter of 2009, primarily reflecting departures of employees and expiration of options which were granted in 2002. Options to purchase 4,661,216 shares of common stock were outstanding at March 31, 2009. During the comparable period of 2008, the Company granted options to purchase 524,500 shares of common stock, at an exercise price of $8.45 per share, and the Company issued 93,043 shares of common stock under its stock option and purchase plans for an aggregate consideration of $623. Options totaling 22,708 shares with a weighted average exercise price of $8.47 were forfeited or expired during the first quarter of 2008, primarily reflecting departures of employees and expiration of options which were granted in 2001. Options to purchase 4,075,397 shares of common stock were outstanding at March 31, 2008.

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

During the second quarter of 2009, the Company granted options to purchase 241,500 shares of common stock, at an exercise prices ranging from $8.03 to $8.68 per share, and the Company issued 32,679 shares of common stock under its stock option plans for an aggregate consideration of $218. Options totaling 51,977 shares with a weighted average exercise price of $11.98 were forfeited or expired during the second quarter of 2009, primarily reflecting departures of employees and expiration of options which were granted in 2002. Options to purchase 4,818,060 shares of common stock were outstanding at June 30, 2009. During the comparable period of 2008, the Company granted options to purchase 666,000 shares of common stock, at an exercise price ranging from $7.97 to $9.80 per share, and the Company issued 23,500 shares of common stock under its stock option plans for an aggregate consideration of $154. Options totaling 95,830 shares with a weighted average exercise price of $11.29 were forfeited or expired during the second quarter of 2008, primarily reflecting departures of employees and expiration of options which were granted in 2001. Options to purchase 4,622,067 shares of common stock were outstanding at June 30, 2008.

During the third quarter of 2009, the Company granted options to purchase 3,000 shares of common stock, at an exercise price of $9.33 per share, and the Company issued 351,720 shares of common stock under its stock option and purchase plans for an aggregate consideration of $2,304. Options totaling 43,913 shares with a weighted average exercise price of $9.27 were forfeited or expired during the third quarter of 2009, primarily reflecting departures of employees and expiration of options which were granted in 2002. Options to purchase 4,511,933 shares of common stock were outstanding at September 30, 2009. During the comparable period of 2008, the Company granted options to purchase 16,000 shares of common stock, at an exercise price of $8.46 per share, and the Company issued 132,225 shares of common stock under its stock option and purchase plans for an aggregate consideration of $847. Options totaling 64,095 shares with a weighted average exercise price of $8.14 were forfeited or expired during the third quarter of 2008, primarily reflecting departures of employees and expiration of options which were granted in 2001. Options to purchase 4,532,600 shares of common stock were outstanding at September 30, 2008.

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

	Nine months ended September 30,		Three months ended September 30,	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
Cost of revenue	$ 90	$ 83	$ 21	$ 28
Research and development expenses	689	805	197	273
Sales and marketing expenses	442	380	138	143
General and administrative expenses	989	816	329	343
Total	$ 2,210	$ 2,084	$ 685	$ 787

The assumptions used in the model for options granted during the three months ended September 30, 2009 and 2008 were as follows:

	Three months ended September 30,	
	2009 (unaudited)	2008 (unaudited)
Expected dividend yield	0%	0%
Expected volatility	48%-76%	39%-53%
Risk-free interest rate	0.5%-3%	2%-4%
Expected forfeiture (employees)	10%	15%

Contractual term of up to	7 Years	7 Years
Suboptimal exercise multiple (employees)	1.5	1.6

The fair value for rights to purchase shares of common stock under the Company s employee share purchase plan was estimated on the date of grant using the same assumptions set forth above for options granted during the three months ended September 30, 2009 and 2008, except the expected life, which was assumed to be six to 24 months, and except the expected volatility, which was assumed to be in a range of 50%-75% for the three months ended September 30, 2009, and in a range of 44%-53% for the three months ended September 30, 2008.

As of September 30, 2009 and 2008, there were balances of $2,303 and $3,036, respectively, of unrecognized compensation expense related to unvested awards. The impact of equity-based compensation expense on basic and diluted net income per share was

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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$0.03 and $0.11 for the three and nine months ended September 30, 2009, respectively, and $0.04 and $0.10 for the corresponding periods of 2008.

NOTE 8: REORGANIZATION

In October 2008, the Company s board of directors approved a reduction in expenses associated with the Company s SATA activities. In December 2008, the Company s management implemented the reduction with the termination in employment of a number of SATA-related technology engineers across the Company s Irish offices. A one-time restructuring expense associated with the downsizing of the SATA team in the amount of $584 was recorded in 2008 in accordance with SFAS No. 146 Accounting for Costs Associated with Exit or Disposal (ASC 420). In addition, an amount of $61 was accrued in 2008, reflecting currency exchange fluctuation differences for the recorded liability amount.

The major components of the restructuring and other charges are as follows:

	Severance and related cost	Legal and professional fees	Total
Balance as of December 31, 2008	$ 621	$ 24	$ 645
Cash outlays	(621)	(24)	(645)
Balance as of September 30, 2009	$	$	$

NOTE 9: DERIVATIVES AND HEDGING ACTIVITIES

Effective January 1, 2009, the Company adopted the disclosure requirements of SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (ASC 815). 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 put 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 New Israeli Shekels (NIS) and in Euro during the year, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll of its Israeli employees denominated in NIS and of its Irish employees denominated in Euro 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, as defined by ASC 815, and are all effective as hedges of these expenses.

In accordance with ASC 815, 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 September 30, 2009, the aggregate amount of the Hedging Contracts held by the Company was $5,195.

As of September 30, 2009, the fair value of derivative assets was $305. The Company recorded the fair value of derivative assets in prepaid expenses and other accounts receivable in the Company s condensed consolidated balance sheet. The Company measured the fair value of the derivatives in accordance with ASC 820 (see Note 4).

During the third quarter and first nine months of 2009, the Company recorded accumulated other comprehensive income of $130 and $132, respectively, from its Hedging Contracts, net of tax, compared to $110 and $56, respectively, for the comparable periods of 2008.

The Company recorded in cost of revenues and operating expenses a net gain of $95 and a net loss of $267 during the third quarter and first nine months of 2009, respectively, and a net loss of $56 and a net gain of $160 for the comparable periods of 2008, related to its Hedging Contracts.

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NOTE 10: SHARE REPURCHASE PROGRAM

In August 2008, the Company announced that its board of directors approved a share repurchase program for up to 1.0 million shares of common stock. In September 2008, the Company announced that it adopted a share repurchase plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the 10b5-1 Plan), to repurchase up to 500,000 of the 1.0 million shares of common stock authorized by the board for repurchase, which plan was fully utilized during the fourth quarter of 2008. In February 2009, the Company s board of directors approved the adoption of another 10b5-1 Plan authorizing the repurchase of 200,064 shares of its common stock, representing the remaining shares available for repurchase pursuant to the board-authorized share repurchase program.

During the first quarter of 2009, the Company repurchased 140,828 shares of common stock pursuant to the additional 10b5-1 Plan and Rule 10b-18 of the Securities Exchange Act of 1934, as amended, at an average purchase price of $5.85 per share, for an aggregate purchase price of $823. The Company did not repurchase any common stock during the second and third quarters of 2009. As of September 30, 2009, 106,409 shares of common stock remain available for repurchase under its share repurchase program. In October 2009, the Company s board of directors authorized the termination of the additional 10b5-1 Plan such that the 106,409 shares of common stock that remain available for repurchase may be repurchased pursuant to Rule 10b-18 of the 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 Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins (ASC 505-30) and charges the excess of the repurchase cost over issuance price using the weighted average method to accumulated deficit. 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.

During the third quarter and first nine months of 2009, the Company issued 351,720 and 483,281 shares of common stock, respectively, out of treasury stock, to employees who exercised their stock options or purchased shares from the Company s 2002 Employee Stock Purchase Plan.

NOTE 11: OTHER INCOME

The Company recorded a capital gain of $0 and $1,901 during the third quarter and first nine months of 2009, respectively, and $358 and $11,223 million for the comparable periods of 2008 from the divestment of its equity investment in GloNav Inc. to NXP Semiconductors. The Company recorded a gain of $24 for the first nine months of 2008 related to the disposal of another investment and a gain of $4 during the same period from the sale of a property.

In October 2009, the Company received an additional milestone payment of $1.8 million from the divestment of its equity investment in GloNav Inc. to NXP Semiconductors, which will be recorded in Other Income in the fourth quarter of 2009.

NOTE 12: RECENTLY ISSUED ACCOUNTING STANDARDS

In October 2009, FASB issued ASU No. 2009-13 *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU No. 2009-13), that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements will be separated in more circumstances than under existing U.S. GAAP. ASU No. 2009-13 does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. A vendor will be required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. ASU No. 2009-13 also eliminates the residual method of allocation and will require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. Expanded disclosures of qualitative and quantitative information regarding the application of the multiple-deliverable revenue arrangement guidance are also required under ASU No. 2009-13. ASU No. 2009-13 does not apply to arrangements for which industry specific allocation and measurement guidance exists, such as long-term construction contracts and software transactions. For the Company, ASU No. 2009-13 is effective beginning January 1, 2011. The Company may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. The Company is currently evaluating the impact of this standard on its consolidated results of operations and financial condition.

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In October 2009, the FASB issued ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force* (ASU No. 2009-14), that reduces the types of transactions that fall within the current scope of software revenue recognition guidance. Existing software revenue recognition guidance requires that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software is considered more than incidental to the product or service. As a result of the amendments included in ASU No. 2009-14, many tangible products and services that rely on software will be accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under ASU No. 2009-14, the following components would be excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product s essential functionality, and undelivered components that relate to software that is essential to the tangible product s functionality. ASU No. 2009-14 also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). For the Company, ASU No. 2009-14 is effective beginning on January 1, 2011. The Company may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. However, the Company must elect the same transition method for this guidance as that chosen for ASU No. 2009-13. The Company is currently evaluating the impact of this standard on its consolidated results of operations and financial condition.

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value* (ASU No. 2009-05), which provides additional guidance on how companies should measure liabilities at fair value under ASC 820. ASU No. 2009-05 clarifies that the quoted price for an identical liability should be used. However, if such information is not available, an entity may use the quoted price of an identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities traded as assets, or another valuation technique (such as the market or income approach). ASU No. 2009-05 also indicates that the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer and indicates circumstances in which quoted prices for an identical liability or quoted price for an identical liability traded as an asset may be considered level 1 fair value measurements. For the Company, ASU No. 2009-05 is effective on October 1, 2009. The Company is currently evaluating the impact of this standard, but would not expect it to have a material impact on its consolidated results of operations or financial condition.

In May 2009, the FASB issued SFAS No. 165 Subsequent Events (ASC 855). This standard is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for fiscal years and interim periods ended after June 15, 2009. The Company adopted this standard effective June 15, 2009 and has evaluated any subsequent events through the date of this filing (see Notes 10 and 11 for a description of the Company s subsequent events).

In April 2009, the FASB issued three FASB Staff Positions (FSP) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities:

FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (ASC 820-10-65-4);

FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (ASC 825-10-65-1); and

FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (ASC 320-10-65-1).

ASC 820-10-65-4 provides additional guidance for estimating fair value in accordance with ASC 820, when the volume and level of activity for the asset or liability have significantly decreased in relation to normal market activity. ASC 820-10-65-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65-4 is effective for the quarter ended after June 15, 2009. The adoption of this standard by the Company did not have any impact on its condensed consolidated financial statements.

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ASC 825-10-65-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments (ASC 825), to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This new standard also amends Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting (ASC 270), to require those disclosures in summarized financial information at interim reporting periods. ASC 825-10-65-1 is effective for the quarter ended after June 15, 2009. Because ASC 825-10-65-1 applies only to financial statement disclosures, the adoption did not have a material effect on the Company s condensed consolidated financial statements.

ASC 320-10-65-1 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This new standard does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. ASC 320-10-65-1 is effective for the Company for the quarter ended June 30, 2009. The adoption of ASC 320-10-65-1 by the Company did not have any impact on its condensed consolidated financial statements.

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

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

BUSINESS OVERVIEW

The financial information presented in this quarterly report includes the results of CEVA, Inc. and its subsidiaries. CEVA is the leading licensor of DSP cores and platforms to the semiconductor industry. Our technologies are widely licensed and power some of the world s leading semiconductor and original equipment manufacturer (OEM) companies. In 2008, our licensees shipped over 307 million CEVA-powered chipsets, an increase of 36% over 2007 shipments of 227 million chipsets. We believe there is an industry shift from developing DSP technologies in-house to licensing them from third party IP providers due to the shortening of the design cycle and increased cost associated with ownership and maintenance of such architectures. Furthermore, given the technological complexity of DSP-based applications, there are increased requirements to supplement the basic DSP core IP with additional technologies in the form of integrated application-specific hardware peripherals and software components.

During the past two years, our business has progressed significantly as a result of the wide deployment of our DSP cores with leading handset suppliers such as Samsung, LG Electronics, Nokia, Sony Ericsson, Sharp and ZTE, as well as with a major U.S.-based smartphone manufacturer. This positive trend is evident from our royalty revenues which increased by 58% in 2008 from 2007 and increased 127% when comparing 2008 to 2006. We further anticipate that our royalty revenue for the fourth quarter of 2009 will increase by at least 20% from the third quarter to the fourth quarter of 2009. Based on internal data, we believe our worldwide market share of baseband chips for handsets that incorporate our technologies is approximately 23% of the worldwide handsets volume for the second quarter of 2009, up from 18% for the first quarter of 2009. Our total revenues derived from the handsets market represented 51% of our total annual 2008 revenues, and 81% and 62% of our total revenues for the third quarter and first three quarters of 2009, respectively. Notwithstanding these positive developments, we believe the full scale migration to our DSP cores and technologies in the handsets market has not been fully realized and continues to progress.

Within the handsets market, we believe smartphones and ultra low cost (ULC) phones, especially those targeted at emerging markets, continues to present significant growth opportunities for CEVA. Based on Informa Telecoms & Media estimations, smartphones are expected to account for approximately 13.5% of all new handsets in 2009, growing to 38% overall by 2013. Juniper Research forecasts that by 2014, 50% of the global handset shipments will be for ultra low cost phones. Per Juniper Research, just in the month of August 2009, 15 million new mobile subscribers were added in India. Per Frost & Sullivan, there are 680 million mobile subscribers in China, which equates to only a 51% penetration rate in China. We believe we can benefit from these trends through our leading customer base, including Broadcom, Infineon, Spreadtrum, ST-Ericsson and VIA Telecom.

Another growing market segment is netbooks. Per iSuppli, netbook shipments will grow by 69% in 2009. According to Gartner, netbooks could account for close to 10% of the PC market by the end of 2009. The netbook market poses a substantial, organic growth opportunity from which we are uniquely positioned to benefit. One of our key customers has already announced cooperation with Intel for its 3G modem chip which is being integrated into Intel s ATOM-based Moorestown and Pine Trail-M platforms. Also, Nvidia is partnering with the same customer to offer 3G connectivity around its newly-designed platform, Tegra, which is targeted for Mobile Internet Device (MID).

Beyond the handsets market, we had customers commencing production of chips based on our new mobile multimedia platforms during the latter half of 2008. These multimedia platforms enrich our licensable product offerings and increase our future royalty potential. Also, during the fourth quarter of 2008, a well-known new portable consumer product manufacturer began shipment of a new product powered by our technology. This device is the newest generation of an existing product that is the clear leader in its product category and has been sold in high volumes for the past three years. The latest version of this product includes advanced CEVA-powered multimedia capabilities for the first time.

In January 2009, we announced a new product, CEVA-HD-Audio, which offers high definition audio solutions for the growing home entertainment products such as Blu-ray DVDs, digital TVs, set-top boxes, IPTVs and home gateways. In February 2009, we announced a high performance DSP architecture designed and optimized for advanced wireless 3.5G/4G communications, the

CEVA-XC . This fully programmable DSP architecture supports multiple air interfaces in software, including the most demanding 4G mobile standards, LTE and WiMAX II, alongside 3G, 3.5G, Wi-Fi, GPS and MobileTV. Supporting multiple air interfaces in a single processor architecture is critical for next-generation handsets and wireless infrastructure equipment, and CEVA-XC delivers the performance and scalability needed to address these precise requirements. We believe our new products further highlight the potential for our licensing model and continued royalty revenue growth.

Notwithstanding the various growth opportunities we have outlined above, our business operates in a highly competitive environment. Competition has historically increased pricing pressures for our products and decreased our average selling prices. 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 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. We currently anticipate that our operating expenses will increase during the fourth quarter of 2009 in comparison to the prior three quarters of 2009, mainly due to increased investments in research and development, including the addition of new engineers. Nonetheless, we must continue to monitor and control our operating costs and maintain our current level of gross margin in order to offset any future declines in shipment quantities of products based on our technologies or any future declines in any per-unit royalty rates. Moreover, since our products are incorporated into end products of our OEM customers, our business is very dependent on our OEM customers ability to achieve market acceptance of their end products in the handsets and consumer electronic markets, which are similarly very competitive.

The ever-changing nature of the market also affects our continued business growth potential. For example, the success of our video and audio products are highly dependent on the market adoption of new services and products, such as smartphones, Internet video, the migration from audio players to Personal Multimedia Players (PMP), as well as the migration to Blu-ray DVDs, digital TVs, set-top boxes with high definition audio and IPTVs. In addition, our business is affected by market conditions in emerging markets, such as China, India and Latin America, where the penetration of handsets, especially ULC phones, could generate future growth potential for our business. The maintenance of our competitive position and our future growth also are dependent on our ability to adapt to ever-changing technology, short product life cycles, evolving industry standards, changing customer needs and the trend towards voice, audio and video convergence in the markets that we operate.

Furthermore, the current worldwide economic downturn has resulted in slower economic activity, decreased consumer confidence and spending, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. The continued economic downturn could cause reduced spending on our products and services. We also operate primarily in the semiconductor industry, which is cyclical, and the recent downturn has resulted in a significant downturn of the semiconductor industry. The result is decreased product demand, excess customer inventories, and accelerated erosion of prices.

Moreover, due to the economic uncertainties, it is extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities. Therefore, the worldwide economic downturn and specifically the volatility in the semiconductor and consumer electronics industries could seriously impact our revenue and harm our business, financial condition and operating results. As a result, our past operating results should not be relied upon as an indication of future performance.

RESULTS OF OPERATIONS

Total Revenues

Total revenues were $9.7 and $28.3 million for the third quarter and first nine months of 2009, respectively, representing a decrease of 5% and 7%, respectively, as compared to the corresponding periods in 2008. The decrease in total revenues reflected principally lower licensing revenues from our product lines and lower revenues from the provision of technical support to customers and sales of development systems, offset by an increase in our royalty revenues. Five largest customers accounted for 83% and 55% of total revenues for the third quarter and first nine months of 2009, respectively, as compared to 70% and 53% for the comparable periods in 2008. Two customers accounted for 23% and 44% of total revenues for the third quarter of 2009, as compared to three different customers that accounted for 14%, 14% and 26% of total revenues for the third quarter of 2008. Two customers accounted for 19% and 16% of total revenues for the first nine months of 2009, as compared to one customer that accounted for 20% of total revenues for the first nine months of 2008. Because of the nature of our license agreements and the associated large initial payments due, the identity of major customers generally varies from quarter to quarter and we do not believe that we are materially dependent on any one specific customer or any specific small number of licensees. Our total revenues derived from the handsets market represented 81% and 62% of our total revenues for the third quarter and first nine months of 2009, respectively.

We generate our revenues from licensing our technology, which in certain circumstances is modified to customer-specific requirements. Revenues from license fees that involve customization of our technology to customer specifications are recognized in accordance with Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (ASC 605-35). We account for all of our other IP license revenues and related services in accordance with SOP 97-2, Software Revenue Recognition, as amended (ASC 985-605).

We generate royalty revenue from our customers based on two models: royalties paid by our customers during the period in which they ship units of chipsets incorporating our technology, which we refer to as per unit royalties, and royalties which are paid in a lump sum and in advance to cover a pre-determined fixed number of future unit shipments, which we refer to as prepaid royalties. In either case, these royalties are non-refundable payments and are recognized when payment becomes due, provided no future obligation exists. Prepaid royalties are recognized under our licensing revenue line and accounted for 4% of total revenues for both the first nine months of 2009 and 2008. No prepaid royalties revenue was generated during the three months ended September 30, 2009 and 2008. Only royalty revenue from customers who are paying as they ship units of chipsets incorporating our technology is recognized in our royalty revenue line. These per unit royalties are invoiced and recognized on a quarterly basis in arrears as we receive quarterly shipment reports from our licensees.

Licensing Revenues

Licensing revenues were $5.2 and $14.1 million for the third quarter and first nine months of 2009, respectively, a decrease of 12% and 18% from the third quarter and first nine months of 2008. The decrease in licensing revenues for the third quarter of 2009 as compared to the corresponding period of 2008 resulted mainly from lower revenues from our CEVA-TeakLite DSP core family of products and the inclusion of licensing revenues from u-blox AG to resolve a license dispute in the third quarter of 2008, partially offset by higher revenues from our CEVA-X DSP core family of products. The decrease in licensing revenues for the first nine months of 2009 as compared to the corresponding period of 2008 resulted mainly from the inclusion of the u-blox AG revenue mentioned above and lower revenues from our CEVA-Teak and TeakLite DSP core families of products, partially offset by higher revenues from our CEVA-X IP DSP core family of products. Licensing revenues in 2009 were in general negatively affected by the economic downturn and companies lowering their research and developments budgets and expenses associated with acquiring new technologies.

Licensing revenues accounted for 54% and 50% of our total revenues for the third quarter and first nine months of 2009, respectively, compared to 59% and 56% for the comparable periods of 2008. During the third quarter of 2009, we concluded six license agreements. Five agreements were for CEVA DSP cores and platforms, and one agreement was for our Bluetooth technology. Target applications for customer deployment are 2G ultra-low cost phones, 3G handsets, Smartphones, mobileTVs, portable multimedia and PassiveOptical Networks (PON). Geographically, three of the six deals concluded were in Europe and three were in the Asia Pacific region.

Royalty Revenues

Royalty revenues were $3.7 and $11.4 million for the third quarter and first nine months of 2009, respectively, an increase of 12% and 13% from the third quarter and first nine months of 2008. Royalty revenues accounted for 38% and 40% of our total revenues for the third quarter and first nine months of 2009, respectively, compared to 32% and 33% for the comparable periods of 2008. Royalty revenues for first nine months of 2009 include $0.9 million of royalties resulting from catch up royalties on past shipments from an existing customer. Excluding the catch up royalties, the increase in royalty revenues for the third quarter and first nine months of 2009 reflected our market share expansion in the handsets market, as well as new shipments of a portable multimedia device, offset by overall lower shipments of products by our customers in the consumer market due to the global economic downturn and a decrease in the average royalty rate per unit. Our per unit and prepaid royalty customers reported sales of 89 and 213 million chipsets incorporating our technology for the third quarter and first nine months of 2009, respectively, compared to 72 and 228 million for the comparable periods of 2008. The five largest customers paying per unit royalty accounted for 85% and 71% of total royalty revenues for the third quarter and first nine months of 2009, respectively, compared to 82% and 81% for the comparable periods of 2008.

As of September 30, 2009, 21 licensees were shipping products incorporating our technologies pursuant to 29 licensing arrangements. Of the 29 licensing arrangements, 25 are under per unit royalty arrangements and 4 are under prepayment arrangements. As of September 30, 2008, 23 licensees were shipping products incorporating our technologies pursuant to 31 licensing arrangements. Of the 31 licensing arrangements, 23 were under per unit royalty arrangements and 8 were under prepayment arrangements.

Other Revenues

Other revenues were $0.7 and $2.8 million for the third quarter and first nine months of 2009, respectively, a decrease of 23% and 12% from the third quarter and first nine months of 2008, respectively. The decrease in other revenues for the third quarter of

2009, as compared to the corresponding period of 2008, reflected lower support-related revenues and lower sales of development systems, mainly associated with companies tighter expense control and refraining from extending or renewing support-related agreements. The decrease in other revenues for the first nine months of 2009, as compared to the corresponding period of 2008, reflected lower support-related revenues. Other revenues accounted for 7% and 10% of our total revenues for the third quarter and first nine months of 2009, respectively, compared to 9% and 11% for the comparable periods of 2008. Other revenues include support and training for licensees and sale of development systems.

Geographic Revenue Analysis

	Nine months 2009		Nine months 2008		Third Quarter 2009		Third Quarter 2008	
	(in millions, except percentages)				(in millions, except percentages)			
United States	$ 3.5	*12%*	$ 4.5	*15%*	$ 0.5	*5%*	$ 2.4	*24%*
Europe and Middle East (1) (2)	$ 12.7	*45%*	$ 15.2	*50%*	$ 3.9	*41%*	$ 5.5	*54%*
Asia Pacific (3) (4) (5)	$ 12.1	*43%*	$ 10.7	*35%*	$ 5.3	*54%*	$ 2.3	*22%*
(1) Sweden	$ 6.1	*22%*	$ 6.2	*20%*	$ 1.7	*17%*	$ 1.4	*14%*
(2) Switzerland	*)	*)	$ *)	*)	*)	*)	$ 2.7	*26%*
(3) Japan	$ 3.3	*12%*	$ 4.1	*14%*	$ *)	*)	*)	*)
(4) S. Korea	*)	*)	$ *)	*)	$ *)	*)	$ 1.5	*14%*
(5) China	$ 5.4	*19%*	$ *)	*)	$ 4.2	*44%*	*)	*)

*) Less than 10%

Due to the nature of our license agreements and the associated large contract amounts, the geographic split of revenues in absolute dollars generally varies from quarter to quarter.

Cost of Revenues

Cost of revenues were $0.8 and $3.2 million for the third quarter and first nine months of 2009, respectively, compared to $1.1 and $3.5 million for the comparable periods of 2008. Cost of revenues accounted for 9% and 11% of total revenues for the third quarter and first nine months of 2009, respectively, compared to 11% and 12% for the comparable periods of 2008. The decrease for the third quarter of 2009 principally reflected lower customization work for our licensees and lower royalty payback expenses paid to the Office of Chief Scientist of Israel. Royalty payback expenses amounted to 3%-3.5% of the actual sales of certain of our products, the development of which previously received grants from the Office of Chief Scientist of Israel. The decrease for the first nine months of 2009 principally reflected lower customization work for our licensees, partially offset by higher salary and related costs. Included in cost of revenues for the third quarter and first nine months of 2009 was a non-cash equity-based compensation expense of $21,000 and $90,000, respectively, compared to $28,000 and $83,000 for the comparable periods of 2008.

Gross Margin

Gross margins for the third quarter and first nine months of 2009 were 91% and 89%, respectively, compared to 89% and 88% for the comparable periods of 2008, respectively. The increase in gross margins for the third quarter and first nine months of 2009 principally reflected lower licensing revenues offset by higher royalty revenues which have higher gross margins, and a decrease in cost of revenues.

Operating Expenses

Total operating expenses were $7.2 and $21.6 million for the third quarter and first nine months of 2009, respectively, compared to $8.3 and $29.1 million for the comparable periods of 2008. The decrease in total operating expenses for the third quarter of 2009 principally reflects (i) lower salary and related costs, partially as a result of the restructuring of our SATA activities, (ii) lower marketing expenses, and (iii) higher research grants received from the Office of Chief Scientist of Israel. The decrease in total operating expenses for the first nine months of 2009 principally reflects (i) the fact that a restructuring and reorganization expense of $3.5 million associated with the termination of the Harcourt property lease in Dublin, Ireland was recorded in the first nine months of 2008, (ii) lower salary and related costs, partially as a result of the restructuring of the SATA activities, (iii) lower professional services costs, and (iv) higher research grants received from the Office of Chief Scientist of Israel and the Irish government.

We currently anticipate that our operating expenses will increase during the fourth quarter of 2009 in comparison to the prior three quarters of 2009, mainly due to increased investments in research and development, including the addition of new engineers.

Research and Development Expenses, Net

Our research and development expenses were $4.1 and $12.1 million for the third quarter and first nine months of 2009, respectively, compared to $4.8 and $15.1 million for the comparable periods of 2008. The net decrease for the third quarter of 2009 principally reflected lower salary and related costs, partially as a result of the termination in employment of a number of SATA-related technology engineers, as well as an increase in research grants received from the Office of Chief Scientist of Israel. The net decrease for the first nine months of 2009 principally reflected lower salary and related costs, partially as a result of the termination in employment of a number of SATA-related technology engineers, an increase in research grants received from the Office of Chief Scientist of Israel and lower project-related expenses. Included in research and development expenses for the third quarter and first nine months of 2009 was a non-cash equity-based compensation expense of $197,000 and $689,000, respectively, compared to $273,000 and $805,000 for the comparable periods of 2008. Research and development expenses as a percentage of total revenues were 42% and 43% for the third quarter and first nine months of 2009, respectively, compared to 47% and 50% for the comparable periods of 2008.

The number of research and development personnel was 124 at September 30, 2009, compared to 123 at September 30, 2008.

Sales and Marketing Expenses

Our sales and marketing expenses were $1.6 and $4.9 million for the third quarter and first nine months of 2009, respectively, compared to $1.8 and $5.4 million for the comparable periods of 2008. The decrease for the third quarter of 2009 principally reflected lower marketing expenses. The decrease for first nine months of 2009 primarily reflects lower commission cost, salary and related costs and marketing expenses. Included in sales and marketing expenses for the third quarter and first nine months of 2009 was a non-cash equity-based compensation expense of $138,000 and $442,000, respectively, compared to $143,000 and $380,000 for the comparable periods of 2008. Sales and marketing expenses as a percentage of total revenues were 17% for both the third quarter and first nine months of 2009, compared to 18% for both the third quarter and first nine months of 2008.

The total number of sales and marketing personnel was 21 at September 30, 2009, compared to 19 at September 30, 2008.

General and Administrative Expenses

Our general and administrative expenses were $1.5 and $4.6 million for the third quarter and first nine months of 2009, respectively, compared to $1.7 and $5.0 million for the comparable periods of 2008. The decrease for the third quarter of 2009 primarily reflected lower professional services costs. The decrease for the first nine months of 2009 primarily reflected lower professional services costs, offset by higher non-cash equity-based compensation expenses. Included in general and administrative expenses for the third quarter and first nine months of 2009 was a non-cash equity-based compensation expense of $329,000 and $989,000, respectively, compared to $343,000 and $816,000 for the comparable periods of 2008. General and administrative expenses as a percentage of total revenues were 16% for both the third quarter and first nine months of 2009, compared to 17% and 16% for the third quarter and first nine months of 2008, respectively.

The number of general and administrative personnel was 24 at both September 30, 2009 and 2008.

Amortization of Other Intangibles

We had no amortization charges for both the third quarter and first nine months of 2009, as compared to $12,000 and $53,000 for the third quarter and first nine months of 2008, respectively. Other intangible assets were fully amortized in 2008.

Reorganization

On January 18, 2008, we signed an assignment agreement with the Harcourt landlord for the surrender and termination of the Harcourt lease in Dublin, Ireland. We paid approximately $5.9 million during the first nine months of 2008 for the termination of the lease and related termination costs, consisting primarily of legal and professional fees. We also successfully managed during the first quarter of 2008 to terminate part of our lease obligation in another office in Limerick, Ireland, where we had unused space. We recorded during the first nine months of 2008 an aggregate of $3.5 million for the above lease terminations as an additional reorganization expense. As a result of the above lease terminations, we have no under-utilized building operating lease obligations.

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Financial Income, Net (in millions)

	Nine months 2009	Nine months 2008	Third Quarter 2009	Third Quarter 2008
Financial income, net	$ 1.50	$ 1.98	$ 0.55	$ 0.65
of which:				
Interest income and gains and losses from marketable securities, net	$ 1.65	$ 2.18	$ 0.58	$ 0.64
Foreign exchange gain (loss)	$ (0.15)	$ (0.20)	$ (0.03)	$ 0.01

Financial income, net, consists of interest earned on investments, gains and losses from marketable securities, amortization of discounts and premiums on marketable securities and foreign exchange movements. The decrease in financial income, net, during the third quarter and first nine months of 2009 principally reflected lower interest rates, offset by higher combined cash, bank deposits and marketable securities balances held.

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 $28,000 and $152,000 for the third quarter and first nine months of 2009, respectively, and a foreign exchange gain of $12,000 and a foreign exchange loss of $200,000 for the comparable periods of 2008.

Other Income (in millions)

	Nine months 2009	Nine months 2008	Third Quarter 2009	Third Quarter 2008
Gain on realization of investments	$ 1.90	$ 11.25	$	$ 0.36

We recorded a capital gain of $1.9 million for the first nine months of 2009 and a capital gain of $358,000 and $11.23 million for the third quarter and first nine months of 2008, respectively, from the divestment of our equity investment in GloNav Inc. to NXP Semiconductors. We recorded a capital gain of $24,000 for the first nine months of 2008 related to the disposal of another investment.

Provision for Income Taxes

Our income tax expenses were $394,000 and $1.4 million for the third quarter and first nine months of 2009, respectively, compared to $384,000 and $3.3 million for the comparable periods of 2008. During the first nine months of 2009, we recorded a tax expense of $543,000 related to capital gains from the divestment of our equity investment in GloNav to NXP Semiconductors. In addition, the provision for income taxes during the third quarter and first nine months of 2009 principally reflected income earned in certain foreign jurisdictions. During the first nine months of 2008, we recorded a tax expense of $3.2 million related to capital gains from the divestment of our equity investment in GloNav to NXP Semiconductors, a tax expense of $578,000 related to income earned in certain foreign jurisdictions, as well as an income tax benefit of $432,000 related to domestically deferred tax assets such as accrued expenses, deferred revenue and depreciation. We have significant operations in Israel and the Republic of Ireland, and a substantial portion of our taxable income is generated there. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

The Irish operating subsidiary currently qualifies for a 10% tax rate for its trade, which under current Irish legislation will remain in force until December 31, 2010. After this date, a tax rate of 12.5% shall apply.

The Israeli operating subsidiary s production facilities were granted Approved Enterprise status under Israeli law in connection with six separate investment plans. Accordingly, income from an Approved Enterprise is tax-exempt for a period of two or four years and is subject to a reduced corporate tax rate of 10% to 25% (based on percentage of foreign ownership) for an additional period of six or eight years. The tax benefit under the first, second and third plans have expired and are subject to corporate tax of 26% in 2009. However, the Israeli operating subsidiary received in 2008 an approval for the erosion of tax basis in respect to its second and third plans, and as a result no taxable income was attributed to these plans.

On April 1, 2005, an amendment to the Israeli Investment Law came into effect (the Amendment) and significantly changed the provisions of the Investment Law. The Amendment included revisions to the criteria for investments qualified to receive tax benefits as an Approved Enterprise. The Amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to December 31, 2004, and therefore benefits included in any certificate of approval that was granted before the Amendment came into effect remains subject to the provisions of the Investment Law as they were in effect on the date of such approval. Our Israeli subsidiary s seventh plan (commenced in 2007) is subject to the provisions of the Amendment. We believe that we are currently in compliance with the requirements of the Investment Law and

Amendment. However, if we fail to meet these requirements, we would be subject to corporate tax in Israel at the regular statutory rate of 26% for 2009. We could also be required to refund tax benefits, with interest and adjustments for inflation based on the Israeli consumer price index.

Certain expenditures pursuant to Israeli law are permitted to be recognized as a tax deduction over a three year period which has resulted in deferred tax assets of $1.1 million at both September 30, 2009 and December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2009, we had $8.7 million in cash and cash equivalents and $83.1 million in bank deposits and marketable securities, totaling $91.8 million, compared to $84.6 million at December 31, 2008. During the first nine months of 2009, we invested $70.0 million of cash in certificates of deposits, corporate bonds and securities, and U.S. government and agency securities with maturities up to 24 months. In addition, during the same period, certificates of deposits, corporate bonds and securities, and U.S. government and agency securities were sold or redeemed for cash amounting to $59.1 million. The purchase and sale or redemption of available-for-sale marketable securities are considered part of investing cash flow. In accordance with SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities (ASC 320), available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the condensed consolidated statements of operations. Determining whether the decline in fair value is other-than-temporary requires management judgment based on the specific facts and circumstances of each investment. For investments in debt instruments, these judgments primarily include: (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost. Given the current market conditions, these judgments could prove to be wrong, and companies with relatively high credit ratings and solid financial conditions may not be able to fulfill their obligations. In addition, a decision by management to no longer hold an investment until maturity or recovery may result in the recognition of an other-than-temporary impairment.

Non-tradable deposits are short-term bank deposits with maturities of more than three months but less than one year. The non-tradable deposits are presented at their cost, including accrued interest, and purchases and sales are considered part of cash flows from investing activities.

Net cash provided by operating activities for the first nine months of 2009 was $2.5 million, compared to $3.4 million of net cash used in operating activities for the comparable period of 2008. For the first nine months of 2009, we expended $645,000 in connection with the restructuring of our SATA activities. For the first nine months of 2008, we expended $5.9 million in connection with reorganizations, mainly the termination of the Harcourt lease, and $2.5 million in connection with taxes associated with a capital gain from the divestment of our equity investment in GloNav to NXP Semiconductors.

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 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.

Net cash used in investing activities for the first nine months of 2009 was $9.3 million, compared to $26.5 million of net cash used in investing activities for the comparable period of 2008. We had a cash outflow of $28.4 million and a cash inflow of $23.6 million in respect of investments in marketable securities for the first nine months of 2009, as compared to cash outflow of $24.8 million and a cash inflow of $16.1 million in respect of investments in marketable securities for the first nine months of 2008. For the first nine months of 2009, we had a net investment of $6.1 million in short term bank deposits as compared to a net investment of $32.9 million in short term bank deposits for the comparable period of 2008. During the first nine months of 2009 and 2008, we had a cash inflow of $1.9 and $15.5 million, respectively, from the divestment of our equity investment in GloNav to NXP Semiconductors.

Net cash provided by financing activities during the first nine months of 2009 was $2.3 million, compared to $0.4 million of net cash provided by financing activities for the comparable period of 2008.

In August 2008, we announced that our board of directors approved a share repurchase program for up to 1.0 million shares of common stock. In September 2008, we announced the adoption of a share repurchase plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the 10b5-1 Plan), to repurchase up to 500,000 of the 1.0 million shares of common stock authorized by the board for repurchase, which plan was fully utilized during the fourth quarter of 2008. In February 2009, our board of directors approved the adoption of another 10b5-1 Plan authorizing the repurchase of 200,064 shares of our common stock, representing the remaining shares available for repurchase under our share repurchase program. During the first quarter of 2009, we repurchased 140,828 shares of our common stock pursuant to the additional 10b5-1 Plan and Rule 10b-18 of the Securities Exchange Act of 1934, as amended, at an average purchase price of $5.85 per share, for an aggregate purchase price of $0.8 million. No repurchases were made during the second and third quarters of 2009. As of September 30, 2009, 106,409 shares of our common stock remain available for repurchase under our share repurchase program. In October 2009, our board of directors authorized the termination of the additional 10b5-1 Plan such that the 106,409 shares of common stock that remain available for repurchase may be repurchased pursuant to Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

During the first nine months of 2009 and 2008, we received $3.1 and $1.6 million, respectively, from the issuance of shares upon exercise of employee stock options and under our employee stock purchase plan.

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

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

SUBSEQUENT EVENTS

In June 2006, we divested our GPS technology and associated business to GloNav Inc. in consideration for an equity investment in GloNav, which we further divested to NXP Semiconductors in January 2008. Subsequent to the divestment, we received a portion of the milestone payments due to GloNav upon its achievement of certain revenue and product development milestones agreed upon with NXP Semiconductors, less certain fees and expenses incurred in connection with the transaction. As of September 30, 2009, we had received milestone payments aggregating $18.3 million. In October 2009, we received an additional milestone payment of $1.8 million, which will be recorded in Other Income in the fourth quarter of 2009.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars, and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the majority of our expenses are denominated in currencies other than the U.S. dollar, principally the Euro and the Israeli NIS. Increases in the volatility of the exchange rates of the Euro and the Israeli NIS versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when remeasured into U.S. dollars. We review our monthly expected non-U.S. dollar denominated 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 $28,000 and $152,000 for the third quarter and first nine months of 2009, respectively, and a foreign exchange gain of $12,000 and a foreign exchange loss of $200,000 for the corresponding periods of 2008.

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 Israeli NIS and Euro during the year, we instituted during the second quarter of 2007, a foreign currency cash flow hedging program. We hedge portions of the anticipated payroll for our Israeli and Irish employees denominated in Israeli NIS and Euro for a period of one to twelve months with forward and put option contracts. During the third quarter and first nine months of 2009, we recorded accumulated other comprehensive gain of $130,000 and $132,000, respectively, from our forward and put option contracts, net of taxes, with respect to anticipated payroll for our Israeli and Irish employees. During the third quarter and first nine months of 2008, we recorded accumulated other comprehensive gain of $110,000 and $56,000, respectively, from our forward and put option contracts with respect to anticipated payroll for our Israeli and Irish employees. As of September 30, 2009, the amount of other comprehensive gain from our forward and put option contracts, net of taxes, was $277,000, which will be recorded in the consolidated statements of operations in the following 12 months. We recognized a net gain of $95,000 and a net loss of $267,000 during the third quarter and first nine months of 2009, respectively, and a net loss of $56,000 and a net gain of $160,000 for the comparable periods in 2008, related to forward and put option 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.

We invest our cash and cash equivalents in highly liquid investments with original maturities of generally 12 months or less at the time of purchase and maintain them with reputable major financial institutions. Cash held by foreign subsidiaries is generally held in short-term time deposits denominated in the local currency and in U.S. dollars. 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 assurances 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 or the financial and credit markets continue to worsen.

We hold an investment portfolio consisting principally of corporate bonds and securities, and U.S. government and agency securities. As of September 30, 2009, we had unrealized losses of $28,000 from our investments. However, we intend, and have the ability, to hold such investments until recovery of temporary declines in market value or maturity. Accordingly, as of September 30, 2009, we believe the losses associated with our investments are temporary and no impairment loss was recognized for the third quarter of 2009. However, we can provide no assurances that we will recover present declines in the market value of our investments.

Interest income and gains from marketable securities, net, were $579,000 and $1.65 million for the third quarter and first nine months of 2009, respectively, compared to $638,000 and $2.18 million for the comparable periods in 2008. The decrease in financial income, net, during the third quarter and first nine months of 2009 principally reflected lower interest rates, offset by higher combined cash, bank deposits and marketable securities balances held.

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

Item 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

This Form 10-Q contains forward-looking statements concerning our future products, expenses, revenue, liquidity and cash needs as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause our actual results to differ significantly from the results described in these forward-looking statements, including the following risk factors.

There are no material changes to the Risk Factors described under the title Factors That May Affect Future Performance in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 other than (1) changes to the Risk Factor below entitled The markets in which we operate are highly competitive, and as a result we could experience a loss of sales, lower prices and lower revenue; (2) changes to the Risk Factor below entitled Our quarterly operating results fluctuate from quarter to quarter due to a variety of factors, including our lengthy sales cycle, and may not be a meaningful indicator of future performance; (3) changes to the Risk Factor below entitled We rely significantly on revenue derived from a limited number of customers; (4) changes to the Risk Factor below entitled Our operating results may fluctuate significantly due to the cyclicality of the semiconductor industry or global economy slowdown, which could adversely affect the market price of our stock; (5) changes to the Risk Factor below entitled We depend on market acceptance of third-party semiconductor intellectual property; (6) changes to the Risk Factor below entitled Our research and development expenses may increase if the grants we currently receive from the Israeli and Irish governments are reduced or withheld; (7) changes to the Risk Factor below entitled We are exposed to fluctuations in currency exchange rates; and (8) changes to the Risk Factor below entitled Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our revenues and business. In addition a risk factor entitled We generate a significant amount of our revenues from the license of technologies incorporated in handsets and our business and operating results may be materially adversely affected if we do not continue to succeed in this highly competitive market was added.

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

The markets for the products in which our technology is incorporated are highly competitive. 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 factors may have a significant impact on our competitiveness:

- microprocessor IP providers, such as ARC, ARM Holdings, MIPS Technologies and Tensilica, are offering DSP and DSP extensions to their IP;
- our video solution is software-based and competes with hardware implementation offered by companies such as Hantro (acquired by On2) and companies offering other software solutions, such as Imagination Technologies, Chips & Media, Tensilica and ARC; and
- SATA and SAS IP market is highly standardized with several vendors offering similar products, leading to pricing pressures for both licensing and royalty revenue.

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 processor performance, overall system cost, power consumption, flexibility, reliability, software availability, design cycle time, ease of implementation, 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 timing of the introduction of new or enhanced technologies by us and our competitors, as well as the market acceptance of such technologies;

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

- the mix of revenues among licensing revenues, per unit and prepaid royalties and service revenues;

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

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

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

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

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

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

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 global economic slowdown, 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 OEM customers 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 incorporate our technology and the market acceptance of such ends products supplied by our OEM customers. The fourth quarter in any given year is usually the strongest quarter for sales by our OEM customers in the consumer markets, and thus, the first quarter in any given year is usually the strongest quarter for royalty revenues as our royalties are reported and invoiced one quarter in arrears. By contrast, the second quarter in any given year is usually the weakest quarter for us in relation to royalty revenues. However, this general quarterly fluctuation may be impacted by the current global economic slowdown.

In addition, as noted above, our operating expenses and, accordingly, our operating income, are subject to fluctuation from quarter to quarter. In particular, due to the current global economic downturn and pricing instability in worldwide markets, the level of operating efficiency and lower operating expenses that we reported for the first three quarters of 2009 may not continue in future quarters. We currently anticipate that our operating expenses will be higher for the fourth quarter of 2009, in comparison to the prior three quarters of 2009, mainly due to increased investments in research and development, including the addition of new engineers. Any future increase in our operating expenses or decrease in our operating efficiency could adversely impact our future financial results.

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

We expect that a limited number of customers, generally varying in identity from period to period, will account for a substantial portion of our revenues in any period. Two customers accounted for 23% and 44% of our total revenues for the third quarter of 2009 and 19% and 16% of our total revenues for the first nine months of 2009. Five largest customers accounted for 83% and 55% of total revenues for the third quarter and first nine months of 2009, respectively. Moreover, license agreements for our DSP cores have not historically provided for substantial ongoing license payments. Significant portions of our anticipated future revenue, therefore, will likely depend upon our success in attracting new customers or expanding our relationships with existing customers. Our ability to succeed in these efforts will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products, as well as our sales and marketing skills. In addition, some of our licensees may decide to satisfy their needs through in-house design and production. Our failure to obtain future customer licenses would impede our future revenue growth and could materially harm our business.

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

The semiconductor intellectual property (SIP) industry is a relatively 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 towards licensing open DSP cores. Furthermore, the third-party licensable intellectual property model is highly dependent on the market adoption of new services and products, such as smartphones, Internet video, Personal Multimedia Players (PMP), Blu-ray DVDs, digital TVs, set-top boxes with high definition audio and IPTVs. This is 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.

These trends that would enable our growth are largely beyond our control. Semiconductor customers may also 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 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 ability to ship products according to our customers schedule. Moreover, the current global economic downturn 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 our IP solutions. In addition, our unit royalties from licenses 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 cyclical and have been subject to significant economic downturns at various times, particularly in recent periods, including the current global economic downturn. 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 generate a significant amount of our total revenues from the handsets market and our business and operating results may be materially adversely affected if we do not continue to succeed in this highly competitive market.

Revenues derived from the handsets market accounted for approximately 51% of our total annual revenues for 2008. Similarly, revenues derived from the handsets market accounted for approximately 81% and 62% of our total revenues for the third quarter and first nine months of 2009, respectively. Any adverse change in our ability to compete and maintain our competitive position in the handsets market, including through the introduction of enhanced technologies that attract OEM customers that target the handsets market, would harm our business, financial condition and results of operations. Moreover, the handsets market is extremely competitive and is facing intense pricing pressures, and we expect that competition and pricing pressures will only increase. Our existing OEM customers may fail to introduce new handsets that attract consumers, or encounter significant delays in developing, manufacturing or shipping new or enhanced handsets in this market. The inability of our OEM customers to compete would result in lower shipments of handsets powered by our technologies which in turn would have a material adverse effect on our business, financial condition and results of operations.

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.

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

On an ongoing basis, we evaluate our various product offerings and technology developments in order to determine whether any should be discontinued or, to the extent possible, divested. For example, in connection with our reorganization and restructuring plans in 2003 and 2005, we ceased manufacturing of our hard IP products and certain non-strategic technology areas. In June 2006, we divested our GPS technology and related business. In December 2008, we restructured our SATA activities to better conform SATA s operating expense levels to its overall revenue contribution. We cannot guarantee that we have correctly forecasted, or will correctly forecast in the future, the right product lines and technology developments to dispose or discontinue or that our decision to dispose of or discontinue various investments, products lines and technology developments is prudent if market conditions change. In addition, there are no assurances that the discontinuance of various product lines will reduce our operating expenses or will not cause us to incur material charges associated with such decision. Furthermore, the discontinuance of existing product lines entails various risks, including the risk that we will not be able to find a purchaser for a product line or the purchase price obtained will not be equal to at 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.

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

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

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

Our primary operations are in the semiconductor industry, which is cyclical and subject to rapid technological change and evolving industry standards. From time to time, the semiconductor industry has experienced significant downturns such as the one we experienced during the 2000 and 2001 periods. In addition, the current general worldwide economic downturn has materially adversely impacted the semiconductor industry. 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. The downturn we experienced during the 2000 and 2001 periods was, and the current downturn in the semiconductor industry may be, severe and prolonged. Also, the failure of the semiconductor industry to fully recover from the current downturn or any future downturns could seriously impact our revenue and harm our business, financial condition and results of operations, which could cause our stock price to decline.

Moreover, the current general worldwide economic downturn has resulted in slower economic activity, concerns about inflation and deflation, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and could cause reduced spending on our products and services. Furthermore, a significant portion of our technologies is incorporated in consumer electronics products. The current general worldwide economic downturn has decreased consumer electronics retailers demand for products or resulted in a build up of their current inventory, both of which caused our customers to slow down their product shipments, which in turn could adversely impact our royalty revenues. During challenging economic times, our customers also may face longer product design cycles and issues with gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. Therefore, the worldwide economic downturn and specifically the volatility in the semiconductor and consumer electronics industry could seriously impact our revenue and harm our business, financial condition and results of operations, which could cause our stock price to decline.

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

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

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

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

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

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

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

We are exposed to fluctuations in currency exchange rates.

A significant portion of our business is conducted outside the United States. Although most of our revenue is transacted in U.S. dollars, we may be exposed to currency exchange fluctuations in the future as business practices evolve and we are forced to transact business in local currencies. Moreover, the bulk of our expenses in Israel and Europe are paid in Israeli currency (NIS) and Euro, which subjects us to the risks of foreign currency fluctuations. Our primary expenses paid in NIS and Euro are employee salaries. Increases in the volatility of the exchange rates of the Euro and the NIS versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur in Euro and NIS 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. This approach has resulted in a foreign exchange loss of $28,000 and $152,000 for the third quarter and first nine months of 2009, respectively. We expect to continue to experience the effect of exchange rate currency fluctuations on an annual and quarterly basis.

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 88% of our total revenues for the first nine months of 2009 were derived from customers located outside of the United States. We expect that international customers will continue to account for a significant portion of our revenue for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;

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

imposition of tariffs and other barriers and restrictions;

burdens of complying with a variety of foreign laws;

political and economic instability; and

changes in diplomatic and trade relationships.

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

The markets for programmable DSP cores and application IP are characterized by rapidly changing technology, emerging markets and new and developing end-user needs, 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.

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

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

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

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

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

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

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

Our business will suffer if we are sued for infringement of the intellectual property rights of third parties or if we cannot 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 to time, we have become aware of patents in our technology areas and have sought legal counsel regarding the validity of such patents and their impact on how we operate our business, and we will continue to seek such counsel when appropriate in the future. Infringement claims may require us to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of these claims. Any necessary licenses may

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not be available or, if available, may not be obtainable on commercially reasonable terms. If we cannot obtain necessary licenses on commercially reasonable terms, we may be forced to stop licensing our technology, and our business would be seriously harmed.

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

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

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

Historically, a substantial portion of our licensing revenues has been derived in any 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.

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, however, these benefits would be cancelled and we would be subject to corporate tax in Israel at the standard corporate rate of 26% in 2009 and could be required to refund tax benefits already received. In addition, we cannot assure you that these tax benefits will be continued in the future at their current levels or otherwise. The tax benefits under our current investment programs are scheduled to gradually expire. 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 corporate tax rate may increase, which could adversely impact our cash flow, financial condition and results of operations.

We have significant operations in Israel and the Republic of Ireland and a substantial portion of our taxable income historically has been generated there. Currently, some of our Israeli and Irish subsidiaries are taxed at rates substantially lower than the U.S. tax rates. Although there is no current expectation of any changes to Israeli and Irish tax laws, if our Israeli and Irish subsidiaries were no longer to qualify for these lower tax rates or if the applicable tax laws were rescinded or changed, our operating results could be materially adversely affected. In addition, because our Israeli and Irish operations are owned by subsidiaries of 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, the taxes on our 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 net operating losses (NOLs) to offset interest income.

Our cash and cash equivalents and investment portfolio could be adversely affected by the current downturn in the financial and credit markets.

We invest our cash and cash equivalents in highly liquid investments with original maturities of generally 12 months or less at the time of purchase and maintain them with reputable major financial institutions. 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 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 in which we hold our cash and cash equivalents fail or the financial and credit markets continue to worsen. Furthermore, we hold an investment portfolio consisting principally of corporate bonds and securities and U.S. government and agency securities. We intend, and have the ability, to hold such investments until recovery of temporary declines in market value or maturity; however, we can provide no assurance that we will recover declines in the market value of our investments.

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Item 6. EXHIBITS

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

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SIGNATURES

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

CEVA, INC.

Date: November 6, 2009	By: /s/ GIDEON WERTHEIZER Gideon Wertheizer Chief Executive Officer (principal executive officer)
Date: November 6, 2009	By: /s/ YANIV ARIELI Yaniv Arieli Chief Financial Officer (principal financial officer and principal accounting officer)

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