CEVA INC
Form 10-K
March 11, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from __________ to __________

Commission file number: 000-49842

CEVA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0556376**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1174 Castro Street, Suite 210, Mountain View, California	**94040**
(Address of principal executive offices)	**(Zip Code)**

(650) 417-7900

(Registrant s telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.001 par value per share	**NASDAQ GLOBAL MARKET**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of June 30, 2015, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $243,186,000 based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation System National Market System on June 30, 2015. Shares of common stock held by each officer, director, and holder of 5% or more of the outstanding common stock of the Registrant have been excluded from this calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

Class	**Outstanding at March 3, 2016**
Common Stock, $0.001 par value per share	**20,509,464 shares**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 16, 2016 (the 2016 Proxy Statement) are incorporated by reference into Item 5 of Part II and Items 10, 11, 12, 13, and 14 of Part III.

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FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

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

- Our belief that the adoption of our signal processing IP cores and software for smart, connected devices continues to progress;
- Our belief that our licensing expansion strategy will result in future royalty growth and a more diversified royalty base;
- Our belief that we will benefit from the handset market transitioning from feature phones to smartphones because we derive higher royalties on average from smartphones, especially LTE based, than feature phones;
- Our belief that there is a growing demand for high performance and low power signal processing IPs incorporating all the necessary hardware and software for target applications and that we are well positioned to take full advantage;
- Our belief that companies increasingly seek to license signal processing IPs from third parties rather than develop them in-house;
- Our belief that our intelligent audio processing IP required for IoT applications offers an additional growth segment for the company;
- Our belief that our vision processing IP offers another growth segment for the company, and that specifically ABI Research predicts that cameras equipped with vision processing are expected to exceed 2.7 billion units by 2018;
- Our belief that the addressable market size for products incorporating our Bluetooth IP is expected to be 35 billion devices by 2020;
- Our belief that unit shipments for non-handset baseband applications will reach 700 to 900 million units annually by 2018;

- Our belief that our licensing pipeline continues to be healthy across our product lines;

- Our anticipation that our cash and cash equivalents, short-term bank deposits and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months; 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 Item 1A: Risk Factors.

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

PART I

ITEM 1. BUSINESS
Company Overview

Headquartered in Mountain View, California, CEVA is the leading licensor of signal processing IP for a smarter, connected world. We partner with semiconductor companies and OEMs worldwide to create power-efficient, intelligent and connected devices for a range of end markets, including mobile, consumer, automotive, industrial and IoT. Our ultra-low-power IPs for vision, audio, communications and connectivity include comprehensive DSP-based platforms for LTE/LTE-A/5G baseband processing in handsets, infrastructure and machine-to-machine devices, computer vision and computational photography for any camera-enabled devices, as well as audio/voice/speech and ultra-low power always-on/sensing applications for multiple IoT markets. For connectivity, we offer the industry s most widely adopted IPs for Bluetooth (Smart and Smart Ready), Wi-Fi (802.11 b/g/n/ac up to 4x4) and serial storage (SATA and SAS).

Our technologies are licensed to leading semiconductor and OEM companies throughout the world. These companies incorporate our IP into application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) that they manufacture, market and sell into wireless, consumer, automotive, automative and IoT companies. Our state-of-the-art technology has shipped in more than 7 billion chips to date for a wide range of diverse end markets. One in three handsets sold worldwide is powered by CEVA.

Our revenue mix comprises primarily of IP licensing fees and related revenues, and royalties generated from the shipments of products deploying our IP. Related revenues include revenues from post contract support, training and sale of development systems.

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

CEVA was created through the combination of the DSP IP licensing division of DSP Group, Inc. and Parthus Technologies plc (Parthus) in November 2002. On July 4, 2014, we acquired 100% of RivieraWaves SAS, a privately-held, French company and a provider of wireless connectivity intellectual property for Wi-Fi and Bluetooth technologies.

We have over 250 employees worldwide, with research and development facilities in Israel, France, Ireland and the United Kingdom, and sales and support offices throughout Asia Pacific (APAC), Japan, Sweden, France, Israel and the United States.

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

Industry Background

DSP Cores

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

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Connectivity IPs

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

Design Gap

The demand for smarter, better connected mobile, consumer, automotive, industrial and IoT devices continues to grow. These devices require more connectivity, greater feature sets and a richer user experience. Semiconductor manufacturers face ever growing pressures to make smaller, feature-rich integrated circuits that are more reliable, less expensive and have greater performance. These two trends are occurring concurrently in the face of decreasing product lifecycles and constrained battery power. The advent of wireless and connectivity technologies like LTE-Advanced, Wi-Fi 802.11ac and Bluetooth Smart and multimedia technologies such as advanced image enhancement, computer vision, and voice and audio pre- and post-processing have further increased these pressures. While semiconductor manufacturing processes have advanced significantly to allow a substantial increase in the number of circuits placed on a single chip, resources for design capabilities have not kept pace with the advances in manufacturing processes, resulting in a growing design gap between the increasing manufacturing potential and the constrained design capabilities.

CEVA Business

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

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

Our IP Business Model

Our objective is for our CEVA signal processing IPs to become the de facto technologies across the mobile, consumer, automotive, industrial and IoT markets. To enable this goal, we license our technologies on a worldwide basis to semiconductor and OEM companies that design and manufacture products that combine CEVA-based solutions with their own differentiating technology. We believe our business model offers us some key advantages. By not focusing on manufacturing or selling silicon products, we are free to widely license our technology and free to focus most of our resources on research and development. By choosing to license our IP, manufacturers can achieve the advantage of creating their own differentiated solutions and develop their own unique product roadmaps. Through our licensing efforts, we have established a worldwide community developing CEVA-based solutions, and therefore we can leverage their strengths, customer relationships, proprietary technology advantages, and existing sales and marketing infrastructure. As an example, our CEVA-XCnet partner program focuses on various technology and solution providers with complimentary offerings for our CEVA-XC communication processor addressing wireless, infrastructure, smart grid and connectivity markets. In addition, as our intellectual property is widely licensed and deployed, system OEM companies can

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obtain CEVA-based chipsets from a wide range of suppliers, thus reducing dependence on any one supplier and fostering price competition, both of which help to contain the cost of CEVA-based products.

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

Strategy

We believe there is a growing demand for high performance and low power signal processing IPs incorporating all the necessary hardware and software for target applications. Our IP portfolio is strategically aligned to allow us to exploit the most lucrative design gaps in the growing demand for smarter, connected devices. As CEVA offers expertise developing complete solutions in a number of key growth markets, including cellular baseband, wireless infrastructure, computational photography, computer vision, automotive safety, audio and voice applications, Wi-Fi, Bluetooth and storage, we believe we are well positioned to take full advantage of this growing demand. To capitalize on this industry shift, we intend to:

- continue to develop and enhance our range of DSP cores with additional features, performance and capabilities;
- continue to develop and invest in our connectivity IPs, providing the newest standards and the most complete offerings to address our customers needs;
- continue to develop and enhance our range of complete and highly integrated platform solutions to deliver to our licensing partners a complete and verified system solution;
- continue to develop an ecosystem of third party partners developing software and solutions based on our technologies;
- continue to invest in strategic technologies that enable us to strengthen our presence in existing market or enter new addressable markets;
- capitalize on our relationships and leadership within our worldwide community of semiconductor and OEM licensees who are developing CEVA-based solutions;
- capitalize on our technology leadership in the development of advanced DSP technologies and connectivity IPs to create and develop new, strategic relationships with OEMs and semiconductor companies to replace their internal DSPs or incumbent DSP suppliers with CEVA-based solutions; and

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

Products

We are the leading licensor of signal processing IP for semiconductors and OEMs serving the mobile, consumer, automotive, industrial and IoT markets. Our ultra-low-power IPs for vision, audio, communications and connectivity include comprehensive DSP-based platforms for LTE/LTE-A/5G baseband processing in handsets, infrastructure and machine-to-machine devices, computer vision and computational photography for any camera-enabled device, audio/voice/speech and ultra-low power always-on/sensing applications for multiple IoT markets. For connectivity, we offer the industry s most widely adopted IPs for Bluetooth (Smart and Smart Ready), Wi-Fi (802.11 b/g/n/ac up to 4x4) and serial storage (SATA and SAS).

CEVA DSP Cores and Platforms

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

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

In order to reduce the cost, complexity, and risk in bringing products to market, CEVA has developed a suite of system platforms and solutions. These platforms and solutions combine the hardware and software elements that are essential for designers deploying CEVA s state-of-the-art DSP and IP cores. Platforms typically integrate a CEVA DSP core, hardware subsystem and application-specific (e.g. LTE, computer vision or audio) software. Our family of DSP-based platforms are targeted for baseband processing within cellular handsets, Machine to Machine (M2M) type devices and base stations, wired communications, imaging & computer vision, and audio, voice & sensing.

CEVA Connectivity IPs

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

Customers

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

We derive a significant amount of revenues from a limited number of customers. Sales to Spreadtrum represented 31%, 25% and 28% of our total revenues for 2015, 2014 and 2013, respectively. With respect to our royalty revenues, two royalty paying customers each represented 10% or more of our total royalty revenues for 2015, and collectively represented 72% of our total royalty revenues for 2015; three royalty paying customers each represented 10% or more of our total royalty revenues for 2014, and collectively represented 79% of our total royalty revenues for 2014; and four royalty paying customers each represented 10% or more of our total royalty revenues for 2013 and collectively represented 81% of our total royalty revenues for 2013. In 2015, we signed 47 new licensing deals, of which 21 were with first time new customers and 43 were for non-handset baseband applications.

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International Sales and Operations

Customers based in EME (Europe and Middle East) and APAC (Asia Pacific) accounted for 84% of our total revenues for 2015, 77% for 2014 and 88% for 2013. Customers in each of China and South Korea accounted for greater than 10% of our total revenues for 2015. Customers in China accounted for greater than 10% of our total revenues for 2014. Customers in each of Germany and China accounted for greater than 10% of our total revenues for 2013. Information on the geographic breakdown of our revenues and location of our long-lived assets is contained in Note 11 to our consolidated financial statements, which appear elsewhere in this annual report.

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

Sales and Marketing

We license our technology through a direct sales force. As of December 31, 2015, we had 34 employees in sales and marketing. We have sales offices and representation in Asia Pacific (APAC) region, Sweden, Israel, France and the United States.

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

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

Technical Support

We offer technical support services through our offices in Israel, Ireland, Asia Pacific (APAC) region, Sweden, France and the United States. As of December 31, 2015, we had 18 employees in technical support. Our technical support services include:

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

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

design services, consisting of creating customer-specific implementations of our signal processing IPs and application platforms.

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

Research and Development

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

Our research and development team, consisting of 184 engineers as of December 31, 2015, work in six development centers located in Israel, France, Ireland and the United Kingdom. This team consists of engineers who possess significant experience in developing DSP cores, application platforms, connectivity products (Wi-Fi and Bluetooth) and serial storage technology (SATA and SAS). In addition, we engage third party contractors with specialized skills as required to support our research and development efforts. Our research and development expenses, net of related research grants, included the RivieraWaves-related expenses from July 2014, were approximately $21 million, $26 million and $28 million for 2013, 2014 and 2015, respectively.

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

Competition

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

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

- IP vendors that offer programmable or configurable DSP cores;

- IP vendors that offer vision processing units for computer vision applications;

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

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

internal design groups of large chip companies or OEMs that develop proprietary signal processing IP coresor engines for their own application-specific chipsets.

We face direct competition in the DSP and configurable core space mainly from Verisilicon and Cadence, which licenses DSP cores in addition to their respective semiconductor and EDA businesses. In the connectivity space, we face direct competition from Imagination Technologies which offers a combination of Wi-Fi/Bluetooth, ARM Holdings, Mindtree and STMicroelectronics (previously ST Ericsson) in standalone Bluetooth technology.

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

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

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

- in the digital photography & embedded vision market Imagination Technologies, ARM Holdings, Synopsys, Cadence and Videantis, as well as GPU IP providers such as ARM Holdings, and Vivante;

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

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

Proprietary Rights

Our success and ability to compete are dependent on our ability to develop and maintain the proprietary aspects of our intellectual property and to operate without infringing the proprietary rights of others. We rely on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect the proprietary aspects of our technology. These legal protections afford only limited protection of our technology. We also seek to limit disclosure of our intellectual property and trade secrets by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code and other intellectual property. Due to rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments and enhancements to existing products are more important than specific legal protections of our technology in establishing and maintaining a technology leadership position.

We have an active program to protect our proprietary technology through the filing of patents. Our patents relate to our signal processing IP cores and application-specific platform technologies. As of December 31, 2015, we hold 51 patents in the United States, two patents in Canada, 29 patents in the EME (Europe and Middle East) region and seven patents in Asia Pacific (APAC) region, totaling 89 patents, with expiration dates between 2017 and 2034. In addition, as of December 31, 2015, we have 12 patent applications pending in the United States, 6 pending patent applications in Canada, 14 pending patent applications in the EME region and 6 pending patent applications in the APAC region, totaling 38 pending patent applications.

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

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

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

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

Employees

The table below presents the number of employees of CEVA as of December 31, 2015 by function and geographic location.

	Number
Total employees	**259**
Function	
Research and development	184
Sales and marketing	34
Administration	23
Technical support	18

Location	
Israel	159
France	41
Ireland	14
China	12
United States	12
United Kingdom	9
Elsewhere	12

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

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

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

Corporate History

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

Available Information

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

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

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ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

- we compete in the connectivity markets with Imagination Technologies, ARM Holdings, Mindtree and STMicroelectronics;

- we compete in the digital photography and embedded vision market with Cadence, Synopsys, Videantis, ARM Holdings (NEON technology) and GPU IP providers such as ARM Holdings, Imagination Technologies and Vivante; and we compete in the audio and voice applications market with ARM Holdings, Synopsys, Cadence and Verisilicon.

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

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

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

- the gain or loss of significant licensees, partly due to our dependence on a limited number of customers generating a significant amount of quarterly revenues;
- any delay in execution of any anticipated licensing arrangement during a particular quarter;
- delays in revenue recognition for some license agreements based on percentage of completion of customized work;
- the timing and volume of orders and production by our customers, as well as fluctuations in royalty revenues resulting from fluctuations in unit shipments by our licensees;
- royalty pricing pressures and reduction in royalty rates due to an increase in volume shipments by customers, end-product price erosion and competitive pressures;
- earnings or other financial announcements by our major customers that include shipment data or other information that implicates expectations for our future royalty revenues;
- the mix of revenues among licensing and related revenues, and royalty revenues;
- the timing of the introduction of new or enhanced technologies by us and our competitors, as well as the market acceptance of such technologies;
- the discontinuation, or public announcement thereof, of product lines or market sectors that incorporate our technology by our significant customers;
- our lengthy sales cycle and specifically in the third quarter of any fiscal year during which summer vacations slow down decision-making processes of our customers in executing contracts;
- delays in the commercialization of end products that incorporate our technology;

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

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

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

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

statutory changes associated with research tax benefits applicable to French technology companies;

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

entry into new end markets that utilize our signal processing IPs, software and platforms;

changes in our pricing policies and those of our competitors;

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

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

Each of the above factors is difficult to forecast and could harm our business, financial condition and results of operations. Also, we license our technology to OEMs and semiconductor companies for incorporation into their end products for consumer markets, including handsets and consumer electronics products. The royalties we generate are reported by our customers and invoiced by us one quarter in arrears. As a result, our royalty revenues are affected by seasonal buying patterns of consumer products sold by our OEM customers that incorporate our technology and the market acceptance of such end products supplied by our OEM customers. The second quarter in any given year is usually a sequentially down quarter for us in relation to royalty revenues as this period represents lower post-Christmas first quarter consumer product shipments and little to no new introduction of handsets during the first quarter of the year. However, the magnitude of this second quarter decrease varies annually and has been impacted by global economic conditions, market share changes, exiting or refocusing of market sectors by our customers and the timing of introduction of new and existing handset devices powered by CEVA technology sold in any given quarter compared to the prior quarter.

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

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

We derive a significant amount of revenues from a limited number of customers. One customer, Spreadtrum, accounted for 31%, 25% and 28% of our total revenues for 2015, 2014 and 2013, respectively. With respect to our royalty revenues, two royalty paying customers each represented 10% or more of our total royalty revenues for 2015, and collectively represented 72% of our total royalty revenues for 2015; three royalty paying customers each represented 10% or more of our total royalty revenues for 2014, and collectively represented 79% of our total royalty revenues for 2014; and four royalty paying customers each represented 10% or more of our total royalty revenues for 2013, and collectively represented 81% of our total royalty revenues for 2013. We expect that a significant portion of our future revenues will continue to be generated by a limited number of customers. The loss of any significant royalty paying customer could adversely affect our near-term future operating results. Furthermore, consolidation among our customers may negatively affect our revenue source, increase our existing customers negotiation leverage and make us further dependent on a limited number of customers. Moreover, the discontinuation of product lines or market sectors that incorporate our technology by our significant customers or a change in direction of their business and our inability to adapt our technology to their new business needs could have material negative implications for our future royalty revenues.

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

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

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

Royalty payments to us under existing and future license agreements could be lower than currently anticipated for a variety of reasons. Average selling prices for semiconductor products generally decrease over time during the lifespan of a product. In addition, there is increasing downward pricing pressures in the semiconductor industry on end products incorporating our technology, especially end products for the handsets and consumer electronics markets. As a result, notwithstanding the existence of a license agreement, our customers may demand that royalty rates for our products be lower than our historic royalty rates. We have in the past and may be pressured in the future to renegotiate existing license agreements with our customers. In addition, certain of our license agreements provide that royalty rates may decrease in connection with the sale of larger quantities of products incorporating our technology. Furthermore, our competitors may lower the royalty rates for their comparable products to win market share which may force us to lower our royalty rates as well. As a consequence of the above referenced factors, as well as unforeseen factors in the future, the royalty rates we receive for use of our technology could decrease, thereby decreasing future anticipated revenues and cash flow. Royalty revenues were approximately 46%, 44% and 54% of our total revenues for 2015, 2014 and 2013, respectively. Therefore, a significant decrease in our royalty revenues could materially adversely affect our operating results.

Moreover, royalty rates may be negatively affected by macroeconomic trends or changes in products mix. For example, the shift away from feature phones by Intel and the handset baseband market by Broadcom and STMicroelectronics in 2014 negatively impacted our royalty revenues in 2014. Furthermore, consolidation among our customers may increase the leverage of our existing customers to extract concessions from us in royalty rates. Moreover, changes in products mix such as an increase in lower royalty bearing products shipped in high volume like low-cost feature phones and Bluetooth-based products in lieu of higher royalty bearing products like LTE phones could lower our royalty revenues.

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

Our total revenues derived solely from the handset baseband market represented 53%, 50% and 59% of our total revenues for 2015, 2014 and 2013, respectively. A significant portion of our royalty revenues in 2013 and 2014 were derived from lower cost feature phones. In 2015, a larger portion of LTE-based handsets utilized our technologies and generated higher royalty revenues and higher average selling prices. Although next generation products generally have higher average selling prices, the shift towards CEVA-powered LTE products was slower in 2013 and 2014, and we can provide no assurances that the positive trend in 2015 towards adoption of next generation products will continue on pace in future years. Furthermore, we can provide no assurances that we will be successful in offsetting any decline in revenues from feature phones with increased revenues from next generation products such as low-cost smartphones or LTE phones. Any adverse change in our ability to compete and maintain our competitive position in the handset baseband market, including through the introduction by competitors of enhanced technologies that attract OEM customers that target those markets, would harm our business, financial condition and results of operations. Moreover, the handset baseband market is extremely competitive and are facing intense pricing pressures, and we expect that competition and pricing pressures will only increase. Furthermore, it can be very volatile with regards to volume shipments of different phones, standards and connected devices due to inventory build out or consumer demand changes or geographical macroeconomics, pricing changes and timing of introduction of new phones and products. Our existing OEM customers also may fail to introduce new handset devices that attract consumers, or encounter significant delays in developing, manufacturing or shipping new or enhanced products in those markets. The inability of our OEM customers to compete would result in lower shipments of products powered by our technologies which in turn would have a material adverse effect on our business, financial condition and results of operations. Since a significant portion of our revenues are derived from the handset baseband market, adverse conditions in this market would have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our revenues and business.

Approximately 84% of our total revenues for 2015, 77% for 2014 and 88% for 2013 were derived from customers located outside of the United States. We expect that international customers will continue to account for a significant portion of our revenues for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;
- fluctuations in the exchange rate for the U.S. dollar;
- imposition of tariffs and other barriers and restrictions;
- burdens of complying with a variety of foreign laws, treaties and technical standards;
- uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;
- multiple and possibly overlapping tax structures and potentially adverse tax consequences;
- political and economic instability; and
- changes in diplomatic and trade relationships.

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

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

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

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

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

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

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

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

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

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

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

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

We currently receive research grants from programs of the Office of the Chief Scientist of Israel of the Israeli Ministry of Industry and Trade and the Seventh Framework Program of the European Union. We recorded an aggregate of $4,997,000, $4,586,000 and $3,304,000 in 2015, 2014 and 2013, respectively. To be eligible for these grants, we must meet certain development conditions and comply with periodic reporting obligations. Although we have met such conditions in the past, should we fail to meet such conditions in the future our research grants may be repayable, reduced or withheld. The repayment or reduction of such research grants may increase our research and development expenses which in turn may reduce our operating income. Also, the timing of such payments from the Office of the Chief Scientist and European Union may vary from year to year and quarter to quarter, and we have no control on the timing of such payment.

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

We enjoy certain tax benefits in Israel, particularly as a result of the Approved Enterprise and the Benefited Enterprise status of our facilities and programs. To maintain our eligibility for these tax benefits, we must continue to meet certain conditions, relating principally to adherence to the investment program filed with the Investment Center of the Israeli Ministry of Industry and Trade and to periodic reporting obligations. Should we fail to meet such conditions in the future, these benefits would be cancelled and we would be subject to corporate tax in Israel at the standard corporate rate (26.5% in 2015) and could be required to refund tax benefits already received. In addition, we cannot assure you that these tax benefits will be continued in the future at their current levels or otherwise. The tax benefits under our active investment programs are scheduled to gradually expire starting in 2017. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as a result of the Approved Enterprise and the Benefited Enterprise status of our facilities and programs) or a requirement to refund tax benefits already received may seriously harm our business, operating results and financial condition.

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

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

We are exposed to fluctuations in currency exchange rates.

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

We are exposed to the credit risk of our customers, which could result in material losses.

As we diversify and expand our addressable market, we will enter into licensing arrangements with first time customers with whom we don t have full visible of their creditworthiness. Furthermore, we have increased business activities in the Asia Pacific region. As a result, our future credit risk exposure may increase. Although we monitor and attempt to mitigate credit risks, there can be no assurance that our efforts will be effective. Although any losses to date relating to credit exposure of our customers have not been material, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition.

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

Our product development efforts require us to incur substantial research and development expense. Our research and development expenses were approximately $28.1 million, $25.8 million and $21.2 million for 2015, 2014 and 2013, respectively. We may not be able to achieve an acceptable return, if any, on our research and development efforts.

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

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

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

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

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

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

- issuance of equity securities that would dilute our current stockholders percentages of ownership;
- large one-time write-offs or equity investment impairment write-offs;

incurrence of debt and contingent liabilities;

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

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

diversion of management s attention from other business concerns;

contractual disputes;

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

potential loss of key employees of acquired organizations.

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

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

Our trade names or trademarks may be registered or utilized by third parties in countries other than those in which we have registered them, impairing our ability to enter and compete in those 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. In addition, patent infringement claims are increasingly being asserted by patent holding companies (so-called patent trolls), which do not use technology and whose sole business is to enforce patents against companies, such as us, for monetary gain. Because such patent holding companies do not provide services or use technology, the assertion of our own patents by way of counter-claim may be ineffective. Infringement claims may require us to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of these claims. Any necessary licenses may not be available or, if available, may not be obtainable on commercially reasonable terms. If we cannot obtain necessary licenses on commercially reasonable terms, we may be forced to stop licensing our technology, and our business would be seriously harmed.

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

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

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

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

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

On an ongoing basis, we evaluate our various product offerings and technology developments in order to determine whether any should be discontinued or, to the extent possible, divested. We cannot guarantee that we have correctly forecasted, or will correctly forecast in the future, the right product lines and technology developments to dispose 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.

Cybersecurity threats or other security breaches could compromise sensitive information belonging to us or our customers and could harm our business and our reputation.

We store sensitive data, including intellectual property, proprietary business information and our customer and employee information. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions that could result in unauthorized disclosure or loss of sensitive data. Because the techniques used to obtain unauthorized access to networks, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Furthermore, in the operation of our business we also use third-party vendors that store certain sensitive data. Any security breach of our own or a third-party vendor s systems could cause us to be non-compliant with applicable laws or regulations, subject us to legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, any of which could adversely affect our business.

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

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

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

Announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results, changes in the general conditions of the highly dynamic industry in which we

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compete or the national economies in which we do business, and other factors could cause the price of our common stock to fluctuate, perhaps substantially. In addition, in recent years, the stock market has experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. These factors and fluctuations could have a material adverse effect on the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

We lease buildings for our executive offices, and engineering, sales, marketing, administrative and support operations and design centers. The following table summarizes information with respect to the principal facilities leased by us as of December 31, 2015:

Location	Term	Expiration	Area (Sq. Feet)	Principal Activities
Mountain View, CA, U.S. (1)	8 years	2023	3,769	Headquarters; sales and marketing; administration
Herzeliya, Israel (2)	6 years	2020	35,339	Research and development; administration; sales and marketing
Dublin, Ireland (3)	4 year	2016	2,131	Research and development; administration
Cork, Ireland (4)	5 years	2016	2,870	Research and development
Belfast, UK (5)	15 years	2019	2,600	Research and development
Sophia Antipolis, France (6)	9 years	2021	7,535	Research and development; administration; sales and marketing
Shanghai, China	3 years	2018	3,438	sales and marketing

(1) Break clause in the lease exercisable in 2020.
(2) Break clause in the lease exercisable in 2018.
(3) Lease expires on July 31, 2016
(4) Lease expires on September 1, 2016
(5) Break clause in the lease exercisable on payment of one year rent.
(6) Break clause exercisable in 2018.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

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

Gideon Wertheizer, age 59, has served as our Chief Executive Officer since May 2005. He joined our board of directors in January 2010. Mr. Wertheizer has 32 years of experience in the semiconductor and Silicon Intellectual Property (SIP) industries. He previously served as the Executive Vice President and General Manager of the DSP business unit at CEVA. Prior to joining CEVA in November 2002, Mr. Wertheizer held various executive positions at DSP Group, Inc., including such roles as Executive VP Strategic Business Development, Vice President for Marketing and Vice President of VLSI design. Mr. Wertheizer holds a BsC for electrical engineering from Ben Gurion University in Israel and executive MBA from Bradford University in the United Kingdom.

Yaniv Arieli, age 47, has served as our Chief Financial Officer since May 2005. Prior to his current position, Mr. Arieli served as President of U.S. Operations and Director of Investor Relations of DSP Group beginning in August 2002 and Vice President of Finance, Chief Financial Officer and Secretary of DSP Group s DSP Cores Licensing Division prior to that time. Before joining DSP Group in 1997, Mr. Arieli served as an account manager and certified public accountant at Kesselman & Kesselman, a member of PricewaterhouseCoopers, a leading accounting firm. Mr. Arieli is a CPA and holds a B.A. in Accounting and Economics from Haifa University in Israel and an M.B.A. from Newport University and is also a member of the National Investor Relation Institute.

Issachar Ohana, age 50, has served as our Vice President, Worldwide Sales, since November 2002 and our Executive Vice President, Worldwide Sales, since July 2006. Prior to joining CEVA in November 2002, Mr. Ohana was with DSP Group beginning in August 1994 as a VLSI design engineer. He was appointed Project Manager of DSP Group s research and development in July 1995, Director of Core Licensing in August 1998, and Vice President Sales of the Core Licensing Division in May 2000. Mr. Ohana holds a B.Sc. in Electrical and Computer Engineering from Ben Gurion University in Israel and an MBA from Bradford University in the United Kingdom.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading on The NASDAQ Global Market on November 1, 2002. Our common stock currently trades under the ticker symbol CEVA on NASDAQ. As of February 24, 2016, there were approximately 2,178 holders of record, which we believe represents approximately 9,047 beneficial holders. The closing price of our common stock on The NASDAQ Global Market on March 4, 2016 was $20.11 per share. The following table sets forth, for the periods indicated, the range of high and low closing prices per share of our common stock, as reported on The NASDAQ Global Market.

	Price Range of Common Stock	
	High	**Low**
2015		
First Quarter	$ 23.16	$ 17.33
Second Quarter	$ 22.45	$ 18.45
Third Quarter	$ 19.52	$ 16.98
Fourth Quarter	$ 27.14	$ 17.77
2014		
First Quarter	$ 18.77	$ 15.08
Second Quarter	$ 18.30	$ 13.88
Third Quarter	$ 15.49	$ 13.44
Fourth Quarter	$ 18.44	$ 12.67

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

Equity Compensation Plan Information

Information as of December 31, 2015 regarding options, SARs and RSUs granted under our stock plans and remaining available for issuance under those plans will be contained in the definitive 2016 Proxy Statement for the 2016 annual meeting of stockholders to be held on May 16, 2016 and incorporated herein by reference.

Issuer Purchases of Equity Securities

The table below sets forth the information with respect to repurchases of our common stock during the three months ended December 31, 2015.

Period	(a) Total Number of	(b) Average Price Paid per	(c) Total Number of Shares	(d) Maximum Number of Shares that May Yet Be

	Shares Purchased	Share		Purchased as Part of Publicly Announced Plans or Programs	Purchased Under the Plans or Programs (1)
Month #1 (October 1, 2015 to October 31, 2015)					571,410
Month #2 (November 1, 2015 to November 30, 2015)					571,410
Month #3 (December 1, 2015 to December 31, 2015)	80,341	$	23.92	80,341	491,069
TOTAL	80,341	$	23.92	80,341	491,069(2)

(1) In August 2008, we announced that our board of directors approved a share repurchase program for up to one million shares of our common stock which was further extended collectively by an additional five million shares in 2010, 2013 and 2014.

(2) The number represents the number of shares of our common stock that remain available for repurchase pursuant to our share repurchase program.

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2016 Annual Meeting of Stockholders

We anticipate that the 2016 annual meeting of our stockholders will be held on May 16, 2016 in New York City, NY.

Stock Performance Graph

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

	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
CEVA, Inc.	**100.00**	**147.61**	**76.83**	**74.24**	**88.49**	**113.95**
NASDAQ Composite	**100.00**	**99.17**	**116.48**	**163.21**	**187.27**	**200.31**
Morningstar Semiconductor	**100.00**	**94.23**	**100.57**	**125.32**	**161.67**	**172.81**

The stock performance graph above compares the percentage change in cumulative stockholder return on the common stock of our company for the period from December 31, 2010, through December 31, 2015, with the cumulative total return on The NASDAQ Global Market (U.S.) Composite Index and the Morningstar Semiconductor Group Index.

This graph assumes the investment of $100 in our common stock (at the closing price of our common stock on December 31, 2010), the NASDAQ Global Market (U.S.) Composite Index and the Morningstar Semiconductor Group Index on December 31, 2010, and assumes dividends, if any, are reinvested.

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

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and the related notes, as well as our Management s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2015, both appearing elsewhere in this annual report.

	Year Ended December 31,				
	2011	2012	2013 (in thousands)	2014	2015
Consolidated Statements of Operations Data:					
Revenues:					
Licensing and related revenue	$ 23,836	$ 21,727	$ 22,372	$ 28,348	$ 32,135
Royalties	36,403	31,950	26,528	22,460	27,364
Total revenues	60,239	53,677	48,900	50,808	59,499
Cost of revenues	3,559	3,952	5,163	5,000	5,424
Gross profit	56,680	49,725	43,737	45,808	54,075
Operating expenses:					
Research and development, net	21,543	20,243	21,216	25,828	28,113
Sales and marketing	8,937	9,231	10,092	9,815	10,168
General and administrative	7,639	7,884	7,670	8,054	8,184
Amortization of intangible assets				649	1,298
Total operating expenses	38,119	37,358	38,978	44,346	47,763
Operating income	18,561	12,367	4,759	1,462	6,312
Financial income, net	2,909	3,380	2,714	975	1,069
Other loss				(404)	
Income before taxes on income	21,470	15,747	7,473	2,033	7,381
Income taxes	2,908	2,062	788	2,852	1,114
Net income (loss)	$ 18,562	$ 13,685	$ 6,685	$ (819)	$ 6,267
Basic net income (loss) per share	$ 0.80	$ 0.60	$ 0.30	$ (0.04)	$ 0.31
Diluted net income (loss) per share	$ 0.77	$ 0.59	$ 0.30	$ (0.04)	$ 0.30

	December 31,				
	2011	2012	2013 (in thousands)	2014	2015
Consolidated Balance Sheet Data:					
Working capital	$ 136,483	$ 131,545	$ 131,433	$ 93,777	$ 87,044
Total assets	219,140	216,333	212,327	207,005	212,649

Total long-term liabilities	5,607	6,158	7,255	7,961	7,571
Total stockholders equity	$ 200,920	$ 196,068	$ 190,895	$ 179,049	$ 186,095

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QUARTERLY FINANCIAL INFORMATION

	Three months ended							
	March 31,	June 30,	September 30, 2014	December 31,	March 31,	June 30,	September 30, 2015	December 31,
Revenues:								
Licensing and related revenue	$ 7,906	$ 4,355	$ 8,728	$ 7,359	$ 7,839	$ 7,669	$ 8,600	$ 8,027
Royalties	5,768	4,860	5,370	6,462	5,995	5,690	7,635	8,044
Total revenues	13,674	9,215	14,098	13,821	13,834	13,359	16,235	16,071
Cost of revenues	1,112	1,370	1,255	1,263	1,185	1,550	1,281	1,408
Gross profit	12,562	7,845	12,843	12,558	12,649	11,809	14,954	14,663
Operating expenses:								
Research and development, net	5,996	6,051	6,453	7,328	7,363	7,241	6,571	6,938
Sales and marketing	2,393	2,197	2,611	2,614	2,426	2,548	2,384	2,810
General and administrative	2,040	1,861	2,223	1,930	1,972	1,666	2,183	2,363
Amortization of intangible assets			326	323	325	324	325	324
Total operating expenses	10,429	10,109	11,613	12,195	12,086	11,779	11,463	12,435
Operating income (loss)	2,133	(2,264)	1,230	363	563	30	3,491	2,228
Financial income (loss), net	460	417	66	32	(27)	269	401	426
Other loss			(404)					
Income (loss) before taxes on income	2,593	(1,847)	892	395	536	299	3,892	2,654
Income taxes expense (benefit)	608	(321)	236	2,329	50	131	583	350
Net income (loss)	$ 1,985	$ (1,526)	$ 656	$ (1,934)	$ 486	$ 168	$ 3,309	$ 2,304
Basic and diluted net income (loss) per share	$ 0.09	$ (0.07)	$ 0.03	$ (0.10)	$ 0.02	$ 0.01	$ 0.16	$ 0.11
Weighted average shares used to compute net income								

(loss) per share (in thousands):								
Basic	21,159	20,778	20,355	20,209	20,418	20,564	20,448	20,491
Diluted	21,590	20,778	20,667	20,209	20,958	20,984	20,811	21,203

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

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

BUSINESS OVERVIEW

The following discussion and analysis is intended to provide an investor with a narrative of our financial results and an evaluation of our financial condition and results of operations. The discussion should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2015, both appearing elsewhere in this annual report.

CEVA is a leading licensor of signal processing IP for a smarter, connected world. We partner with semiconductor companies and OEMs worldwide to create power-efficient, intelligent and connected devices for a range of end markets, including mobile, consumer, automotive, industrial and IoT. Our ultra-low-power IPs for vision, audio, communications and connectivity include comprehensive DSP-based platforms for LTE/LTE-A/5G baseband processing in handsets, infrastructure and machine-to-machine devices, computer vision and computational photography for any camera-enabled devices, as well as audio/voice/speech and ultra-low power always-on/sensing applications for multiple IoT markets. For connectivity, we offer the industry s most widely adopted IPs for Bluetooth (Smart and Smart Ready), Wi-Fi (802.11 b/g/n/ac up to 4x4) and serial storage (SATA and SAS). Our technologies are widely licensed and power many of the world s leading semiconductor and original equipment manufacturer (OEM) companies. One in three handsets sold worldwide is powered by CEVA. To date, more than 7 billion CEVA-powered devices have shipped, illustrating the strong market deployment of our technology.

Our DSPs power many of leading handset OEMs in the world today, including, Coolpad, HTC, Huawei, Intex, Karbonn, Lava, Lenovo, LG, Meizu, Micromax, Samsung, Xiaomi and ZTE, as well as hundreds of local handset manufacturers in China and India. Based on internal data and Strategy Analytics provisional worldwide shipment data, CEVA s worldwide market share of handset baseband chips that incorporate our technologies was approximately 33% of the worldwide shipment volume in the third quarter of 2015.

In July 2014, we acquired RivieraWaves SAS (RivieraWaves), a privately-held, French company and a leading provider of wireless connectivity intellectual property for Wi-Fi and Bluetooth technologies. We agreed to pay an aggregate of $18,378,000 to acquire RivieraWaves with $14,678,000 paid at the closing of the acquisition and the remaining amount of $3,700,000 is payable upon the satisfaction of certain milestones (the Contingent Consideration). During 2015, we fully paid the Contingent Consideration. In addition, in connection with the acquisition, we established an employee retention plan for RivieraWaves employees at an expense of approximately $3,400,000, payable on a semi-annual basis for a period of two years after the closing of the acquisition. As of December 31, 2015, we paid $971,000 of the employee retention plan expenses.

We believe the adoption of our signal processing IP cores and software for smart, connected devices continues to progress. Devices for such markets include smartphones, tablets, smart home appliances, wearables, surveillance, connected car, drones, industrial and medical. During the fourth quarter of 2015, we concluded thirteen licensing deals, five of which were for our imaging and vision DSP, five for our connectivity IPs and three for our other DSP cores, platforms and software. These customers will incorporate our technology into smartphones, drones, surveillance systems, macro base stations, audio devices and connectivity for Internet of Things.

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

- CEVA is firmly established in the largest space in the semiconductor industry baseband for mobile handsets. In particular, our presence in the 3G & LTE smartphone markets continue to grow as our customers targeting those markets are gaining market share at the expense of the incumbents. As a testament to this, our customers shipped seventy million LTE chipsets in 2015, up 541% over 2014. We anticipate our market share will continue to grow. The royalty we derive from smartphones is higher on average than that of feature phones, so we are set to benefit as handset markets around the world continue to transition and shift away from feature phones to smartphones.

- Our competitive edge in software-defined radio technology for next generation LTE and Wi-Fi technologies in base stations, and the inherent low cost and power performance balance of our technologies, put us in a strong position to simultaneously capitalize on mass market adoption of such technologies and address multiple market sectors, including small cells, macrocells, routers and machine-to-machine.

- Together with our presence in the baseband market, our acquisition of RivieraWaves allows us to expand further into Internet-of-Things applications. This acquisition substantially increased our overall addressable market to cover all categories of Bluetooth and Wi-Fi connected devices. Our addressable market size is expected to be 35 billion devices by 2020, per recent data from ABI Research. Already, shipments of products incorporating our Bluetooth IP are starting to become sizeable, with more than 121 million Bluetooth chips shipped in 2015 by our customers, up 206% year-over-year. We anticipate this growth in Bluetooth IP to continue.

- The market potential for intelligent audio processing required for IoT applications, including mobile, automotive and consumer devices, offers an additional growth segment for the company. Our proven track record in audio/voice, with more than 5 billion audio chips shipped to date, puts us in a strong position to power audio roadmaps across this new range of addressable end markets.

- The market potential for vision processing in automotive, mobile, consumer and IoT applications offers another growth segment for the company. Our CEVA-XM4 intelligent vision processor provides a highly compelling product offering for any camera-enabled device such as smartphones, tablets, automotive safety (ADAS), drones, robotics, security and surveillance, augmented reality (AR) and virtual reality (VR), drones, and signage. Per ABI Research, camera shipments are expected to exceed 2.7 billion units by 2018. We have already signed more than 20 licensing agreements for our imaging and vision DSPs across these markets, where our customers can add camera-related enhancements such as smarter autofocus, better picture using super resolution algorithms, and better image capture in low-light environments. Other customers can add video analytics support to enable new services like augmented reality, gesture recognition and advanced safety capabilities in cars. This revolution in vision processing is an opportunity for us to expand our footprint in smartphones and further into tablets, drones, surveillance and automotive applications.

As a result of our diversification strategy beyond baseband for handsets and our progress in addressing these new markets under the umbrella of the Internet-of-Things, we expect significant growth in our unit shipments for non-handset baseband applications over the next few years, up from approximately 167 million royalty-bearing units annually in 2015 to 700 to 900 million units annually by 2018. This will be in addition to our existing handset baseband business, which we believe will continue to be a significant growth driver for us.

Notwithstanding the various growth opportunities we have outlined above, our business operates in a highly competitive and cyclical environment. The maintenance of our competitive position and our future growth are dependent on our ability to adapt to ever-changing technologies, short product life cycles, evolving industry standards, changing customer needs and the trend towards Internet-of-Things, handset baseband, connectivity, and voice, audio and video convergence in the markets that we operate. Also, our business relies significantly on revenues derived from a limited number of customers. The discontinuation of product lines or market sectors that incorporate our technology by our significant customers or a change in direction of their business and our inability to adapt our technology to their new business needs could have material negative implications for our future royalty revenues. For example, the shift away from feature phones by our customer Intel and the exiting of the handset baseband market by our customers Broadcom and STMicroelectronics have negatively impacted our royalty revenues in 2014. Moreover, competition has historically increased pricing pressures for our products and decreased our average selling prices. Royalty payments under our existing license agreements also could be lower than currently anticipated for a variety of reasons, including decreased royalty rates triggered by larger volume shipments, lower royalty rates negotiated with customers due to competitive pressure or consolidation among our customers. Some of our competitors have reduced their licensing and royalty fees to attract customers and expand their market share. In order to penetrate new markets and maintain our market share with our existing products, we may need to offer our products in the future at lower prices which may result in lower profits. In addition, our future growth is dependent not only on the continued success of our existing products but also the successful introduction of new products, which requires the dedication of resources into research and development which in turn may increase our operating expenses. Furthermore, since our products are incorporated into end products of our OEM and semiconductor customers, our business is very dependent on their ability to achieve market acceptance of their end products in the handset and consumer electronic markets, which are similarly very competitive. In addition, macroeconomic trends may significantly affect our operating results. For example, consolidation among our customers may negatively affect our revenue source, increase our existing customers negotiation leverage and make us more dependent on a limited number of customers. Also, since we derive a significant portion of our revenues from the baseband handset market, any negative trends in that market would adversely affect our financial results.

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

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

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

- revenue recognition;

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

income taxes;

equity-based compensation; and

impairment of marketable securities;

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

Business Combinations and Valuation of Goodwill and Other Acquired Intangible Assets

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

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

We review goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. If we determine that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test will be performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. During 2013, 2014 and 2015, no impairment of goodwill was identified.

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

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

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Income Taxes

We are subject to income taxes mainly in Israel, France, the U.S. and Ireland. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. We recognize income taxes under the liability method. Tax benefits are recognized from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves when facts and circumstances change, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effects of any reserves that are considered appropriate, as well as the related net interest and penalties.

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

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. While we believe the resulting tax balances as of December 31, 2014 and 2015 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 13 to our Consolidated Financial Statements for the year ended December 31, 2015 for further information regarding income taxes. We have filed or are in the process of filing local and foreign tax returns that are subject to audit by the respective tax authorities. The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statute of limitations on potential assessments expire.

Equity-Based Compensation

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

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

We recognize compensation expenses for the value of our restricted stock unit (RSU) awards, based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. The fair value of each RSU is the market value as determined by the closing price of the common stock on the day of grant.

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

Impairment of Marketable Securities

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

We recognize an impairment charge when a decline in the fair value of our investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. The determination of credit losses requires significant judgment and actual results may be materially different from our estimates. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the ability of the issuer to meet payment obligations and the potential recovery period . For securities that are deemed other-than-temporarily impaired, the amount of impairment is recognized in the statement of operations and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (loss).

During the years ended December 31, 2013, 2014 and 2015, no other-than temporary impairment were recorded related to our marketable securities.

Recently Issued and Adopted Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period; although early adoption is permitted for annual reporting periods beginning after December 15, 2016. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17) Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into

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current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. We have early adopted this standard in the fourth quarter of 2015 on a retrospective basis. Prior years have been retrospectively adjusted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will replace the existing guidance in ASC 840, Leases. The updated standard aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods; early adoption is permitted and modified retrospective application is required. We are in the process of evaluating this guidance to determine the impact it will have on our financial statements.

RESULTS OF OPERATIONS

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

	2013	2014	2015
Consolidated Statements of Operations Data:			
Revenues:			
Licensing and related revenue	45.8%	55.8%	54.0%
Royalties	54.2%	44.2%	46.0%
Total revenues	100.0%	100.0%	100.0%
Cost of revenues	10.6%	9.8%	9.1%
Gross profit	89.4%	90.2%	90.9%
Operating expenses:			
Research and development, net	43.4%	50.8%	47.2%
Sales and marketing	20.6%	19.3%	17.1%
General and administrative	15.7%	15.9%	13.8%
Amortization of intangible assets		1.3%	2.2%
Total operating expenses	79.7%	87.3%	80.3%
Operating income	9.7%	2.9%	10.6%
Financial income, net	5.6%	1.9%	1.8%
Other loss		(0.8)%	
Income before taxes on income	15.3%	4.0%	12.4%
Income taxes	1.6%	5.6%	1.9%
Net income (loss)	13.7%	(1.6)%	10.5%

Discussion and Analysis

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

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Revenues

Total Revenues

	2013	2014	2015
Total revenues (in millions)	$ 48.9	$ 50.8	$ 59.5
Change year-on-year		*3.9%*	*17.1%*

The increase in total revenues from 2014 to 2015 reflected higher overall revenues. The increase in total revenues from 2013 to 2014 reflected higher licensing and related revenues, offset by lower royalty revenues.

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

We derive a significant amount of revenues from a limited number of customers. Sales to Spreadtrum represented 31%, 25% and 28% of our total revenues for 2015, 2014 and 2013, respectively. Due to our limited number of customers, the shift away from feature phones by Intel and the exiting of the handset baseband market by Broadcom and STMicroelectronics in 2014 negatively impacted our annual 2014 royalty revenues. With respect to our royalty revenues, two royalty paying customers each represented 10% or more of our total royalty revenues for 2015, and collectively represented 72% of our total royalty revenues for 2015; three royalty paying customers each representing 10% or more of our total royalty revenues for 2014, and collectively represented 79% of our total royalty revenues for 2014; and four royalty paying customers each represented 10% or more of our total royalty revenues for 2013 and collectively represented 81% of our total royalty revenues for 2013. We expect that a significant portion of our future revenues will continue to be generated by a limited number of customers. The concentration of our customers is explainable in part by consolidation in the semiconductor industry. The loss of any significant customer could adversely affect our near-term future operating results.

The following table sets forth the products and services as percentages of our total revenues in each of the periods set forth below:

	Year ended December 31,		
	2013	2014	2015
DSP products (DSP cores and platforms):			
Baseband for handset and other	76%	72%	68%
Other non-baseband (audio, imaging and vision)	17%	15%	14%
Connectivity products (Bluetooth, WiFi and SATA/SAS)	7%	13%	18%

We expect to continue to generate a significant portion of our revenues for 2016 from the above products and services.

Licensing and related revenue

	2013	2014	2015

Licensing and related revenue (in millions)	$ 22.4	$ 28.3	$ 32.1
Change year-on-year		*26.7%*	*13.4%*

The increase in licensing and related revenues from 2014 to 2015 principally reflected higher revenues from our connectivity IP products, mainly from Bluetooth IP, due to our acquisition of RivieraWaves back in July 2014, and from higher revenues of our imaging and vision DSP cores and platforms, partially offset by lower

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revenues from our non-cellular baseband DSP cores and platforms. In 2015, we signed a record forty-seven licensing deals, generating all-time high annual licensing revenue. Of the forty-seven deals signed, twenty one were with first time CEVA customers and forty-three of these were for non-cellular baseband applications, illustrating the continued success of our investments and strategic initiatives to diversify and expand our business.

The increase in licensing and related revenue from 2013 to 2014 principally reflected higher revenues from our connectivity IP products, mainly from Bluetooth IP, due to our acquisition of RivieraWaves back in July 2014, and higher revenue from our DSP core family of products licensed to non-cellular baseband applications like vision, audio, voice and sensing.

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

Licensing and related revenue accounted for 54.0% of our total revenues for 2015, compared with 55.8% and 45.8% of our total revenues for 2014 and 2013, respectively. In 2015, we signed forty seven new license agreements, compared to thirty six and thirty in 2014 and 2013, respectively.

Royalty Revenues

	2013	2014	2015
Royalty revenues (in millions)	$ 26.5	$ 22.5	$ 27.4
Change year-on-year		*(15.3)%*	*21.8%*

Based on internal data and Strategy Analytics provisional worldwide shipment data, CEVA s worldwide market share of baseband chips that incorporate our technologies represented approximately 30%, 34% and 39% of the worldwide baseband volume in 2015, 2014 and 2013, respectively, and accounted for approximately 88%, 86% and 84% of our total royalty revenues for 2015, 2014 and 2013, respectively.

The increase in royalty revenues from 2014 to 2015 mainly reflected a significant acceleration of CEVA-powered LTE smartphone shipments in the second half of the year, which enabled us to reach a record 70 million LTE units. The decrease in royalty revenues from 2013 to 2014 mainly reflected the decision of a few of our key customers to exit or refocus their efforts in the baseband market, like Broadcom, STMicroelectronics and Intel. The five largest royalty-paying customers accounted for 87% of our total royalty revenues in 2015, 2014 and 2013.

Our customers reported sales of 917 million chipsets incorporating our technologies in 2015, compared to 881 million in 2014 and 1,010 million in 2013. The increase in units shipped in 2015 as compared to 2014 primarily resulted from ramp up of both CEVA-powered LTE smartphones and Bluetooth products, offset by lower 2G products. The decrease in units shipped in 2014 as compared to 2013 primarily resulted from semiconductor customers exiting or re-focusing their baseband business.

Geographic Revenue Analysis

2013	2014	2015
	(in millions, except percentages)	

United States	$ 6.1	*12.4%*	$ 11.7	*23.0%*	$ 9.7	*16.4%*
Europe, Middle East (EME) (1)	$ 13.4	*27.4%*	$ 5.6	*11.1%*	$ 7.1	*11.9%*
Asia Pacific (APAC) (2) (3)	$ 29.4	*60.2%*	$ 33.5	*65.9%*	$ 42.7	*71.7%*
(1) Germany	$ 5.5	*11.3%*	*)	*)	*)	*)
(2) China	$ 20.5	*41.9%*	$ 20.6	*40.5%*	$ 30.0	*50.4%*
(3) S. Korea	*)	*)	*)	*)	$ 6.2	*10.4%*

*) Less than 10%

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

The decrease in revenues in absolute dollars and percentage terms in the United States from 2014 to 2015 reflected lower royalty revenues mainly from Broadcom. The increase in revenues in absolute dollars and percentage terms in the United States from 2013 to 2014 reflected higher licensing revenues of signal processing IP, partially offset by lower royalty revenues mainly from Broadcom.

The increase in revenues in absolute dollars and percentage in the EME region from 2014 to 2015 primarily reflected higher licensing activities, partially offset by lower royalty revenues mainly due to key customers that decided to exit or refocus their efforts in the baseband market, like STMicroelectronics and Intel. The decrease in revenues in absolute dollars and as a percentage in the EME region from 2013 to 2014 primarily reflected lower licensing activities and lower royalty revenues mainly due to key customers that decided to exit or refocus their efforts in the baseband market, like Intel, STMicroelectronics and Broadcom.

The increase in revenues in absolute dollars and percentage terms in the APAC region from 2014 to 2015 primarily reflected higher royalty revenues from production ramp up and market share gains of our customers. The increase in revenues in absolute dollars and percentage terms in the APAC region from 2013 to 2014 primarily reflected higher royalty revenues and higher licensing revenues due to new design wins for both baseband and non-baseband customers.

Cost of Revenues

	2013	**2014**	**2015**
Cost of revenues (in millions)	$ 5.2	$ 5.0	$ 5.4
Change year-on-year		*(3.2)%*	*8.5%*

Cost of revenues accounted for 9.1% of our total revenues for 2015, compared with 9.8% of our total revenues for 2014 and 10.6% of our total revenues for 2013. The absolute dollar increase in cost of revenues for 2015 as compared to 2014 principally reflected higher salary and related costs and higher payments to the Office of the Chief Scientist of Israel (the OCS). The absolute dollar decrease in cost of revenues for 2014 as compared to 2013 principally reflected lower sub-contractors costs and lower non-cash equity-based compensation expenses, partially offset by higher salary and related costs.

Cost of revenues includes labor-related costs and, where applicable, costs related to overhead, subcontractors, materials, travel, royalty expenses payments to the Office of the Chief Scientist of Israel and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in cost of revenues for the years 2015, 2014 and 2013 were $155,000, $193,000 and $312,000, respectively. Royalty expenses relate to royalties payable to the Office of the Chief Scientist of Israel that amount to 3%-3.5% of the actual sales of certain of our products, the development of which previously included grants from the OCS. The obligation to pay these royalties is contingent on actual sales of these products.

Operating Expenses

	2013	**2014**	**2015**

		(in millions)	
Research and development, net	$ 21.2	$ 25.8	$ 28.1
Sales and marketing	$ 10.1	$ 9.8	$ 10.2
General and administration	$ 7.7	$ 8.1	$ 8.2
Amortization of intangible assets		$ 0.6	$ 1.3
Total operating expenses	$ 39.0	$ 44.3	$ 47.8
Change year-on-year		*13.8%*	*7.7%*

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The increase in total operating expenses for 2015 as compared to 2014 principally reflected: (1) higher salary and related costs, which mainly included salary and related costs associated with the RivieraWaves employees as a result of our acquisition in July 2014; (2) higher project-related expenses; and (3) amortization charges for intangible assets acquired from RivieraWaves, partially offset by French research tax benefits applicable to Crédit Impôt Recherche (CIR) and lower non-cash equity-based compensation expenses. The increase in total operating expenses for 2014 as compared to 2013 principally reflected higher salary and related costs as a result of: (i) higher number of research and development personnel; (ii) first time salary and related costs associated with the RivieraWaves employees; (iii) retention costs for the RivieraWaves employees; and (iv) higher currency exchange expenses as a result of the devaluation of the U.S. dollar against the Israeli NIS, partially offset by higher than normal research grants received from the OCS and higher research tax benefits applicable to CIR.

Research and Development Expenses, Net

	2013	2014	2015
Research and development expenses, net (in millions)	$ 21.2	$ 25.8	$ 28.1
Change year-on-year		*21.7%*	*8.8%*

The net increase in research and development expenses for 2015 as compared to 2014 principally reflected: (1) higher salary and related costs, which mainly included: (i) higher number of research and development personnel; (ii) salary and related costs associated with the RivieraWaves employees as a result of our acquisition in July 2014; and (iii) salary raises and higher employee compensation accruals, partially offset by lower currency exchange expenses as a result of the devaluation of the Israeli NIS against the U.S. dollar, and (2) higher project-related expenses, partially offset by higher research tax benefits applicable to CIR and higher research grants received from the OCS. The net increase in research and development expenses for 2014 as compared to 2013 principally reflected: (1) higher salary and related costs, which mainly included: (i) higher number of research and development personnel; (ii) first time salary and related costs associated with the RivieraWaves employees; (iii) retention costs for the RivieraWaves employees; and (iv) higher currency exchange expenses as a result of the devaluation of the U.S. dollar against the Israeli NIS, and (2) higher project-related expenses, partially offset by significantly higher than normal research grants received from the OCS and higher research tax benefits applicable to CIR. The average number of research and development personnel in 2015 was 182, compared to 155 in 2014 and 129 in 2013. The number of research and development personnel was 184 at December 31, 2015 as compared with 174 at year-end 2014 and 140 at year-end 2013.

Research and development expenses, net of related government grants and CIR, were 47.2% of our total revenues for 2015, as compared with 50.8% for 2014 and 43.4% for 2013. We recorded research grants under funding programs of $4,997,000 in 2015, compared with $4,586,000 in 2014 and $3,304,000 in 2013. We recorded CIR benefits of $1,414,000 and $675,000 in 2015 and 2014, respectively.

Research and development expenses consist primarily of salaries and associated costs and project-related expenses connected with the development of our intellectual property which are expensed as incurred, and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in research and development expenses, net for the years 2015, 2014 and 2013 were $1,838,000, $2,027,000 and $2,014,000, respectively. Research and development expenses are net of related government research grants and research tax benefits applicable to CIR. We view research and development as a principal strategic investment and have continued our commitment to invest heavily in this area, which represents the largest of our ongoing operating expenses. We will need to continue to invest in research and development and such expenses may increase in the future to keep pace with new trends in our industry.

Sales and Marketing Expenses

	2013	2014	2015
Sales and marketing expenses (in millions)	$ 10.1	$ 9.8	$ 10.2
Change year-on-year		*(2.7)%*	*3.6%*

The increase in sales and marketing expenses for 2015 as compared to 2014 principally reflected higher salary and related costs, partially due to additional number of personnel, higher commission expenses and higher marketing and trade shows activities, offset by lower non-cash equity-based compensation expenses. The decrease in sales and marketing expenses for 2014 as compared to 2013 principally reflected lower non-cash equity-based compensation expenses.

Sales and marketing expenses as a percentage of our total revenues were 17.1% for 2015, as compared with 19.3% for 2014 and 20.6% for 2013. The total number of sales and marketing personnel was 34 at year-end 2015, as compared with 29 at year-end of both 2014 and 2013. Sales and marketing expenses consist primarily of salaries, commissions, travel and other costs associated with sales and marketing activities, as well as advertising, trade show participation, public relations and other marketing costs and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in sales and marketing expenses for the years 2015, 2014 and 2013 were $568,000, $909,000 and $1,311,000, respectively.

General and Administrative Expenses

	2013	**2014**	**2015**
General and administrative expenses (in millions)	$ 7.7	$ 8.1	$ 8.2
Change year-on-year		*5.0%*	*1.6%*

The increase in general and administrative expenses for 2015 as compared to 2014 principally reflected higher salary and related costs, partially offset by lower non-cash equity-based compensation expenses. The increase in general and administrative expenses for 2014 as compared to 2013 principally reflected higher professional services cost associated with the RivieraWaves transaction and higher salary and related costs, partially offset by lower non-cash equity-based compensation expenses.

General and administrative expenses as a percentage of our total revenues were 13.8% for 2015, as compared with 15.9% for 2014 and 15.7% for 2013. The total number of general and administrative personnel was 23 at year-end 2015, as compared with 21 at year-end of both 2014 and 2013. General and administrative expenses consist primarily of fees for directors, salaries for management and administrative employees, accounting and legal fees, expenses related to investor relations and facilities expenses associated with general and administrative activities and non-cash equity-based compensation expenses. Non-cash equity-based compensation expenses included in general and administrative expenses for the years 2015, 2014 and 2013 were $1,454,000, $1,882,000 and $2,283,000, respectively.

Amortization of Intangible Assets

Our amortization charges were $1.3 million and $0.6 million for 2015 and 2014, respectively. The charges were incurred in connection with the amortization of intangible assets associated with the acquisition of RivieraWaves in July 2014. As of December 31, 2015, the net amount of intangible assets was $4.2 million. There were no amortization charges for 2013.

Financial Income, net

	2013	**2014**	**2015**
		(in millions)	

Financial income, net	$ 2.71	$ 0.97	$ 1.07
of which:			
Interest income and gains and losses from marketable securities, net	$ 2.76	$ 1.71	$ 1.66
Foreign exchange loss	$ (0.05)	$ (0.57)	$ (0.49)
Accretion of Contingent Consideration		$ (0.17)	$ (0.10)

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

The slight decrease in interest income and gains and losses from marketable securities, net, for 2015 as compared to 2014 reflected lower combined cash, bank deposits and marketable securities balances held, offset by higher yields. The decrease in interest income and gains and losses from marketable securities, net, for 2014 as compared to 2013 reflected lower combined cash, bank deposits and marketable securities balances held, lower gains on sale of marketable securities and lower yields.

We review our monthly expected major non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. However, our Euro cash balances increased significantly beyond our ordinary course Euro business liabilities as a result of the acquisition of RivieraWaves in July 2014 because we acquired cash balances of RivieraWaves on hand at the time of the closing of the transaction. This has resulted in an increase in foreign exchange loss during both 2015 and 2014 due to the devaluation of our Euro cash balances as the U.S. dollar strengthened significantly during those periods as compared to the Euro.

Other Loss

In 2014, we received an initial consideration of 773,563 Euro ($1,032,351) when Antcor Advanced Network Technologies S.A. (Antcor), a company in which we had a minority investment, was acquired. In 2015, we received 98,700 Euro (approximately $111,000), which amount was held by the buyer to secure Antcor s indemnification claims. Pursuant to the acquisition agreement, we may receive additional proceeds from the buyer within five years after closing of the acquisition based on achievement of certain performance and other milestones by Antcor. During the year ended December 31, 2014, we recorded a capital loss of $0.4 million from the sale of our investment in Antcor as a result of the acquisition.

Provision for Income Taxes

During the years 2015, 2014 and 2013, we recorded tax expenses of $1.1 million, $2.9 million and $0.8 million, respectively. The decrease in provision for income taxes in 2015 as compared to 2014 principally reflected a one-time write off of a deferred tax asset in 2014 due to a change in the estimation for taxable income for future years of our U.S operations, partially offset by: (i) higher income before taxes on income, and (ii) tax benefits in 2014 resulting from the expiration of statute of limitations in a certain foreign tax jurisdiction. The increase in provision for income taxes in 2014 as compared to 2013 principally reflected a one-time write off of a deferred tax asset due to a change in the estimation for taxable income for future years of our U.S operations, partially offset by: (i) tax benefits resulting from expiration of statute of limitations in a certain foreign tax jurisdiction, (ii) lower income before taxes on income, and (iii) income tax benefit related to the RivieraWaves acquisition. We have significant operations in Israel and operations in France and the Republic of Ireland, and a substantial portion of our taxable income is generated in Israel. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

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

Our Israeli subsidiary is entitled to various tax benefits by virtue of the Approved Enterprise and/or Benefited Enterprise status granted to its eight investment programs, as defined by the Israeli Investment Law. In accordance with the Investment Law, our Israeli subsidiary s first six investment programs were subject to corporate tax rate of 26.5% in 2015, and our Israeli subsidiary s seventh and eighth investment programs were subject to corporate tax rate of 10% in 2015. However, our Israeli subsidiary received an approval for the erosion of tax basis with respect to its second, third, fourth, fifth and sixth investment programs, and this resulted in an increase in the taxable income attributable to the seventh and eighth investment programs, which were subject to a reduced tax rate of 10% in 2015. The tax benefits under our Israeli subsidiary s active investment programs are scheduled to gradually expire starting in 2017.

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

For more information about our provision for income taxes, see Note 13 to the attached Notes to Consolidated Financial Statement for the year ended December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2015, we had approximately $18.9 million in cash and cash equivalents, $30.8 million in short term bank deposits, $48.3 million in marketable securities, and $41.3 million in long term bank deposits, totaling $139.3 million, as compared to $129.9 million at December 31, 2014. The increase in 2015 as compared to 2014 principally reflected cash provided by operating activities and cash proceeds from exercise of stock-based awards, partially offset by cash used for the acquisition of RivieraWaves and the repurchase of 508,931 shares of common stock. During 2015, we invested $83.1 million of cash in bank deposits and marketable securities with maturities up to 40 months from the balance sheet date. In addition, during the same period, bank deposits and marketable securities were sold or redeemed for cash amounting to $75.6 million. During 2014, we invested $89.9 million of cash in bank deposits and marketable securities with maturities up to 36 months from the balance sheet date. In addition, during the same period, bank deposits and marketable securities were sold or redeemed for cash amounting to $102.9 million. During 2013, we invested $105.0 million of cash in bank deposits and marketable securities with maturities up to 34 months from the balance sheet date. In addition, during the same period, bank deposits and marketable securities were sold or redeemed for cash amounting to $116.1 million. All of our marketable securities are classified as available-for-sale. The purchase and sale or redemption of available-for-sale marketable securities are considered part of investing cash flow. Available-for-sale marketable securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statements of operations. We did not recognize any other-than-temporarily-impaired charges on marketable securities in 2015, 2014 and 2013. For more information about our marketable securities, see Notes 1 and 3 to the attached Notes to Consolidated Financial Statement for the year ended December 31, 2015.

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

Operating Activities

Cash provided by operating activities in 2015 was $19.4 million and consisted of net income of $6.3 million, adjustments for non-cash items of $7.8 million, and changes in operating assets and liabilities of $5.3 million. Adjustments for non-cash items primarily consisted of $2.4 million of depreciation and amortization of intangible assets, $4.0 million of equity-based compensation expenses, $1.1 million of amortization of premiums on available-for-sale marketable securities and $0.2 million of unrealized foreign exchange loss. The increase in cash from changes in operating assets and liabilities primarily consisted of a decrease in trade receivables of $4.3 million, an increase in deferred revenues of $1.1 and an increase in accrued payroll and related benefits of $1.7 million, partially offset by an increase in deferred tax assets, net, of $1.2 million and an increase in accrued interest on bank deposits of $0.3 million.

Cash provided by operating activities in 2014 was $9.1 million and consisted of net loss of $0.8 million, adjustments for non-cash items of $8.5 million, and changes in operating assets and liabilities of $1.4 million. Adjustments for non-cash items primarily consisted of $1.4 million of depreciation and amortization of intangible assets, $5.0 million of equity-based compensation expenses, $1.1 million of amortization of premiums on available-for-sale marketable securities, $0.6 million of unrealized foreign exchange loss and $0.4 million of loss on realization of investment in Antcor. The increase in cash from changes in operating assets and liabilities primarily consisted of a decrease in prepaid expenses and other current assets of $0.8 million, a decrease in accrued interest on bank deposits of $0.4 million, a decrease in deferred tax assets, net, of $2.5 million, an increase in deferred revenues of $1.0 and an increase in accrued payroll and related benefits of $0.8 million, partially offset by an increase in trade receivables of $2.4 million, a decrease in trade payables of $0.7 million and a decrease in income tax payable of $1.1 million.

Cash provided by operating activities in 2013 was $13.7 million and consisted of net income of $6.7 million, adjustments for non-cash items of $7.7 million, and changes in operating assets and liabilities of $0.7 million. Adjustments for non-cash items primarily consisted of $0.7 million of depreciation, $5.9 million of equity-based compensation expenses and $1.5 million of amortization of premiums on available-for-sale marketable securities. The slight decrease in cash from changes in operating assets and liabilities primarily consisted of an increase in deferred tax assets, net, of $1.2 million and a decrease in accrued expenses and other payables of $0.4 million, partially offset by a decrease in trade receivables of $0.6 million and an increase of accrued payroll and related benefits of $0.6 million.

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

Investing Activities

Net cash used in investing activities in 2015 was $9.6 million, as compared to net cash used in investing activities of $0.9 million in 2014 and net cash provided by investing activities of $9.3 million in 2013. We had a cash outflow of $29.8 million with respect to investments in marketable securities and a cash inflow of $28.1 million with respect to maturity and sell of marketable securities during 2015. Included in the cash outflow during 2015 was net investment of $5.9 million in bank deposits. We had a cash outflow of $38.4 million with respect to investments in marketable securities and a cash inflow of $57.6 million with respect to maturity and sell of marketable securities during 2014 (to some extent, to finance the $13.5 million cash payment, net of cash acquired, to acquire RivieraWaves in 2014). Included in the cash outflow during 2014 was net investment of $6.2 million in bank deposits. We had a cash outflow of $64.8 million and a cash inflow of $64.2 million in respect of investments in marketable securities during 2013. Included in the cash inflow during 2013 was net proceeds of $11.7 million from bank deposits. Capital equipment purchases of computer hardware and software used in engineering development, furniture and fixtures amounted to approximately $2.2 million in 2015, $1.4 million in 2014 and $0.9 million in 2013. We had a cash inflow of $0.1 million and $1.0 million in 2015 and 2014, respectively, from the sale of our investment in Antcor. We had a cash outflow of $0.9 million in 2013 from minority investments in two private companies.

Financing Activities

Net cash used in financing activities in 2015, 2014 and 2013 was $7.0 million, $15.7 million and $17.3 million, respectively.

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In August 2008, we announced that our board of directors approved a share repurchase program for up to one million shares of common stock which was further extended collectively by an additional five million shares in 2010, 2013 and 2014. In 2015, we repurchased 508,931 shares of common stock at an average purchase price of $19.80 per share for an aggregate purchase price of $10.1 million. In 2014, we repurchased 1,227,148 shares of common stock at an average purchase price of $15.20 per share for an aggregate purchase price of $18.7 million. In 2013, we repurchased 1,257,004 shares of common stock at an average purchase price of $15.76 per share for an aggregate purchase price of $19.8 million. As of December 31, 2015, 491,069 shares of common stock remained authorized for repurchase pursuant to our share repurchase program.

In 2015, 2014 and 2013, we received $6.7 million, $3.0 million and $2.5 million, respectively, from the exercise of stock-based awards.

In 2015, we paid $3.7 million of the Contingent Consideration in connection with our acquisition of RivieraWaves.

In 2015, we classified $0.1 million of excess tax benefit from equity-based compensation expenses as financing cash flows.

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

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

Contractual Obligations

The table below presents the principal categories of our contractual obligations as of December 31, 2015:

		Payments Due by Period ($ in thousands)			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Lease Obligations Leasehold properties	3,475	1,068	2,016	391	
Purchase Obligations design tools	931	931			
Other purchase Obligations	578	578			
Total	4,984	2,577	2,016	391	

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

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At December 31, 2015, our income tax payable, net of withholding tax credits, included $3,076,000 related to uncertain tax positions. Due to uncertainties in the timing of the completion of tax audits, the timing of the resolution of these positions is uncertain and we are unable to make a reasonably reliable estimate of the timing of payments. As a result, this amount is not included in the above table.

In addition, at December 31, 2015, the amount of accrued severance pay was $7,571,000. Severance pay relates to accrued severance obligations to our Israeli employees as required under Israeli labor laws. These obligations are payable only upon termination, retirement or death of the respective employee. Of this amount, only $274,000 is unfunded.

Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the majority of our expenses are denominated in currencies other than the U.S. dollar, principally the NIS and the Euro. Increases in volatility of the exchange rates of currencies other than the U.S. dollar versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when remeasured into U.S. dollars. We review our monthly expected non-U.S. dollar denominated expenditures and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations. However, during the second half of 2014, our Euro cash balances increased significantly beyond our ordinary course Euro business liabilities as a result of the acquisition of RivieraWaves. This has resulted in a foreign exchange loss of $0.49 million, $0.57 million and $0.05 million for 2015, 2014 and 2013, respectively. The foreign exchange losses during 2015 and 2014 principally reflected a significant devaluation of our Euro cash balances as the U.S. dollar strengthened significantly as compared to the Euro.

As a result of currency fluctuations and the remeasurement of non-U.S. dollar denominated expenditures to U.S. dollars for financial reporting purposes; we may experience fluctuations in our operating results on an annual and quarterly basis. To protect against the increase in value of forecasted foreign currency cash flow resulting from salaries paid in currencies other than the U.S. dollar during the year, we follow a foreign currency cash flow hedging program. We hedge portions of the anticipated payroll for our non-U.S. employees denominated in currencies other than the U.S. dollar for a period of one to twelve months with forward and option contracts. During 2015, 2014 and 2013 , we recorded accumulated other comprehensive gain of $65,000, accumulated other comprehensive loss of $41,000 and accumulated other comprehensive loss of $210,000, respectively, from our forward and option contracts, net of taxes, with respect to anticipated payroll expenses for our non-U.S. employees. As of December 31, 2015, the amount of other comprehensive gain from our forward and option contracts, net of taxes, was $8,000, which will be recorded in the consolidated statements of operations during the following three months. We recognized a net gain of $0.10 million for 2015, a net loss of $0.38 million for 2014 and a net gain of $0.52 million for 2013, related to forward and options contracts. We note that hedging transactions may not successfully mitigate losses caused by currency fluctuations. We expect to continue to experience the effect of exchange rate and currency fluctuations on an annual and quarterly basis.

The majority of our cash and cash equivalents are invested in high grade certificates of deposits with major U.S., European and Israeli banks. Generally, cash and cash equivalents and bank deposits may be redeemed and therefore minimal credit risk exists with respect to them. Nonetheless, deposits with these banks exceed the

Federal Deposit Insurance Corporation (FDIC) insurance limits or similar limits in foreign jurisdictions, to the extent such deposits are even insured in such foreign jurisdictions. While we monitor on a systematic basis the cash and cash equivalent balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit our funds fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss of principal or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be affected if the financial institutions that we hold our cash and cash equivalents fail.

We hold an investment portfolio consisting principally of corporate bonds. We have the ability to hold such investments until recovery of temporary declines in market value or maturity. Accordingly, as of December 31, 2015, we believe the losses associated with our investments are temporary and no impairment loss was recognized in 2015. However, we can provide no assurance that we will recover present declines in the market value of our investments.

Interest income and gains and losses from marketable securities, net, were $1.66 million in 2015, $1.71 million in 2014 and $2.76 million in 2013. The slight decrease in interest income and gains and losses from marketable securities, net, for 2015 as compared to 2014 reflected lower combined cash, bank deposits and marketable securities balances held, offset by higher yields. The decrease in interest income and gains and losses from marketable securities, net, for 2014 as compared to 2013 reflected lower combined cash, bank deposits and marketable securities balances held, lower gains on sale of marketable securities and lower yields.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015.

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.

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Management s Annual Report on Internal Control Over Financial Reporting.

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

Management assessed the effectiveness of CEVA, Inc. s internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (COSO) in Internal Control-Integrated Framework. Based on its assessment using those criteria, management believes that CEVA, Inc. s internal control over financial reporting was effective as of December 31, 2015.

CEVA, Inc. s independent registered public accountants audited the financial statements included in this Annual Report on Form 10-K and have issued a report concurring with management s assessment of the company s internal control over financial reporting, which appears in Item 8 of this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding our directors required by this item is incorporated herein by reference to the 2016 Proxy Statement. Information regarding the members of the Audit Committee, our code of business conduct and ethics, the identification of the Audit Committee Financial Expert, stockholder nominations of directors and compliance with Section 16(a) of the Securities Exchange Act of 1934 is also incorporated herein by reference to the 2016 Proxy Statement.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the 2016 Proxy Statement.

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

The information required by this item is incorporated herein by reference to the 2016 Proxy Statement.

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

The information required by this item is incorporated herein by reference to the 2016 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the 2016 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements:

Consolidated Balance Sheets as of December 31, 2015 and 2014.

Consolidated Statements of Operations for the Years Ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2015, 2014 and 2013.

Statements of Changes in Stockholders Equity for the Years Ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013.

Notes to the Consolidated Financial Statements.

2. Financial Statement Schedules:

Schedule II: Valuation and Qualifying Accounts.

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

3. Exhibits:

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

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CEVA, INC.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

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CEVA, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of CEVA, Inc.

We have audited the accompanying consolidated balance sheets of CEVA, Inc. as of December 31, 2014 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at item 15(a) 2. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CEVA, Inc. at December 31, 2014 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CEVA, Inc. s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 11, 2016 expressed an unqualified opinion thereon.

/s/KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel Aviv, Israel

March 11, 2016

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CEVA, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of CEVA, Inc.

We have audited CEVA, Inc.`s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CEVA, Inc.`s management is responsible for maintaining effectiveness of internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, CEVA. Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CEVA, Inc. as of December 31, 2014 and 2015 and the related consolidated statements of operations, comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2015 of CEVA, Inc. and our report dated March 11, 2016 expressed an unqualified opinion thereon.

/s/KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel Aviv, Israel

March 11, 2016

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CEVA, INC.

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2014	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,166	$ 18,909
Short-term bank deposits	37,444	30,767
Marketable securities (Note 3)	47,833	48,266
Trade receivables (net of allowance for doubtful accounts of $25 at December 31, 2015 and December 31, 2014)	8,347	4,068
Prepaid expenses and other current assets	3,982	4,017
Total current assets	113,772	106,027
Long-term assets:		
Bank deposits	28,424	41,334
Severance pay fund	7,011	7,297
Deferred tax assets (Note 13)	1,263	1,628
Property and equipment, net (Note 5)	2,605	3,731
Goodwill (Note 6)	46,612	46,612
Intangible assets, net (Note 6)	5,512	4,214
Investments in other company	1,806	1,806
Total long-term assets	93,233	106,622
Total assets	$ 207,005	$ 212,649
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	$ 864	$ 693
Deferred revenues	1,681	2,763
Accrued expenses and other payables (Note 7)	3,793	3,633
Contingent consideration (Note 2)	3,603	
Accrued payroll and related benefits	10,054	11,894
Total current liabilities	19,995	18,983
Long-term liabilities:		
Accrued severance pay	7,096	7,571
Deferred tax liabilities (Note 13)	865	

Total long-term liabilities	7,961	7,571
Stockholders equity (Note 8):		
Preferred stock:		
$0.001 par value: 5,000,000 shares authorized; none issued and outstanding		
Common stock:		
$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at December 31, 2014 and 2015; 20,252,490 and 20,529,933 shares outstanding at December 31, 2014 and 2015, respectively	20	21
Additional paid in-capital	209,426	208,744
Treasury stock at cost (3,342,670 and 3,065,227 shares of common stock at December 31, 2014 and 2015, respectively)	(54,708)	(51,798)
Accumulated other comprehensive loss (Note 10)	(436)	(419)
Retained earnings	24,747	29,547
Total stockholders equity	179,049	186,095
Total liabilities and stockholders equity	$ 207,005	$ 212,649

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

CEVA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year Ended December 31,		
	2013	**2014**	**2015**
Revenues:			
Licensing and related revenue	$ 22,372	$ 28,348	$ 32,135
Royalties	26,528	22,460	27,364
Total revenues	48,900	50,808	59,499
Cost of revenues	5,163	5,000	5,424
Gross profit	43,737	45,808	54,075
Operating expenses:			
Research and development, net	21,216	25,828	28,113
Sales and marketing	10,092	9,815	10,168
General and administrative	7,670	8,054	8,184
Amortization of intangible assets (Note 6)		649	1,298
Total operating expenses	38,978	44,346	47,763
Operating income	4,759	1,462	6,312
Financial income, net (Note 12)	2,714	975	1,069
Other loss (Note 1)		(404)	
Income before taxes on income	7,473	2,033	7,381
Income taxes (Note 13)	788	2,852	1,114
Net income (loss)	$ 6,685	$ (819)	$ 6,267
Basic net income (loss) per share	$ 0.30	$ (0.04)	$ 0.31
Diluted net income (loss) per share	$ 0.30	$ (0.04)	$ 0.30
Weighted average shares used to compute net income (loss) per share (in thousands):			
Basic	22,009	20,622	20,480
Diluted	22,465	20,622	20,989

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

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CEVA, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(U.S. dollars in thousands)

	Year Ended December 31,		
	2013	**2014**	**2015**
Net income (loss):	$ 6,685	$ (819)	$ 6,267
Other comprehensive income (loss) before tax:			
Available-for-sale securities:			
Changes in unrealized gains (losses)	65	(324)	(151)
Reclassification adjustments for (gains) losses included in net income	(379)	(6)	78
Net change	(314)	(330)	(73)
Cash flow hedges:			
Changes in unrealized gains (losses)	283	(430)	177
Reclassification adjustments for (gains) losses included in net income	(515)	382	(104)
Net change	(232)	(48)	73
Other comprehensive income (loss) before tax	(546)	(378)	
Income tax benefit related to components of other comprehensive income (loss)	(105)	(23)	(17)
Other comprehensive income (loss), net of taxes	(441)	(355)	17
Comprehensive income (loss)	$ 6,244	$ (1,174)	$ 6,284

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

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CEVA, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

	Common Stock				Accumulated other comprehensive		
	Number of shares outstanding	Amount	Additional paid-in capital	Treasury stock	income (loss)	Retained earnings	Total stockholders equity
Balance as of January 1, 2013	22,187,367	$ 22	$ 198,495	$ (25,694)	$ 360	$ 22,885	$ 196,068
Net income						6,685	6,685
Other comprehensive loss					(441)		(441)
Equity-based compensation			5,920				5,920
Purchase of Treasury stock	(1,257,004)	(1)		(19,815)			(19,816)
Issuance of Treasury stock upon exercise of stock-based awards	251,367	(*)		4,504		(2,025)	2,479
Balance as of December 31, 2013	21,181,730	$ 21	$ 204,415	$ (41,005)	$ (81)	$ 27,545	$ 190,895
Net loss						(819)	(819)
Other comprehensive loss					(355)		(355)
Equity-based compensation			5,011				5,011
Purchase of Treasury stock	(1,227,148)	(1)		(18,656)			(18,657)
Issuance of Treasury stock upon exercise of stock-based awards	297,908	(*)		4,953		(1,979)	2,974
Balance as of December 31, 2014	20,252,490	$ 20	$ 209,426	$ (54,708)	$ (436)	$ 24,747	$ 179,049
Net income						6,267	6,267
Other comprehensive income					17		17
Equity-based compensation			4,015				4,015
Tax benefit related to exercise of stock-based awards			112				112
Purchase of Treasury stock	(508,931)			(10,078)			(10,078)
Issuance of Treasury stock upon exercise of stock-based awards	786,374	1	(4,809)	12,988		(1,467)	6,713

Balance as of December 31, 2015	20,529,933	$ 21	$ 208,744	$ (51,798)	$ (419)	$ 29,547	$ 186,095
Accumulated unrealized loss from available-for-sale securities, net of taxes of $66					$ (427)		
Accumulated unrealized gain from hedging activities, net of taxes of $1					$ 8		
Accumulated other comprehensive loss, net as of December 31, 2015					$ (419)		

(*) Represent an amount lower than $1.

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

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CEVA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	Year ended December 31,		
	2013	**2014**	**2015**
Cash flows from operating activities:			
Net income (loss)	$ 6,685	$ (819)	$ 6,267
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	670	752	1,058
Amortization of intangible assets		649	1,298
Equity-based compensation	5,920	5,011	4,015
Realized (gain) loss, net on sale of available-for-sale marketable securities	(379)	(6)	78
Amortization of premiums on available-for-sale marketable securities	1,504	1,121	1,111
Unrealized foreign exchange (gain) loss	(49)	604	237
Loss on realization of investment in other company		404	
Changes in operating assets and liabilities:			
Trade receivables	603	(2,381)	4,279
Prepaid expenses and other current assets	146	819	(136)
Accrued interest on bank deposits	(245)	351	(318)
Deferred tax, net	(1,191)	2,531	(1,213)
Trade payables	(102)	(655)	(161)
Deferred revenues	(242)	950	1,082
Accrued expenses and other payables	(394)	(188)	(158)
Accretion of contingent consideration		169	97
Accrued payroll and related benefits	568	800	1,679
Income taxes payable	207	(1,057)	93
Excess tax benefit from equity-based compensation			(112)
Accrued severance pay, net	6	54	184
Net cash provided by operating activities	13,707	9,109	19,380
Cash flows from investing activities:			
Acquisition of subsidiary, net of cash acquired (Note 1)		(13,489)	
Purchase of property and equipment	(894)	(1,416)	(2,184)
Investment in bank deposits	(40,190)	(51,511)	(53,328)
Proceeds from bank deposits	51,850	45,306	47,451
Investment in available-for-sale marketable securities	(64,760)	(38,413)	(29,800)
Proceeds from maturity of available-for-sale marketable securities	8,686	2,033	4,392
Proceeds from sale of available-for-sale marketable securities	55,514	55,566	23,713
Investments in other companies	(934)		
Proceeds from realization of investment in other company		1,032	111

Net cash provided by (used in) investing activities	9,272	(892)	(9,645)
Cash flows from financing activities:			
Payment of contingent consideration (Note 1)			(3,700)
Purchase of Treasury Stock	(19,816)	(18,657)	(10,078)