CEVA INC
Form 10-Q/A
November 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A
Amendment No.1

(Mark One)

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

For the quarterly period ended: September 30, 2006

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.)**
2033 Gateway Place, Suite 150, San Jose, California	**95110-1002**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 19,311,803 shares of common stock, $0.001 par value, as of November 1, 2006.

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EXPLANATORY NOTE

This Amendment No. 1 to our Quarterly Report on Form 10-Q is being filed because our third-party filing agent inadvertently filed our Quarterly Report on Form 10-Q a day early. As a result, we have amended the signature page of our Quarterly Report on Form 10-Q and the Exhibits 31.1, 31.2 and 32 filed with the report relating to the certifications of our Chief Executive Officer and Chief Financial Officer to change the date set forth therein from November 9, 2006 to November 8, 2006. No other changes have been made to our originally filed Quarterly Report on Form 10-Q.

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,” “an “intend,” “plan,” or other similar words. Forward-looking statements include the following:

· Our belief that given the complexity of applications for DSPs, there is increasingly an industry shift away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications, and that we are well positioned to take full advantage of these trends;

· Our ability to capitalize on various new technologies we are in the process of developing, including DSP cores and platforms for WiMax and cellular applications and the multimedia product lines, including the MobileMedia2000 technology;

· Any potential additional royalty revenues associated with new product launches and ramp-up of production of products incorporating our technology by our customers;

· Our belief that we may be able to reach higher levels of royalty revenue in 2007;

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

· Our belief that a successful surrender of our long-term lease in Ireland in the fourth quarter of 2006 will result in an associated cash outflow of approximately $3.5 million in the fourth quarter of 2006.

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, market acceptance of third-party semiconductor IP, our OEM relationships and competition, as well as those risks described in Part II - Item 1A - “Risk Factors” of this Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2006 Unaudited	December 31, 2005 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,509	$ 35,111
Short term bank deposits	416	8,335
Marketable securities	26,843	18,174
Trade receivables, net	7,091	6,159
Deferred tax assets	571	600
Prepaid expenses	601	1,040
Other current assets	1,654	1,042
Total current assets	73,685	70,461
Severance pay fund	2,332	1,912
Deferred tax assets	434	292
Property and equipment, net	1,883	3,226
Investment in other company, net (see Note 3)	4,233	-
Goodwill	36,498	38,398
Other intangible assets, net	242	1,460
Total assets	$ 119,307	$ 115,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 638	$ 548
Accrued expenses and other payables	8,629	7,778
Taxes payable	331	442
Deferred revenues	589	453
Total current liabilities	10,187	9,221
Long term liabilities:		
Accrued severance pay	2,491	2,100
Accrued liabilities	1,829	2,195
Total long-term liabilities	4,320	4,295
Stockholders' equity:		
Common Stock:		
$0.001 par value: 100,000,000 shares authorized; 19,284,803 and 18,923,071 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	19	19
Additional paid in-capital	142,062	138,818
Accumulated deficit	(37,281)	(36,604)
Total stockholders' equity	104,800	102,233
Total liabilities and stockholders' equity	$ 119,307	$ 115,749

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

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

	Nine months ended September 30,		Three months ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Licensing and royalties	$ 21,553	$ 24,235	$ 6,938	$ 7,169
Other revenue	2,886	3,720	955	1,217
Total revenues	24,439	27,955	7,893	8,386
Cost of revenues	3,022	3,412	992	1,003
Gross profit	21,417	24,543	6,901	7,383
Operating expenses:				
Research and development, net	14,159	15,477	4,270	5,036
Sales and marketing	4,791	4,855	1,414	1,619
General and administrative	4,535	4,481	1,577	1,399
Amortization of intangible assets	373	632	42	191
Reorganization and severance charge	-	3,307	-	1,650
Impairment of assets	-	510	-	-
Total operating expenses	23,858	29,262	7,303	9,895
Operating loss	(2,441)	(4,719)	(402)	(2,512)
Financial and other income, net	1,949	2,760	778	1,982
Income (loss) before taxes on income	(492)	(1,959)	376	(530)
Taxes on income	185	160	35	-
Net Income (loss)	$ (677)	$ (2,119)	$ 341	$ (530)
Basic net income (loss) per share	$ (0.04)	$ (0.11)	$ 0.02	$ (0.03)
Diluted net income (loss) per share	$ (0.04)	$ (0.11)	$ 0.02	$ (0.03)
Weighted-average number of shares of Common Stock used in computation of net income (loss) per share (in thousands):				
Basic	19,150	18,768	19,239	18,875
Diluted	19,150	18,768	19,324	18,875

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

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

Nine months ended September 30, 2006	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Total stockholders' equity
Balance as of January 1, 2006	18,923,071	$ 19	$ 138,818	$ (36,604)	$ 102,233
Net loss	—	—	—	(677)	(677)
Stock-based compensation	—	—	1,660	—	1,660
Issuance of Common Stock upon exercise of stock options	41,195	—(*)	210	—	210
Issuance of Common Stock upon purchase of ESPP shares	320,537	—(*)	1,374	—	1,374
Balance as of September 30, 2006	19,284,803	$ 19	$ 142,062	$ (37,281)	$ 104,800

Nine months ended September 30, 2005	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Total stockholders' equity
Balance as of January 1, 2005	18,557,818	$ 19	$ 136,868	$ (34,338)	$ 102,549
Net loss	—	—	—	(2,119)	(2,119)
Stock-based compensation	—	—	195	—	195
Issuance of Common Stock upon exercise of stock options	72,820	—(*)	369	—	369
Issuance of Common Stock upon purchase of ESPP shares	292,433	—(*)	1,386	—	1,386
Balance as of September 30, 2005	18,923,071	$ 19	$ 138,818	$ (36,457)	$ 102,380

(*) Amount less than $1.

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

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

	Nine months ended September 30, 2006	2005
Cash flows from operating activities:		
Net loss	$ (677)	$ (2,119)
Adjustments required to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	1,124	1,545
Amortization of intangible assets	373	1,032
Stock-based compensation	1,660	195
Gain from sale of property and equipment	—	(10)
Loss on marketable securities	24	57
Accrued interest on short term bank deposits	123	(51)
Unrealized foreign exchange loss (gain)	15	(78)
Gain on realization of investment	(57)	(1,507)
Marketable securities	(8,693)	3,072
Changes in operating assets and liabilities:		
(Increase) decrease in trade receivables	(932)	3,357
Increase in other current assets and prepaid expenses	(146)	(1,781)
(Increase) decrease in deferred income taxes	(113)	20
(Decrease) increase in trade payables	60	(926)
(Decrease) increase in deferred revenues	136	(517)
Increase in accrued expenses and other payables	53	5
Decrease in taxes payable	(111)	(118)
(Decrease) increase in accrued severance pay, net	(39)	84
Net cash (used in) provided by operating activities	(7,200)	2,260
Cash flows from investing activities:		
Purchase of property and equipment	(303)	(829)
Proceeds from sale of property and equipment	—	13
Purchase of technology	—	(153)
Proceeds from realization of investment	57	1,267
GPS divestment transaction and related costs	(913)	—
Investment in short term bank deposits	(5,135)	(8,204)
Proceeds from short term bank deposits	12,931	—
Net cash (used in) provided by investing activities	6,637	(7,906)
Cash flows from financing activities:		
Proceeds from issuance of Common Stock upon exercise of options	210	369
Proceeds from issuance of Common Stock under employee stock purchase plan	1,374	1,386
Net cash provided by financing activities	1,584	1,755
Effect of exchange rate movements on cash	377	(461)
Changes in cash and cash equivalents	1,398	(4,352)
Cash and cash equivalents at the beginning of the period	35,111	28,844
Cash and cash equivalents at the end of the period	$ 36,509	$ 24,492

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (CONTINUED)

U.S. dollars in thousands

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Supplemental disclosure of noncash activities		
Investment in other company in regards to the GloNav transaction (see note 3):		
Goodwill	$ (1,900)	$ —
Intangible asset	(845)	—
Net working capital	(522)	—
Other transaction and related costs	(53)	—
Deferred gain related to GPS divestment transaction	(1,751)	—

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1: BUSINESS

The financial information in this quarterly report includes the results of CEVA, Inc. and its subsidiaries (the "Company" or "CEVA"). CEVA licenses to semiconductor companies and electronic equipment manufacturers (also known as original equipment manufacturers, or OEMs) digital signal processor (DSP) cores and related intellectual property (IP) solutions that enable a wide variety of electronic devices. The Company's programmable DSP cores and application-level IP solutions power wireless devices, handheld devices, consumer electronics products, disk drives and automotive applications.

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

a. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including non-recurring adjustments attributable to reorganization and severance and impairment) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005.

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

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2005, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2006, as further amended on April 28, 2006 (File No. 000-49842), have been applied consistently in these unaudited interim condensed consolidated financial statements, except as described in subsection (b) below.

b. Investment in Other Company

On June 23, 2006, the Company divested its GPS technology and associated business to a new U.S.-based company, GloNav Inc. ("GloNav"), as detailed below in note 3. The investment in GloNav is stated at cost, since the Company does not have the ability to exercise significant influence over operating and financial policies of GloNav. The Company records the investment on its Condensed Consolidated Balance Sheets as investment in other company. This investment will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, in accordance with Accounting Principle Board Opinion No.18 "The Equity Method of Accounting for Investments in Common Stock" ("APB No.18").

NOTE 3: DIVESTMENT OF GPS TECHNOLOGY

As discussed above, on June 23, 2006, the Company divested its GPS technology and associated business to GloNav in return for an equity ownership of 19.9% in GloNav on a fully diluted basis. Out of the 19.9%, CEVA received as consideration 10% in Series A-1 Convertible Voting Preferred Stock (the "Series A-1") and 9.9% in Series A-2 Convertible Non-Voting Preferred Stock (the "Series A-2"). The Series A-1 and Series A-2 are convertible into voting common stock and non-voting common stock, respectively, of GloNav on a one-for-one basis. Subject to certain limitations, if GloNav engages in future equity funding of up to $20,000, CEVA also will receive additional shares of Series A-2 for no consideration as anti-dilution protection. The additional share issuance is capped at 6.8% of GloNav's then outstanding shares of capital stock calculated on a post-funding basis after completion of equity funding of up to $20,000. Although CEVA has transferred the GPS customer contracts and GPS intellectual property to GloNav, CEVA will continue to share with GloNav certain revenues relating to the GPS assets. CEVA's valuation of its equity investment in GloNav is $5,984 based on the value of the assets and cash attributable to GloNav and the investment was recorded as an investment in other company, net on the Condensed Consolidated Balance Sheets and stated at cost. Since GloNav is a newly formed research and development start-up, the gain resulting from the divestment of the GPS technology and associated business in the total amount of $1,751 has been deferred. The excess of the consideration from the divestment over the net book value of the assets in the amount of $1,751 is set below:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

		(unaudited)
Equity investment in GloNav	$	5,984
Goodwill		(1,900)
Intangible asset		(845)
Net working capital		(522)
Other transaction and related costs		(966)
Deferred gain related to transaction with GloNav	$	1,751

		(unaudited)
Investment in other company, net:		
Investment in other company	$	5,984
Deferred gain		(1,751)
Total investment in other company, net	$	4,233

GloNav also has licensed the CEVA-TeakLite DSP core for the development of its GPS chipsets and will pay royalties to CEVA based on its future GPS chip sales.

NOTE 4: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA

a. Summary information about geographic areas:

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

The following is a summary of operations within geographic areas:

	Nine months ended September 30,		**Three months ended September 30,**	
	2006 (unaudited)	**2005 (unaudited)**	**2006 (unaudited)**	**2005 (unaudited)**
Revenues based on customer location:				
United States	$ 9,781	$ 10,654	$ 2,050	$ 2,444
Europe, Middle East and Africa	9,232	5,579	2,474	1,484
Asia Pacific (1)	5,426	11,722	3,369	4,458
	$ 24,439	$ 27,955	$ 7,893	$ 8,386

One country representing 10% or more of total revenues included in the table above is as follows:

(1) Japan	$ 2,455	$ 4,357	$ 1,386_	$ 1,118

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

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

	Nine months ended September 30,		Three months ended September 30,	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
Customer A	20%	—	—	—
Customer B	10%	—	14%	—
Customer C	—	—	10%	—
Customer D	—	13%	—	—
Customer E	—	—	13%	19%
Customer F	—	—	—	18%
Customer G	—	—	—	16%

NOTE 5: NET INCOME (LOSS) PER SHARE OF COMMON STOCK

Basic net income (loss) per share is computed based on the weighted-average number of shares of Common Stock outstanding during each period. Diluted net income (loss) per share is computed based on the weighted average number of shares of Common Stock outstanding during each period, plus potential dilutive shares of Common Stock considered outstanding during the period, in accordance with Statement of Financial Accounting Standard ("SFAS") No. 128, "Earnings Per Share."

	Nine months ended September 30,		Three months ended September 30,	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
Numerator:				
Numerator for basic and diluted net income (loss) per share	$ (677)	$ (2,119)	$ 341	$ (530)
Denominator:				
Denominator for basic net income (loss) per share				
Weighted-average number of shares of Common Stock	19,150	18,768	19,239	18,875
Effect of employee stock options	-	-	85	-
	19,150	18,768	19,324	18,875
Net income (loss) per share				
Basic and Diluted	$ (0.04)	$ (0.11)	$ 0.02	$ (0.03)

The total number of shares related to outstanding options excluded from the calculation of diluted net income (loss) per share were 4,100,763 and 4,571,997 for the three and nine months period ended September 30, 2006, and 5,473,071 for both corresponding periods of 2005.

NOTE 6: MARKETABLE SECURITIES

Marketable securities consist of certificates of deposits, corporate bonds and securities and U.S. government and agency securities. Marketable securities are stated at market value, and by policy, CEVA invests in high grade marketable securities to reduce risk of loss. All marketable securities are defined as trading securities under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and holding gains and losses are reflected in the Condensed Consolidated Statements of Operations.

	As of September 30, 2006		
	Cost	**Gain (loss)**	**Market Value**
Corporate bonds and securities	$ 16,494	$ (82)	$ 16,412
U.S. government and agency securities	10,389	42	10,431
	$ 26,883	$ (40)	$ 26,843

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

NOTE 7: COMMON STOCK AND STOCK-BASED COMPENSATION PLANS

During the first quarter of 2006, the Company granted options to purchase 53,500 shares of Common Stock, at exercise prices ranging from $6.05 to $6.59 per share, and the Company issued 213,420 shares of Common Stock under its stock option and purchase programs for consideration of $936. Options to purchase 4,941,096 shares were outstanding at March 31, 2006. During the comparable period of 2005, the Company granted options to purchase 51,000 shares of Common Stock, at exercise prices ranging from $7.93 to $8.51 per share, and the Company issued 175,235 shares of Common Stock under its stock option and purchase programs for consideration of $880. Options to purchase 5,820,471 shares were outstanding at March 31, 2005.

During the second quarter of 2006, the Company granted options to purchase 160,000 shares of Common Stock, at exercise prices ranging from $5.76 to $7.59 per share, and the Company issued 12,917 shares of Common Stock under its stock option and purchase programs for consideration of $67. Options to purchase 4,722,303 shares were outstanding at June 30, 2006. During the comparable period of 2005, the Company granted options to purchase 196,700 shares of Common Stock, at exercise prices ranging from $5.85 to $7.12 per share, and the Company issued 46,341 shares of Common Stock under its stock option and purchase programs for consideration of $239. Options to purchase 4,993,542 shares were outstanding at June 30, 2005.

During the third quarter of 2006, the Company granted options to purchase 25,500 shares of Common Stock, at an exercise price of $5.50 per share, and the Company issued 135,395 shares of Common Stock under its stock option and purchase programs for consideration of $581. Options to purchase 4,571,997 shares were outstanding at September 30, 2006. During the comparable period of 2005, the Company granted options to purchase 560,000 shares of Common Stock, at exercise prices ranging from $5.16 to $5.88 per share, and the Company issued 143,677 shares of Common Stock under its stock option and purchase programs for consideration of $636. Options to purchase 5,473,071 shares were outstanding at September 30, 2005.

The weighted-average fair value per share of the options granted during the three months ended March 31, June 30 and September 30, 2006 was $6.52, $5.90 and $5.50, respectively. During the comparable periods of 2005, the weighted-average fair value per share of the options granted was $8.21, $6.15 and $5.50, respectively. The exercise prices of such options were equal to the market price of the Company's Common Stock on the date of the respective option grants.

A summary of activity of options granted to purchase the Company's Common Stock under the Company's stock option plans is as follows:

	Nine months ended September 30, 2006 (unaudited)		Three months ended September 30, 2006 (unaudited)	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at the beginning of the year/period	5,020,383	$ 8.54	4,722,303	$ 8.48
Granted	239,000	5.99	25,500	5.50

Exercised	(41,195)		5.10	(1,250)		3.52
Forfeited	(646,191)		8.24	(174,556)		8.17
Outstanding at the end of the period	4,571,997	$	8.48	4,571,997	$	8.48
Number of options exercisable as of September 30, 2006	3,137,231	$	9.41	3,137,231	$	9.41

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard (SFAS) No. 123R, “Share-Based Payment” (“SFAS 123(R)”), which requires the Company to measure all employee stock-based compensation awards using a fair value method and record the related expense in the financial statements. The Company used the Black-Scholes option pricing model. The Company elected to use the modified prospective method of adoption which requires that compensation expense be recorded in the financial statements over the expected requisite service period for any new options granted after the adoption of SFAS 123(R) as well as for existing awards for which the requisite service has not been rendered as of the date of adoption and requires that prior periods not be restated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

The following table shows the total stock-based compensation expense included in the Condensed Consolidated Statement of Operations:

	Nine months ended September 30, 2006 (unaudited)	Three months ended September 30, 2006 (unaudited)
Cost of revenue	$ 38	$ 14
Research and development expenses	523	170
Sales and marketing expenses	258	78
General and administrative expenses	841	248
Total	$ 1,660	$ 510

Under SFAS 123(R), the expense has been determined as if CEVA had accounted for its employee stock options under the fair value method of SFAS 123(R). The fair value for these options was estimated on the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Three months ended September 30, 2006 (unaudited)
Dividend yield	0%