Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2018

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: 00049842

CEVA, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**770556376**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
1174 Castro Street, Suite 210, Mountain View, California	**94040**
(Address of Principal Executive Offices)	**(Zip Code)**

(650) 4177900

(Registrant s Telephone Number, Including Area Code)

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

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

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 definition of large accelerated filer , accelerated filer , smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one).

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period of complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 22,031,424 of common stock, $0.001 par value, as of August 2, 2018.

Table of Contents

TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

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

- Our belief that adoption of our signal processing platform and artificial intelligence processors connectivity platforms beyond the cellular handset baseband market continues to progress;
- Our belief that in the second half of 2018 we may benefit from the royalty ASP uplift in LTE based modems due to volume increases in high end premier smartphones that bear higher DSP content and royalty ASPs than that of mid and lower tier smartphone royalty ASPs;
- Our anticipation that a premier smartphone manufacturer is set to begin sizeable shipments of a new flagship model powered by our DSPs in the second half of 2018;
- Our belief that CEVA-ClearVox puts us in a strong position to power audio and voice roadmaps across a range of addressable end markets
- Our belief that we may benefit from the base station chip ramp up in coming years, as a large customer of ours is forecasted to start ramping up production in the second half of 2018;
- Our belief that our Bluetooth and Wi-Fi IPs allow us to expand further into IoT applications and increase our overall addressable market which is expected to be 35 billion devices by 2020, as per ABI Research;
- Our belief that our proven track record in audio/voice processing along with our new DSPs and software technologies offer an additional market opportunity for the company in voice enabled devices such as smartphones, headsets, earbuds, smart speakers, smart home and automotive;
- Our belief that our specialization and competitive edge in signal processing platforms for next generation long and short range wireless such as 5G, NB-IoT, 802.11ac and 802.11ax technologies, and the inherent low cost, power and performance balance of our designs, put us in a strong position to simultaneously capitalize on mass market adoption of such technologies and address multiple markets and product sectors;

Our belief that our computer vision processing IPs, and the newly announced AI processor complimented by our software technologies, offer additional growth potentials and value in both licensing and royalty revenues in segments such as smartphones, drones, surveillance, consumer cameras, automotive ADAS and industrial IoT applications;

Per ABI Research, cameras equipped with vision processing are expected to exceed 2.7 billion units by 2018;

Our belief that the market opportunity for AI at the edge is on top of our existing product lines and represents a new licensing and royalty driver for the company in the coming years;

Our belief that royalty revenue growth in the next few years for non-handset baseband applications will be a combination of higher unit shipments of Bluetooth and other connectivity products that bear lower ASPs, along with higher ASPs driven by base station and vision products;

Table of Contents

Our belief that our licensing business is progressing well benefiting for good dynamics, diverse customer base for smart and connected devices ;

Our belief that royalties for the second half of the year will be substantially stronger than the first half and deliver year-over-year growth with respect to the second half of 2018;

Our belief that as a result of the lower royalty revenue for the first half of 2018, the expectation of continued weakness with a Chinese handset baseband customer for the remainder of 2018, and the lack of visibility and uncertainty for the timing of resumption of royalties with the well-publicized ban of a Chinese base station customer, our 2018 annual royalty guidance will be lowered to a level representing a 10% decrease from 2017 royalty revenue;

Our projection that the total annual revenue will be approximately $80 million;

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

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

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

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

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2018 Unaudited	December 31, 2017 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,700	$ 21,739
Short term bank deposits	32,549	34,432
Marketable securities	82,446	82,664
Trade receivables	9,246	14,480
Accrued revenues	8,753	2,014
Prepaid expenses and other current assets	6,244	3,747
Total current assets	149,938	159,076
Long term bank deposits	47,134	44,518
Severance pay fund	9,022	8,910
Deferred tax assets	4,454	3,643
Property and equipment, net	8,100	6,926
Goodwill	46,612	46,612
Intangible assets, net	3,307	1,742
Investments in other company	1,806	1,806
Other long-term assets	4,444	3,579
Total long-term assets	124,879	117,736
Total assets	$ 274,817	$ 276,812
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	$ 1,034	$ 392
Deferred revenues	2,717	4,399
Accrued expenses and other payables	4,543	3,927
Accrued payroll and related benefits	12,556	14,077
Total current liabilities	20,850	22,795
Long term liabilities:		
Accrued severance pay	9,601	9,347

Total long-term liabilities	9,601	9,347
Stockholders equity:		
Preferred Stock:		
$0.001 par value: 5,000,000 shares authorized; none issued and outstanding		
Common Stock:		
$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at June 30, 2018 (unaudited) and December 31, 2017. 22,030,598 and 22,064,007 shares outstanding at June 30, 2018 (unaudited) and December 31, 2017, respectively	22	22
Additional paid in-capital	219,333	217,417
Treasury stock at cost (1,564,562 and 1,531,153 shares of common stock at June 30, 2018 (unaudited) and December 31, 2017, respectively)	(31,640)	(26,056)
Accumulated other comprehensive loss	(1,417)	(586)
Retained earnings	58,068	53,873
Total stockholders equity	244,366	244,670
Total liabilities and stockholders equity	$ 274,817	$ 276,812

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

5

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

	Six months ended June 30,		Three months ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues:				
Licensing and related revenue	$ 20,121	$ 19,872	$ 10,038	$ 10,337
Royalties	14,942	21,990	7,456	10,238
Total revenues	35,063	41,862	17,494	20,575
Cost of revenues	3,960	3,304	1,988	1,608
Gross profit	31,103	38,558	15,506	18,967
Operating expenses:				
Research and development, net	23,859	20,382	11,843	10,509
Sales and marketing	6,575	6,365	3,399	3,427
General and administrative	5,787	4,677	2,833	2,552
Amortization of intangible assets	451	618	92	309
Total operating expenses	36,672	32,042	18,167	16,797
Operating income (loss)	(5,569)	6,516	(2,661)	2,170
Financial income, net	1,704	1,326	777	755
Income (loss) before taxes on income	(3,865)	7,842	(1,884)	2,925
Income taxes expense (benefit)	407	(173)	206	(983)
Net income (loss)	$ (4,272)	$ 8,015	$ (2,090)	$ 3,908
Basic net income (loss) per share	$ (0.19)	$ 0.37	$ (0.09)	$ 0.18
Diluted net income (loss) per share	$ (0.19)	$ 0.36	$ (0.09)	$ 0.17
Weighted-average shares used to compute net income (loss) per share (in thousands):				
Basic	22,139	21,556	22,129	21,712
Diluted	22,139	22,376	22,129	22,563

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

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

U.S. dollars in thousands

	Six months ended June 30,		Three months ended June 30,	
	2018	2017	2018	2017
Net income (loss):	$ (4,272)	$ 8,015	$ (2,090)	$ 3,908
Other comprehensive income (loss) before tax:				
Available-for-sale securities:				
Changes in unrealized gains (losses)	(879)	226	(199)	57
Reclassification adjustments for (gains) losses included in net income	(2)	40	2	2
Net change	(881)	266	(197)	59
Cash flow hedges:				
Changes in unrealized gains (losses)	(280)	182	(256)	
Reclassification adjustments for (gains) losses included in net income	196	(188)	177	(42)
Net change	(84)	(6)	(79)	(42)
Other comprehensive income (loss) before tax	(965)	260	(276)	17
Income tax expense (benefit) related to components of other comprehensive income (loss)	(134)	41	(47)	6
Other comprehensive income (loss), net of taxes	(831)	219	(229)	11
Comprehensive income (loss)	$ (5,103)	$ 8,234	$ (2,319)	$ 3,919

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

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. dollars in thousands

	Six months ended June 30, 2018	Six months ended June 30, 2017
Cash flows from operating activities:		
Net income (loss)	$ (4,272)	$ 8,015
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	1,190	923
Amortization of intangible assets	635	618
Equity-based compensation	5,616	4,127
Realized (gain) loss, net on sale of available-for-sale marketable securities	(2)	40
Amortization of premiums on available-for-sale marketable securities	430	619
Unrealized foreign exchange loss	78	29
Changes in operating assets and liabilities:		
Trade receivables and accrued revenues	7,694	4,655
Prepaid expenses and other assets	(3,895)	(2,382)
Accrued interest on bank deposits	(533)	323
Deferred tax, net	(677)	(490)
Trade payables	533	(285)
Deferred revenues	(1,682)	(2,870)
Accrued expenses and other payables	(289)	339
Accrued payroll and related benefits	(1,277)	(1,675)
Income taxes payable	78	(1,475)
Accrued severance pay, net	174	41
Net cash provided by operating activities	3,801	10,552
Cash flows from investing activities:		
Purchase of property and equipment	(2,250)	(2,275)
Purchase of intangible assets	(1,690)	
Investment in bank deposits	(11,396)	(30,757)
Proceeds from bank deposits	11,065	27,050
Investment in available-for-sale marketable securities	(13,834)	(27,825)
Proceeds from maturity of available-for-sale marketable securities	9,392	3,895
Proceeds from sale of available-for-sale marketable securities	3,351	12,196
Net cash used in investing activities	(5,362)	(17,716)
Cash flows from financing activities:		
Purchase of treasury stock	(10,434)	
Proceeds from exercise of stock-based awards	1,062	5,741

Net cash provided by (used in) financing activities	(9,372)	5,741
Effect of exchange rate changes on cash and cash equivalents	(106)	125
Decrease in cash and cash equivalents	(11,039)	(1,298)
Cash and cash equivalents at the beginning of the period	21,739	18,401
Cash and cash equivalents at the end of the period	$ 10,700	$ 17,103
Supplemental information of cash-flow activities:		
Cash paid during the period for:		
Income and withholding taxes, net of refunds	$ 2,730	$ 2,505
Non-cash transactions:		
Cumulative effect of adoption of new accounting standard	$ 8,555	$
Property and equipment purchases incurred but unpaid at period end	$ 114	$
Intangible assets purchases incurred but unpaid at period end	$ 750	$

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

8

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

NOTE 1: BUSINESS

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

CEVA licenses a family of signal processing IPs, including comprehensive platforms for 5G baseband processing in handsets and base station RAN, highly integrated cellular IoT solutions, DSP and voice input algorithms and software for voice enabled devices, advanced imaging and computer vision, DSP platforms for any camera-enabled device, and a family of self-contained AI processors that address a wide range of applications. For short-range wireless, we offer the industry s most widely adopted IPs for Bluetooth (low energy and dual mode) and Wi-Fi (802.11 b/g/n/ac/ax up to 4x4)

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

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

Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10K for the year ended December 31, 2017.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2017, contained in the Company s Annual Report on Form 10K filed with the Securities and Exchange Commission on March 1, 2018, have been applied consistently in these unaudited interim condensed consolidated financial statements, except for changes associated with recent accounting standards for revenue recognition and financial instruments for the three and six months ended June 30, 2018, as detailed below.

Changes in accounting policies as a result of adopting Topic 606 and nature of goods

Effective as of January 1, 2018, the Company has followed the provisions of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606). The guidance provides a unified model to determine how revenue is recognized. See Note 3 for further details.

The following is a description of principal activities from which the Company generates revenue. Revenues are recognized when control of the promised goods or services are transferred to the customers in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

The Company determines revenue recognition through the following steps:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

allocation of the transaction price to the performance obligations in the contract; and

recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company enters into contracts that can include various combinations of products and services, as detailed below, which are generally capable of being distinct and accounted for as separate performance obligations.

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

The Company accounts for its IP license revenues and related services, which provide the Company s customers with rights to use the Company s IP, in accordance with ASC 606. A license may be perpetual or time limited in its application. In accordance with ASC 606, the Company will continue to recognize revenue from IP license at the time of delivery when the customer accepts control of the IP, as the IP is functional without professional services, updates and technical support. The Company has concluded that its IP license is distinct as the customer can benefit from the software on its own.

Most of the Company s contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately, if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices of IP license are typically estimated using the residual approach. Standalone selling prices of services are typically estimated based on observable transactions when these services are sold on a standalone basis.

When contracts involve a significant financing component, the Company adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provide the customer with a significant benefit of financing, unless the financing period is under one year and only after the products or services were provided, which is a practical expediency permitted under ASC 606.

Revenues from contracts that involve significant customization of the Company s IP to customer-specific specifications are performance obligations the Company generally accounts for as performance obligations satisfied over time. The underlying deliverable is owned and controlled by the customer, and does not create an asset with an alternative use to the Company. The Company recognizes revenue on such contracts using cost based input methods, which recognize revenue and gross profit as work is performed based on a ratio between actual costs incurred compared to the total estimated costs for the contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss on the entire contract.

Revenues that are derived from the sale of a licensee s products that incorporate the Company s IP are classified as royalty revenues. Royalty revenues are recognized during the quarter in which the sale of the product incorporating the Company s IP occurs. Royalties are calculated either as a percentage of the revenues received by the Company s licensees on sales of products incorporating the Company s IP or on a per unit basis, as specified in the agreements with the licensees. The Company receives the actual sales data from its customers after the quarter ends and accounts for it as accrued revenue. When the Company does not receive actual sales data from the customer prior to the finalization of its financial statements, royalty revenues are recognized based on the Company s estimation of the customer s sales during the quarter.

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

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

Revenues from the sale of development systems are recognized when control of the promised goods or services are transferred to the customers.

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

The Company capitalizes sales commission as costs of obtaining a contract when they are incremental and, if they are expected to be recovered, amortized consistently with the pattern of transfer of the good or service to which the asset relates. If the expected amortization period is one year or less, the commission fee is expensed when incurred.

Changes in accounting policies as a result of adopting ASU No. 2016-01, Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities

Beginning on January 1, 2018, the Company has followed the provisions of Accounting Standards Update (ASU) No. 2016-01, Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities , which requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The investment is reviewed periodically to determine if there are changes resulting from observable price changes, and adjustments are recorded as necessary. During the first half of 2018, no adjustments were recorded as a result of changes in the observable price.

Reclassification

Certain amounts in the prior years financial statements have been reclassified to conform to the current year s presentation. These amounts are associated with trade receivables and accrued revenues. Such reclassifications have no effect on stockholders equity or net income as previously reported.

Use of Estimates

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

NOTE 3: REVENUE RECOGNITION

In May 2014, the Financial Accounting Standards Board (FASB) issued new guidance related to revenue recognition, which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. ASC 606 requires a company to recognize revenue as control of goods or services transfers to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the prior guidance. The Company adopted ASC 606 on January 1, 2018 for all open contracts at the date of initial application, and applied the standard using modified retrospective approach, with the cumulative effect of applying ASC 606 recognized as an adjustment to the opening retained earnings balance. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded a net increase to opening retained earnings of $8,555 as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to revenues for the three and six months ended June 30, 2018 was an increase of $890 and a decrease of $1,073, respectively, as a result of adopting ASC 606.

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

With respect to the Company s licensing business, under ASC 606, certain deliverables may now be considered as distinct performance obligations separate from other performance obligations, and will be measured using the relative standalone selling price basis, and recognized as revenue accordingly. Nevertheless, the adoption of ASC 606 for licensing and related revenues did not have a significant impact on the Company s financial statements. With respect to the Company s royalty business, ASC 606 did have a significant impact. Under the accounting standards in effect during prior periods, the Company recognized sales-based royalties as revenues during the quarter which such royalties were reported by licensees, which reflected the licensees prior quarter sales and when all other revenue recognition criteria were met. Under ASC 606, the Company is required to estimate and recognize sales-based royalties during the period which the associated sales occur. Accordingly, the Company has an increase in accrued revenues of $6,497 in the statement of financial position.

Under ASC 606, an entity recognizes revenue when or as it satisfies a performance obligation by transferring IP license or services to the customer, either at a point in time or over time. The Company recognizes most of its revenues at a point in time upon delivery of its IPs. The Company recognizes revenue over time on significant license customization contracts that are covered by contract accounting standards using cost inputs to measure progress toward completion of its performance obligations, which is similar to the method prior to the adoption of ASC 606.

The following table includes estimated revenue expected to be recognized in future periods related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The estimated revenues do not include amounts of royalties or unexercised contract renewals:

	Remainder of 2018	2019	2020	2021
License and related revenues	$ 4,215	$ 5,630	$ 3,000	$ 1,500

In connection with the adoption of ASC 606, the Company is required to capitalize incremental costs that are related to sales during the period, consisting primarily of sales commissions earned when contracts are signed. As of January 1, 2018, the date the Company adopted ASC 606, the Company capitalized $239 in contract acquisition costs related to contracts that were not completed. For contracts that have a duration of less than one year, the Company follows ASC 606 s practical expediency, and expenses these costs when incurred; for contracts with life exceeding one year, the Company records these costs in proportion to each completed contract performance obligation. For the three and six months ended June 30, 2018, the amount of amortization was $109 and 120, respectively, and there was no impairment loss in relation to costs capitalized.

Disaggregation of revenue:

The following table provides information about disaggregated revenue by primary geographical market, major product line and timing of revenue recognition (in thousands):

Six months ended June 30, 2018 (unaudited)	Three months ended June 30, 2018 (unaudited)

	Licensing and related revenues	Royalties	Total	Licensing and related revenues	Royalties	Total
Primary geographical markets						
United States	$ 3,184	$ 644	$ 3,828	$ 1,824	$ 297	$ 2,121
Europe and Middle East	2,752	2,414	5,166	1,414	1,299	2,713
Asia Pacific	14,185	11,884	26,069	6,800	5,860	12,660
Total	$ 20,121	$ 14,942	$ 35,063	$ 10,038	$ 7,456	$ 17,494
Major product/service lines						
DSP products (DSP cores and platforms)	$ 13,425	$ 13,641	$ 27,066	$ 6,050	$ 6,763	$ 12,813
Connectivity products (Bluetooth, Wi-Fi and SATA/SAS)	6,696	1,301	7,997	3,988	693	4,681
Total	$ 20,121	$ 14,942	$ 35,063	$ 10,038	$ 7,456	$ 17,494
Timing of revenue recognition						
Products transferred at a point in time	$ 15,285	$ 14,942	$ 30,227	$ 7,761	$ 7,456	$ 15,217
Products and services transferred over time	4,836		4,836	2,277		2,277
Total	$ 20,121	$ 14,942	$ 35,063	$ 10,038	$ 7,456	$ 17,494

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

Contract balances:

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers (in thousands):

	June 30, 2018 (unaudited)
Trade receivables	$ 9,246
Accrued revenues (short-term contract assets)	1,718
Accrued revenues (royalties)	7,035
Deferred revenues (short-term contract liabilities)	2,717

The Company receives payments from customers based upon contractual payment schedules; trade receivable are recorded when the right to consideration becomes unconditional, and an invoice is issued to the customer. Contract assets include amounts related to the Company s contractual right to consideration for completed performance objectives not yet invoiced. Accrued revenues associated with royalties are recorded as the Company recognizes revenues from royalties earned during the quarter, not yet invoiced, either by actual sales data received from the customers, or, when applicable, by estimation. Contract liabilities (deferred revenue) include payments received in advance of performance under the contract, and are realized with the associated revenue recognized under the contract.

During the three and six months ended June 30, 2018, the Company recognized $2,128 and $3,423, respectively, that was included in deferred revenues (short-term contract liability) balance at January 1, 2018.

In accordance with ASC 606, the disclosure of the impact of adoption to the Company s condensed consolidated statements of income and balance sheets was as follows:

	Six months ended June 30, 2018 (unaudited)			Three months ended June 30, 2018 (unaudited)		
	As reported	Balance without adopting ASC 606	Effect of change higher/(lower)	As reported	Balance without adopting ASC 606	Effect of change higher/(lower)
Revenues:						
Licensing and related revenue	$ 20,121	$ 18,599	$ 1,522	$ 10,038	$ 9,035	$ 1003
Royalties	14,942	17,537	(2,595)	7,456	7,569	(113)
Total revenues	35,063	36,136	(1,073)	17,494	16,604	890
Cost of revenues	3,960	3,960		1,988	1,988	

Gross profit	31,103	32,176	(1,073)	15,506	14,616	890
Operating expenses:						
Sales and marketing	6,575	6,457	118	3,399	3,291	108
Other operating expenses	30,097	30,097		14,768	14,768	
Total operating expenses	36,672	36,554	118	18,167	18,059	108
Operating loss	(5,569)	(4,378)	(1,191)	(2,661)	(3,443)	782
Financial income, net	1,704	1,704		777	777	