CEVA INC
Form 10-Q
May 10, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2016

OR

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

For the transition period from __________ to __________

Commission file number: 000-49842

CEVA, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**77-0556376** **(I.R.S. Employer** **Identification No.)**
1174 Castro Street, Suite 210, Mountain View, California **(Address of Principal Executive Offices)**	**94040** **(Zip Code)**

(650) 417-7900

(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 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 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	¨	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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 20,440,182 shares of common stock, $0.001 par value, as of May 3, 2016.

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FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

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

- Our belief that the adoption of our signal processing IP cores and software for smart, connected devices continues to progress;
- Our belief that our market share in LTE will continue to grow;
- Our belief that we will benefit from the handset market transitioning from feature phones to smartphones;
- Our belief that the acquisition of RivieraWaves allows 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 we will continue to experience in 2016, similar to 2015, a strong licensing environment; and that our licensing business is progressing in line with our expectations with a good pipeline and diverse customer base and target market;
- Our belief that our intelligent audio processing IP required for IoT applications offers an additional growth segment for the company;
- Our belief that our competitive edge in software-defined radio technology and the inherent low cost and power performance balance of our technologies put us in a strong position to capitalize on market adoption of such technologies and address multiple market sectors;
- 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 revolution in vision processing is an opportunity for us to expand our footprint in smartphones and further into tablets, drones, surveillance and automative applications;

- Our belief that unit shipments for non-handset baseband applications will reach 700 to 900 million units annually by 2018;

- 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.

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

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

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

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

	March 31, 2016 Unaudited	December 31, 2015 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,315	$ 18,909
Short term bank deposits	40,613	30,767
Marketable securities	54,291	48,266
Trade receivables, net	6,709	4,068
Prepaid expenses and other current assets	2,935	4,017
Total current assets	115,863	106,027
Long term bank deposits	30,746	41,334
Severance pay fund	7,678	7,297
Deferred tax assets	1,928	1,628
Property and equipment, net	3,844	3,731
Goodwill	46,612	46,612
Intangible assets, net	3,905	4,214
Other long-term assets	3,642	1,806
Total long-term assets	98,355	106,622
Total assets	$ 214,218	$ 212,649
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	$ 1,423	$ 693
Deferred revenues	1,429	2,763
Accrued expenses and other payables	4,410	3,633
Accrued payroll and related benefits	11,516	11,894
Total current liabilities	18,778	18,983

Long term liabilities:		
Accrued severance pay	8,168	7,571
Total long-term liabilities	8,168	7,571
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 March 31, 2016 and December 31, 2015. 20,434,620 and 20,529,933 shares outstanding at March 31, 2016 and December 31, 2015, respectively	20	21
Additional paid in-capital	209,886	208,744
Treasury stock at cost (3,160,540 and 3,065,227 shares of common stock at March 31, 2016 and December 31, 2015, respectively)	(53,783)	(51,798)
Accumulated other comprehensive loss	(11)	(419)
Retained earnings	31,160	29,547
Total stockholders equity	187,272	186,095
Total liabilities and stockholders equity	$ 214,218	$ 212,649

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

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenues:		
Licensing and related revenue	$ 8,650	$ 7,839
Royalties	7,858	5,995
Total revenues	16,508	13,834
Cost of revenues	1,628	1,185
Gross profit	14,880	12,649
Operating expenses:		
Research and development, net	7,914	7,363
Sales and marketing	2,845	2,426
General and administrative	1,990	1,972
Amortization of intangible assets	309	325
Total operating expenses	13,058	12,086
Operating income	1,822	563
Financial income (loss), net	441	(27)
Income before taxes on income	2,263	536
Income taxes	463	50
Net income	$ 1,800	$ 486
Basic and diluted net income per share	$ 0.09	$ 0.02
Weighted-average shares used to compute net income per share (in thousands):		
Basic	20,520	20,418
Diluted	20,926	20,958

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

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

U.S. dollars in thousands

	Three months ended March 31,	
	2016	**2015**
Net income:	$ 1,800	$ 486
Other comprehensive income before tax:		
Available-for-sale securities:		
Changes in unrealized gains	223	162
Reclassification adjustments for losses included in net income	30	13
Net change	253	175
Cash flow hedges:		
Changes in unrealized gains (losses)	235	(110)
Reclassification adjustments for (gains) losses included in net income	(25)	73
Net change	210	(37)
Other comprehensive income before tax	463	138
Income tax expense related to components of other comprehensive income	55	13
Other comprehensive income, net of taxes	408	125
Comprehensive income	$ 2,208	$ 611

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

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. dollars in thousands

	Three months ended March 31,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$ 1,800	$ 486
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	298	255
Amortization of intangible assets	309	325
Equity-based compensation	1,474	849
Realized loss, net on sale of available-for-sale marketable securities	30	13
Amortization of premiums on available-for-sale marketable securities	249	280
Unrealized foreign exchange (gain) loss	(6)	185
Changes in operating assets and liabilities:		
Trade receivables	(2,637)	(3,029)
Prepaid expenses and other assets	(462)	(1,549)
Accrued interest on bank deposits	(272)	30
Deferred tax, net	(355)	(547)
Trade payables	716	428
Deferred revenues	(1,334)	397
Accrued expenses and other payables	293	(277)
Accretion of contingent consideration		48
Accrued payroll and related benefits	(540)	1,195
Income taxes payable	467	36
Accrued severance pay, net	206	203
Net cash provided by (used in) operating activities	236	(672)
Cash flows from investing activities:		
Purchase of property and equipment	(411)	(377)
Investment in bank deposits		(22,095)
Proceeds from bank deposits	1,113	21,660
Investment in available-for-sale marketable securities	(15,434)	(3,363)
Proceeds from maturity of available-for-sale marketable securities	2,975	350
Proceeds from sale of available-for-sale marketable securities	6,408	2,783
Net cash used in investing activities	(5,349)	(1,042)
Cash flows from financing activities:		

Payment of contingent consideration (see note 3)		(2,700)
Purchase of treasury stock	(3,417)	(1,917)
Proceeds from exercise of stock-based awards	912	4,152
Net cash used in financing activities	(2,505)	(465)
Effect of exchange rate changes on cash and cash equivalents	24	6
Decrease in cash and cash equivalents	(7,594)	(2,173)
Cash and cash equivalents at the beginning of the period	18,909	16,166
Cash and cash equivalents at the end of the period	$ 11,315	$ 13,993
Supplemental information of cash-flow activities:		
Cash paid during the period for:		
Income and withholding taxes, net of refunds	$ 311	$ 548

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

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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 programmable DSP cores and application-specific platforms for vision, imaging, audio and voice, and communications technologies, including wireless baseband and wired modems, Wi-Fi, Bluetooth, and Serial ATA (SATA) and Serial Attached SCSI (SAS).

CEVA s technologies are licensed to leading semiconductor and original equipment manufacturer (OEM) companies in the form of intellectual property (IP). These companies design, manufacture, market and sell application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) based on CEVA s technology to 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 months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2015, contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 11, 2016, have been applied consistently in these unaudited interim condensed consolidated financial statements.

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: ACQUISITION OF RIVIERAWAVES

On July 4, 2014 (the Closing Date), the Company acquired 100% of RivieraWaves SAS (RivieraWaves), a privately-held, French-based company and a provider of wireless connectivity intellectual property for Wi-Fi and Bluetooth technologies. The Company agreed to pay an aggregate of $18,378 to acquire RivieraWaves with $14,678 paid on the Closing Date and the remaining amount of $3,700 payable upon the satisfaction of certain milestones (the Contingent Consideration). During the first quarter of 2015, the Company paid $2,700 of the Contingent Consideration. During the second quarter of 2015, the Company paid the remaining $1,000 of the Contingent Consideration.

The acquisition was accounted in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 805, Business Combinations .

In addition, as part of the acquisition, the Company established an employee retention plan for the RivieraWaves employees at a cost of approximately $3,400, payable on a semi-annual basis for a period of two years after the Closing Date. As of March 31, 2016, the Company paid $1,934 of the employee retention plan.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

NOTE 4: MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable securities:

	March 31, 2016 (Unaudited)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale - matures within one year:				
Certificate of deposits	$ 1	$	$	$ 1
Corporate bonds	6,084		(19)	6,065
	6,085		(19)	6,066
Available-for-sale - matures after one year through three years:				
Government bonds	501		(1)	500
Corporate bonds	47,945	40	(260)	47,725
	48,446	40	(261)	48,225
Total	$ 54,531	$ 40	$ (280)	$ 54,291

	December 31, 2015 (Audited)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale - matures within one year:				
Certificate of deposits	$ 1	$	$	$ 1
Corporate bonds	9,257	1	(50)	9,208
	9,258	1	(50)	9,209
Available-for-sale - matures after one year through three years:				
Corporate bonds	39,501		(444)	39,057
	39,501		(444)	39,057
Total	$ 48,759	$ 1	$ (494)	$ 48,266

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 31, 2016 and December 31, 2015, and the length of time that those investments have been in a continuous loss position:

	Less than 12 months		12 months or greater	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
As of March 31, 2016	$ 31,619	$ (228)	$ 9,189	$ (52)
As of December 31, 2015	$ 32,695	$ (389)	$ 14,488	$ (105)

As of March 31, 2016 and December 31, 2015, management believes the impairments are not other than temporary and therefore the impairment losses were recorded in accumulated other comprehensive income (loss).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

The following table presents gross realized gains and losses from sale of available-for-sale marketable securities:

	Three months ended March 31,	
	2016 (unaudited)	2015 (unaudited)
Gross realized gains from sale of available-for-sale marketable securities	$	$ 1
Gross realized losses from sale of available-for-sale marketable securities	$ (30)	$ (14)

NOTE 5: FAIR VALUE MEASUREMENT

FASB ASC No. 820, Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value. Fair value is an exit price, representing the amount that would be received for selling an asset or paid for the transfer of a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level I	Unadjusted quoted prices in active markets that are accessible on the measurement date for identical, unrestricted assets or liabilities;
Level II	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level III	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company measures its marketable securities and foreign currency derivative contracts at fair value. Marketable securities and foreign currency derivative contracts are classified within Level II as the valuation inputs are based on quoted prices and market observable data of similar instruments.

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

Description	March 31, 2016	Level I	Level II	Level III
Assets:				
Marketable securities:				
Certificate of deposits	$ 1	$	$ 1	$
Government bonds	500		500	
Corporate bonds	53,790		53,790	
Foreign exchange contracts	219		219	

Description	December 31, 2015	Level I	Level II	Level III
Assets:				
Marketable securities:				
Certificate of deposits	$ 1	$	$ 1	$
Corporate bonds	48,265		48,265	
Foreign exchange contracts	9		9	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

NOTE 6: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA

a. Summary information about geographic areas:

The Company manages its business on the basis of one reportable 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 revenues within geographic areas:

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Revenues based on customer location:		
United States	$ 1,760	$ 1,961
Europe and Middle East	2,474	1,445
Asia Pacific (1) (2)	12,274	10,428
	$ 16,508	$ 13,834
(1) China	$ 8,892	$ 7,478
(2) S. Korea	$ 2,703	$ *)

*) Less than 10%

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

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

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Customer A	24%	25%
Customer B	17%	*)
Customer C	16%	*)

Customer D	14%

*) Less than 10%

NOTE 7: NET INCOME PER SHARE OF COMMON STOCK

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

	Three months ended March 31,	
	2016 (unaudited)	**2015 (unaudited)**
Numerator:		
Net income	$ 1,800	$ 486
Denominator (in thousands):		
Basic weighted-average common stock outstanding	20,520	20,418
Effect of stock -based awards	406	540
Diluted weighted average common stock outstanding	20,926	20,958
Basic and diluted net income per share	$ 0.09	$ 0.02

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

The weighted average number of shares related to outstanding stock-based awards excluded from the calculation of diluted net income per share, since their effect was anti-dilutive, was 755,182 and 825,296 shares for the three months ended March 31, 2016 and 2015, respectively.

NOTE 8: COMMON STOCK AND STOCK-BASED COMPENSATION PLANS

The Company grants stock options and stock appreciation rights (SARs) capped with a ceiling to employees and stock options to non-employee directors of the Company and its subsidiaries and provides the right to purchase common stock pursuant to the Company s 2002 employee stock purchase plan to employees of the Company and its subsidiaries. The SAR unit confers the holder the right to stock appreciation over a preset price of the Company s common stock during a specified period of time. When the unit is exercised, the appreciation amount is paid through the issuance of shares of the Company s common stock. The ceiling limits the maximum income for each SAR unit. SARs are considered an equity instrument as it is a net share settled award capped with a ceiling (400% for SAR grants). The options and SARs granted under the Company s stock incentive plans have been granted at the fair market value of the Company s common stock on the grant date. Options and SARs granted to employees under stock incentive plans vest at a rate of 25% of the shares underlying the option after one year and the remaining shares vest in equal portions over the following 36 months, such that all shares are vested after four years. Options granted to non-employee directors vest 25% of the shares underlying the option on each anniversary of the option grant. A summary of the Company s stock option and SARs activities and related information for the three months ended March 31, 2016, are as follows:

	Number of options and SAR units (1)	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic-value
Outstanding as of December 31, 2015	2,406,455	$ 18.15		
Granted				
Exercised	(31,263)	10.29		
Forfeited or expired	(18,872)	17.41		
Outstanding as of March 31, 2016 (2)	2,356,320	$ 18.26	4.2	$ 11,897,435
Exercisable as of March 31, 2015 (3)	1,619,955	$ 18.84	3.4	$ 7,773,094

(1) The SAR units are convertible for a maximum number of shares of the Company s common stock equal to 75% of the SAR units subject to the grant.

(2) Due to the ceiling imposed on the SAR grants, the outstanding amount equals a maximum of 2,064,112 shares of the Company s common stock issuable upon exercise.

(3) Due to the ceiling imposed on the SAR grants, the exercisable amount equals a maximum of 1,450,567 shares of the Company s common stock issuable upon exercise.

As of March 31, 2016, there was $1,661 of unrecognized compensation expense related to unvested stock options and SARs. This amount is expected to be recognized over a weighted-average period of 1.3 years. To the extent the actual forfeiture rate is different from what the Company has estimated, equity-based compensation related to these awards will be different from the Company s expectations.

Starting in the second quarter of 2015, the Company granted to employees, including executive officers and non-employee directors of the Company, restricted stock units (RSUs) under the Company s 2011 Stock Incentive Plan. A RSU award is an agreement to issue shares of the Company s common stock at the time the award or a portion thereof vests. RSUs granted to employees generally vest in three equal annual installments starting on the first anniversary of the grant date. RSUs granted to non-employee directors generally vest in full on the first anniversary of the grant date. The fair value of each RSU is the market value as

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

determined by the closing price of the common stock on the day of grant. The Company recognizes compensation expenses for the value of its RSU awards, based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. A summary of the Company s RSU activities and related information for the three months ended March 31, 2016, are as follows:

	Number of RSUs	Weighted Average Grant-Date Fair Value
Unvested as of December 31, 2015	234,000	$ 19.89
Granted	310,500	20.33
Vested		
Forfeited or expired	(1,000)	20.33
Unvested as of March 31, 2016	543,500	$ 20.14
Expected to vest after March 31, 2016	500,920	$ 20.14

As of March 31, 2016, there was $8,460 of unrecognized compensation expense related to unvested RSUs. This amount is expected to be recognized over a weighted-average period of 1.8 years. To the extent the actual forfeiture rate is different from what the Company has estimated, equity-based compensation related to these awards will be different from the Company s expectations.

The following table shows the total equity-based compensation expense included in the interim condensed consolidated statements of income:

	Three months ended March 31,	
	2016 (unaudited)	2015 (unaudited)
Cost of revenue	$ 60	$ 35
Research and development, net	646	391
Sales and marketing	247	79
General and administrative	521	344
Total equity-based compensation expense	$ 1,474	$ 849

The fair value for the Company s stock options and SARs (other than share issuances in connection with the employee stock purchase plan, as detailed below) granted to employees and non-employees directors was estimated using the following assumptions:

	Three months ended March 31, 2015 (unaudited)
Expected dividend yield	0%
Expected volatility	33%-49%
Risk-free interest rate	0.2%-1.6%
Expected forfeiture (employees)	10%
Contractual term of up to	7 Years
Suboptimal exercise multiple (employees)	2.1

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

The fair value for rights to purchase shares of common stock under the Company s employee stock purchase plan was estimated on the date of grant using the following assumptions:

	Three months ended March 31,	
	2016 (unaudited)	2015 (unaudited)
Expected dividend yield	0%	0%
Expected volatility	36%-57%	36%
Risk-free interest rate	0.3%-0.5%	0.1%
Expected forfeiture	0%	0%
Contractual term of up to	24 months	24 months

NOTE 9: DERIVATIVES AND HEDGING ACTIVITIES

The Company follows the requirements of FASB ASC No. 815, Derivatives and Hedging which requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging transaction and further, on the type of hedging transaction. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Due to the Company s global operations, it is exposed to foreign currency exchange rate fluctuations in the normal course of its business. The Company s treasury policy allows it to offset the risks associated with the effects of certain foreign currency exposures through the purchase of foreign exchange forward or option contracts (Hedging Contracts). The policy, however, prohibits the Company from speculating on such Hedging Contracts for profit. To protect against the increase in value of forecasted foreign currency cash flow resulting from salaries paid in currencies other than the U.S. dollar during the year, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll of its non-U.S. employees denominated in the currencies other than the U.S. dollar for a period of one to twelve months with Hedging Contracts. Accordingly, when the dollar strengthens against the foreign currencies, the decline in present value of future foreign currency expenses is offset by losses in the fair value of the Hedging Contracts. Conversely, when the dollar weakens, the increase in the present value of future foreign currency expenses is offset by gains in the fair value of the Hedging Contracts. These Hedging Contracts are designated as cash flow hedges.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any gain or loss on a derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in current earnings during the period of change. As of March 31, 2016 and December 31, 2015, the notional principal amount of the Hedging Contracts to sell U.S. dollars held by the Company was $5,650 and $3,200, respectively.

The fair value of the Company s outstanding derivative instruments is as follows:

	March 31, 2016 (Unaudited)		**December 31, 2015 (Audited)**	
Derivative assets:				
Derivatives designated as cash flow hedging instruments:				
Foreign exchange option contracts	$	122	$	
Foreign exchange forward contracts		97		9
Total	$	219	$	9

The Company recorded the fair value of derivative assets in prepaid expenses and other current assets on the Company s interim condensed consolidated balance sheets.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

The increase (decrease) in unrealized gains (losses) recognized in accumulated other comprehensive income (loss) on derivatives, before tax effect, is as follows:

	Three months ended March 31,	
	2016	**2015**