ENVIVIO INC
Form 10-K
April 23, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended January 31, 2015

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File No. 001-35205

ENVIVIO, INC.

(Exact name of registrant as specified in its charter)

Delaware	**3663**	**94-3353255**
(State or other jurisdiction of	**(Primary Standard Industrial**	**(I.R.S. Employer**

incorporation or organization)	**Classification Code Number)**	**Identification Number)**

535 Mission Street, 27th Floor

San Francisco, California 94105

(415) 510-3400

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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

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

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

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

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

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

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

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

Based on the closing sale price of the Common Stock on the NASDAQ Global Market on July 31, 2014, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately $ 41,232,716.

The number of shares of the registrant s Common Stock, $.001 par value, outstanding on April 7, 2015 was 27,723,102.

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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements. These statements relate to future events or our future financial performance. Forward-looking statements may include words such as may, will, should, expect, plan, intend, anticipate, believe, estimate, predict, potential, continue or other wording indicating future results or expectations. Forward-looking statements are subject to risks and uncertainties, and actual events or results may differ materially. Factors that could cause our actual results to differ materially include, but are not limited to, those discussed under Risk Factors in this report and include:

- *the impact of industry consolidation;*
- *overall demand for communications services and consumer acceptance of new video and data services;*
- *competitive pressures, including pricing pressures;*
- *access to financing;*
- *general economic conditions;*
- *annual capital spending budget cycles of each of the industries that our customers serve;*
- *federal, local and foreign government regulation of telecommunications and television broadcasting;*
- *evolving industry standards and network architectures;*
- *discretionary consumer spending patterns;*
- *delays in the evaluation of new services, standards and system architectures by many operators;*
- *emphasis by operators on generating revenue from existing customers, rather than from new customers through new construction or network upgrades;*
- *a reduction in the amount of capital available to finance projects;*

- *proposed and completed business combinations and divestitures by our customers and the length of regulatory review thereof; and*

- *bankruptcies and financial restructuring of customers.*

Except as required by law, we undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstances that arise after the date of this report, or to conform such statements to actual results or changes in our expectations.

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PART I

ITEM 1. BUSINESS
OVERVIEW

We are a leading provider of software-based IP video processing and distribution solutions that enable the delivery of high-quality video to consumers. Based on our unique video compression and advanced video processing networking technologies, our solutions enable service providers and content providers to offer high-quality video anytime, anywhere, across a broad array of video formats, networks, consumer devices and operating systems. We refer to this video experience as TV Without Boundaries and believe it is one of the fastest growing components of the video infrastructure market. Our software-based solutions run on industry-standard hardware and include encoders, transcoders and network media processors, all controlled through our network management system.

We enable service providers and content providers to deliver linear broadcast and on-demand video services to their customers via multiple screens, such as TV, tablets, smartphones, laptops, PCs and gaming devices. This high-quality video can be delivered to end users either across service providers managed networks or outside the boundaries of their networks over the open Internet, referred to as over-the-top, or OTT. Our customers include mobile and wireline telecommunications service providers, cable multiple system operators, or MSOs, direct broadcast satellite service providers, or DBSs, and content providers, which includes broadcasters and content publishers, owners, aggregators and licensees. We distribute our products and solutions globally through a network of channel partners, which includes leading telecommunications systems integrators throughout the world, as well as through our own direct sales force.

We differentiate our solutions by offering flexibility and scalability to our customers. Our software is pre-loaded on standards-based servers or deployed on IT-centric blade servers and can be pre-configured based upon each customer s requirements. Our software-based products enable differentiated features and revenue-enhancing applications along with a high quality of experience and carrier-class reliability. We provide additional flexibility to our customers by offering continuous software enhancements and reconfigurations to adapt to the rapidly evolving consumer device landscape and our solutions conform to international telecommunications standards. In addition, we work closely with our network of technology partners to support a wide range of video platforms, formats and features.

Envivio was incorporated in Delaware on January 5, 2000. In March 2015, we moved our company headquarters from South San Francisco to San Francisco, California, and maintain our research and development center located in the metropolitan area of Rennes, France. We also have a presence in Australia, Brazil, China, India and Singapore. We have sold our solution to over 300 end-customers to date in more than 50 countries. Our customers include the top global service providers: nine of the top ten global broadband service providers, which include seven of the top eight U.S. cable service providers, and eight of the top ten global mobile service providers.

INDUSTRY BACKGROUND

In the early 1990s, consumers began to experience the first digital TV technology evolution when it became possible to transmit significantly more TV channels while utilizing the same amount of bandwidth compared to analog TV. As a result, new service offerings emerged such as direct broadcast satellite TV and digital cable TV, and the channel offerings available to consumers grew from a few channels to hundreds of channels. In the mid 2000s, the second wave of digital TV technology evolution began, fueled by high definition TV sets, new connected devices and increased access to broadband Internet through wireless and wireline networks. As this technology matured, it became possible for service providers and content providers to deliver video content to a broad array of devices over mobile and broadband networks. This new era of digital TV technology enables service providers and content providers to deliver, and consumers to enjoy, a high-quality video experience anytime, anywhere.

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We believe the market for TV Without Boundaries is driven by several key consumer trends, including the following:

Demand for quality The emergence of new high definition, or HD, standards for broadcast TV, including UltraHD, the broad availability of cost-effective Blu-ray disc players, which is the HD standard for stored video, the increasing availability of HD and IP-connected smart TVs, the availability of numerous HD Pay-TV services, and the limited but increasing availability of high quality content, such as 4K UltraHD and HD, has resulted in consumers expecting and demanding a higher quality video experience. Mobile devices and tablets are also improving screen resolution to allow for the display of HD video to meet consumer demands. As a result of these trends, consumers increasingly demand higher definition video that is free from video artifacts, including re-buffering, blockiness and cut screen.

Demand for anytime access to video content The availability of cost-effective digital video recorders (DVRs) enabling time-shifting as well as on-demand services offered by service providers has made consumers increasingly accustomed to accessing video content anytime they choose. Time-shifting catch-up TV and on-demand are features and services that allow consumers to choose when they watch video content that would otherwise only be available at fixed timeframes scheduled by the service provider.

Demand for anywhere access to video content The proliferation of video-enabled mobile devices, such as tablets, smartphones and laptops, is driving demand for video services irrespective of the consumer s location.

Demand for advanced video services in the home Video consumption growth is also occurring in the home. The rise in IPTV set top boxes for the delivery of traditional Pay-TV as well as the availability of high quality content and OTT set top boxes is expected to continue to drive demand.

As a result of these consumer trends, video consumption has moved beyond the home and a standard TV to an Internet-enabled TV, tablet, PC and mobile device, which we refer to as multi-screen video. In addition, the number of consumers who have access to high-quality video content is increasing as broadband devices and connections increase. These consumer trends raise new challenges impacting how service providers and content providers address the delivery of video services to consumers with the goal of providing high-quality content anytime, anywhere, on any device TV Without Boundaries.

KEY VIDEO MARKET SEGMENTS

Service providers and content providers are addressing evolving consumer demands for video through different market segments. The key video market segments include:

Digital Pay-TV (Managed Subscription Video and IPTV) Digital Pay-TV is operated over a managed network and is characterized by a high quality of consumer experience and high standards of security, interactivity and reliability.

Mobile Video The combination of advanced, user-friendly mobile devices coupled with the proliferation of 3G, 4G and Wi-Fi broadband networks, as well as the evolution of innovative business models that support the creation and deployment of video-enabled applications and services, has accelerated the demand for mobile video.

Over-the-Top Video As more consumers obtain access to broadband connectivity, it is now possible for broadcasters and content publishers, owners, aggregators and licensees to target consumers directly over the open Internet infrastructure with an acceptable video and service quality. OTT can be delivered through any broadband network, such as cable, DSL, 3G and Wi-Fi. Recently, content providers, such as Hulu and Netflix, have gained broad consumer adoption due to these trends. Many broadcasters and content owners, such as BBC, CBS and ESPN, and sports leagues, such as the NBA and MLB, have each created a very significant video presence online.

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SERVICE PROVIDER AND CONTENT PROVIDER TRENDS

Service providers and content providers must continue to launch innovative new service offerings in order to address evolving consumer trends and video delivery models. Key trends have emerged that impact the way service providers and content providers operate.

Service providers Traditional Pay-TV service providers, including MSOs and DBSs, have been challenged, first by traditional telecommunications service providers, that have gained market share from Pay-TV, and most recently by OTT providers, who have launched successful services, such as Apple iTunes, Amazon, Google, Hulu, Netflix and Vudu. Today most service providers offer some form of bundled services where consumers can enjoy a single service package and monthly bill covering broadband Internet, voice and video services, or triple play, and in addition are bundling mobile as a fourth service, or quad play. Service providers who also operate mobile networks can leverage their dual-network presence to offer innovative services. For example, Verizon launched My FiOS, an extension of its FiOS network, to its mobile subscribers. In reaction to this competitive threat, MSOs and DBSs are launching innovative services that deliver video content to PCs and mobile devices. For example, Time Warner Cable launched TWC TV, which allows Time Warner subscribers to control devices using an iPad or iPhone throughout the digital home, and watch live television on their iPad or iPhone as well. Broadband service providers have also been engaged in commercial battles with content delivery network service providers, such as Akamai, Level 3 and Limelight, and are starting to offer competing solutions for efficient video delivery on their own networks.

Content providers Content providers include broadcasters and content publishers, owners, aggregators and licensors. As wireless and wireline broadband becomes more readily available, content providers of all types have adopted new business models to capitalize on the demand for video services as well as the direct access to consumers enabled by the Internet. Broadcasters and content owners, including Disney, BBC, ESPN and HBO, have broadened their means of distribution to consumers beyond the linear broadcast business model to include direct OTT distribution. In addition, new business models from emerging content providers, including Apple iTunes, Amazon, Google, Hulu, Netflix and Vudu, have circumvented traditional service provider and programmer distribution channels to reach consumers directly via OTT delivery. Those OTT providers compete with traditional service providers by offering aggressive pricing, à la carte services and innovative new advertising models.

LIMITATIONS OF EXISTING TECHNOLOGIES

Existing technologies designed to enable video delivery are largely either engineered solely for broadcast-centric applications serving standard TVs, or engineered solely for web delivery of content. Products designed only for broadcast-centric applications do not address the growing diversity of devices and networks, and products designed only for web delivery of content do not address the technical requirements of traditional broadcast TV or provide the quality, reliability and manageability expected by service providers. Although the video delivery models of service providers and content providers historically have had different demands, their offerings are converging in the marketplace. As a result of this convergence, service providers and content providers face challenges delivering high quality video to consumers on any device while supporting a wide array of video formats. In addition, service providers and content providers do not adequately address the complexities of the ever-changing video delivery landscape. As video delivery expands to multiple screens and formats, existing technologies are not optimized for the efficient delivery of this new trend of services.

Traditionally, service and content providers deployed point solutions to distribute video to each class of device. As these delivery models converge to meet evolving consumer demands for TV Without Boundaries and to meet operators need to significantly scale their services, this silo approach to video delivery presents inherent limitations and increased costs for service and content providers. Traditional video delivery systems for service providers have focused on quality of experience without the need to address a wide array of network technologies or growing number of devices and operating systems. Current video delivery systems designed to address mobile and OTT video services have focused on addressing multiple network technologies and different devices and operating systems, without supporting traditional TV delivery or addressing the consumer demand for quality of experience. As these services converge and as service providers and content providers attempt to address the needs of their end users in a single solution, the delivery of video increasingly requires new architectures that can accommodate the delivery of high-quality video across multiple networks to multiple devices with the flexibility to adapt to a rapidly evolving market. In addition, solutions focused exclusively on OTT video delivery typically handle multiple devices, but often lack the quality, scalability and reliability that a service provider offering a subscription or ad-based premium video service requires.

THE ENVIVIO SOLUTION

Our software-based solution is capable of delivering a true converged multi-screen service for traditional Pay-TV and across mobile, broadband and managed networks, allowing service providers and content providers to offer consumers a high-quality experience for traditional Pay-TV and across multiple devices and networks through a single converged solution. We utilize a unified software architecture to provide a flexible video delivery platform to service and content providers that can evolve with market needs. Our solution is designed to eliminate the need for separate point solutions for each screen so that service providers and content providers are able to benefit from scale and avoid the added costs of maintaining several hardware platforms and the related maintenance, redundancy, staff and support that they would otherwise incur with separate point solutions for each screen. We believe our solution offers the following key benefits to our customers:

Provides a high-quality video experience We have designed a solution that enables the delivery of video to consumers to traditional TV and multiple screens while maintaining a high-quality video experience, delivered using MPEG-2, MPEG-4 AVC (H.264), HEVC (H.265) and advanced adaptive streaming technologies. Irrespective of whether video is delivered across mobile networks, managed video networks or OTT, our solution enhances the consumer s experience by reducing video artifacts, including re-buffering, blockiness and cut screen. We believe the combination of our technological sophistication and the flexibility of our solution enables both service providers and content providers to deliver a high quality of experience to consumers who demand TV Without Boundaries.

Addresses complexities of multi-screen video delivery Our solution addresses the complexities of the service provider and content provider ecosystems by providing a platform to effectively enable the delivery of video over mobile, traditional TV and IP networks to a wide array of device and operating system combinations in a number of display formats and resolutions. We provide our solution on a single platform, which is easy to deploy, easy to maintain and simple to upgrade, or in an IT datacenter environment, rather than in a complex series of disparate point solutions.

Provides scale with carrier-class reliability Our solution is designed to meet the stringent requirements of service providers and is highly reliable, highly scalable and meets top industry certifications.

Ingests and delivers video in a broad array of formats Our software-based solution is compatible with all major video formats across all major codecs, resolutions, frame rates, bitrates and transport profiles. We accommodate the transport of video through different networks, such as broadband and mobile networks, or traditional cable and satellite broadcast networks. In addition, our converged video delivery solution transcodes content into a wide array of professional video formats, such as 3GPP, Adobe HTTP Dynamic Streaming, Apple HTTP Live Streaming, Microsoft Smooth Streaming and MPEG-DASH.

Leverages existing datacenter infrastructure for enhanced video delivery As service providers are increasingly consolidating their network and IT infrastructure and deploying cloud-based services, they are looking for ways to reduce the number of hardware elements throughout their network. Using our proprietary software-based solution, service providers can leverage their existing datacenter infrastructure to deliver enhanced video services without having to deploy additional costly hardware elements.

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Optimizes video distribution architecture Our solution is designed to optimize bandwidth and to ensure that video is delivered to the consumer in a highly efficient manner. We allow service providers to send video using a single format across their network, irrespective of the number of target devices they want to reach. Our solution adapts video content at each edge location distributed throughout the network, eliminating the need to repetitively deliver the same video in different formats from the core of the network to the edge. Service providers, therefore, can operate much more efficiently by lowering bandwidth usage, lowering power consumption and reducing potential network bottlenecks and the associated costs.

Enables new service monetization Our solution is also designed to allow paid or ad-supported services to be delivered to multi-screens. Our video content protection and linear ad-insertion technologies are tailored for multiple devices that allow service providers to offer subscription-based or ad-based business models for multiple devices.

OUR TECHNOLOGY AND PRODUCTS

Our innovative video processing and delivery solution is based on a suite of products built upon a proprietary software platform that our engineers have developed over more than a decade. By combining this proprietary software platform with the latest generation of industry-standard servers and other third-party products, we have created an innovative suite of video processing and distribution products addressing both multi-screen and traditional Pay-TV video applications.

CORE TECHNOLOGIES

We believe our portfolio of compression and distribution technologies is more advanced than those of our competitors. Our software platform is the foundation of our video processing and distribution products and incorporates the following core technologies:

Modular software architecture Our core competencies are in developing advanced media compression and video over IP technologies, where we deliver a carrier grade, multi-screen solution. We accomplish this by leveraging our contribution to the MPEG-4 and HEVC standards and our rights to related patents. Our modular software architecture provides a common platform of capabilities and features that allow our products to perform critical video processing and distribution functions, including ingest, processing, packaging, protection, encryption, and ad insertion, network optimizations and monitoring. In addition, our software-based architecture allows customers to enable features or add capacity through the input of a simple security or license key.

Multi-core video compression We have developed a patented set of video processing and compression algorithms designed to optimize performance on industry-standard, multi-core hardware chipsets. These algorithms are central to all of our encoder and transcoder products. Due to the evolution in the number and speed of CPU cores, our encoding products have constantly increased their transcoding capacity. We believe that our video compression technology is designed to optimize bandwidth utilization while maintaining the highest possible level of video quality. This allows for a reduction in the cost to deliver video, or an increase in the video quality at a specified network capacity.

PRODUCTS

Our unified video headend solution and unified delivery infrastructure for live and on-demand multi-screen video delivery are built on our encoding, transcoding and video distribution products. A headend is the hub of a television system at the central location of the network. The headend receives video feeds for multiple channels and transmits video to subscribers. Our product suite, which includes Muse, Halo, Envivio appliances and Guru (formerly 4Manager), enables video headends to be tailored by our customers to serve various combinations of tablets, mobile handsets, laptops, PCs, gaming systems and traditional or connected TVs.

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Our hardware can be easily reconfigured by our customers to deliver content to consumers on a broad array of devices with additional software options that expand device support as new devices are introduced and add support for premium features and applications. Our suite of products consists of the following:

Envivio Muse Muse is our multi-screen software architecture designed for live or file-based video transcoding and distribution to multiple devices. It is designed to significantly improve efficiency and operations compared to architectures that require separate broadcast and multi-screen headend equipment. We have designed our Muse compression software to optimize live and on-demand workflows for video delivery commensurate with the characteristics of both legacy and current network infrastructures by encoding video input in multiple codecs, resolutions, bit rates and formats. Muse utilizes pre-processing techniques to clean and optimize video sources before encoding, and is designed to perform high-quality compression and content encryption to secure high-value content from the headend to the edge device that meets the requirements of content owners for quality, content protection and digital rights management. Muse is available on industry-standard blade servers or Envivio appliances and enables service providers running large-scale operations to leverage their existing datacenter infrastructure to deliver enhanced video services.

Envivio Halo Our Halo Network Media Processor performs final content processing and adaptation for consumer devices, including protected adaptive bitrate streams compatible with Apple iOS, Android and Microsoft Smooth Streaming enabled consumer devices. We introduced Halo to our customers in November 2010. Halo also enables advanced functionality such as ad insertion and content protection for mobile devices that facilitates service monetization and enables immersive end user experiences. Halo Network Media Processors can be added by network operators as needed, locally or distributed, to support new devices without impacting the headend. When launching a multi-screen service, Halo allows our customers to significantly reduce bandwidth usage on the network infrastructure.

Envivio appliances Envivio offers a software-based approach to video compression and media processing, leveraging the power and performance capabilities of the latest generation Intel-based hardware platforms. Our standards-based appliances deliver video to mobile, PC and TV from a single platform. Various models of appliances are available, and Envivio products can also be installed on HP blade servers in an IT-centric architecture.

Envivio Guru Our Guru (formerly 4Manager) network management system is specifically engineered to manage next generation video headends for mobile TV, OTT and IPTV, while continuing to support traditional broadcast distribution networks. Guru allows service providers to monitor and control all headend appliances with a simple yet comprehensive web-based user interface using a customizable layout. Guru is designed to maximize video headend availability and reliability by reporting system malfunctions and can automatically switch away from a defective unit, minimizing service disruption. This allows service providers to reduce operational costs and provide a high quality of service for their customers.

Envivio Nuage[SM] Envivio Nuage[SM] is a fully virtualized cloud-based software-as-a-service (SaaS) video solution that supports both private and public cloud options. Envivio Nuage[SM] is designed to manage content for video service and content providers from content acquisition to the consumer on any screen. Envivio Nuage^{SM} supports live linear and on-demand video, and operates as a service on private, operator-owned networks, in the public cloud, or in hybrid environments.

SERVICES

Customers can purchase services in support of our products, including:

On-site project assessment We provide a complete review of content sources, existing systems and middleware to determine the proper interface and adaptation equipment necessary for our customer to deliver an optimized consumer quality of experience.

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Systems integration We configure all the equipment with our solution according to network design and plan. We can test and integrate additional third-party equipment and validate predefined use cases in our labs.

On-site delivery We install all equipment and test the operational environment, including redundancy and system monitoring as well as administer technical training to validate predefined use cases in an operational environment.

Operational and customer support We provide different grades of service level agreements and support contracts according to requirements.

RESEARCH AND DEVELOPMENT

Our investment in research and development is critical to our business as we seek to develop new video processing and delivery solutions and support emerging technology. Our research and development lab is located in the metropolitan area of Rennes, France, where we believe we have ample access to talented video engineers and can benefit from a cost-effective, stable workforce. We have assembled a team of 62 engineers, substantially all of whom are software engineers, as of January 31, 2015, with expertise in various fields, including video compression, IP video protocols and user interface. Our success in developing new products and solutions depends on a variety of factors, including market demand for new products, product performance, adequate manufacturing processes and effective sales and marketing efforts. Research and development expenses totaled $9.4 million, $9.1 million and $7.6 million for our fiscal years 2015, 2014 and 2013, respectively.

SALES AND MARKETING

We sell our video delivery solutions to our customers indirectly through our channel partners, and directly through our internal sales force.

Channel sales As part of our sales efforts, we have developed relationships with channel partners, some with large Tier-1 systems integrators, including telecommunications equipment manufacturers. As of January 31, 2015, we had over 20 active channel partnerships, including relationships with large telecommunications equipment providers throughout the world. We utilize our channel partners to assist with our sales to Tier-1 customers and to manage our sales into Tier-2 and Tier-3 customers. These channel partners often act as a general contractor for network deployments and will use our products to fulfill the video infrastructure elements of a deployment. We may seek to selectively add distribution partners, particularly in regions outside North America, to complement or expand our business.

Direct sales Our direct sales team sells our products and solutions to service providers and content providers globally. As of January 31, 2015, we had a sales force consisting of 31 employees worldwide. Our direct sales force has historically been focused on cultivating and selling into large service providers in major international markets. Even when we are partnering with a systems integrator or other channel partner, our internal sales force directly markets to prospective end-customers and carefully articulates our product benefits as a key component of an end-to-end solution. We maintain meaningful relationships with large service providers and intend to grow our direct sales to become a larger portion of our total sales in the future.

Our marketing efforts are focused on building our brand awareness and qualifying sales leads for new and existing customers. We employ a team of marketing professionals and utilize our network of channel partners for additional marketing efforts. As of January 31, 2015, we had 17 marketing professionals globally. Our marketing team is responsible for branding, product marketing and managing our channel marketing programs. Our marketing team actively contributes to industry-related standards organizations, markets the Envivio brand at industry conferences and contributes to publications and other services to continuously promote our brand and products.

CUSTOMERS AND CHANNEL PARTNERS

We sell our video processing and delivery solution directly and indirectly through our channel partners to end-customers that include wireline and mobile telecommunications service providers, MSOs, DBSs, broadcasters and other content providers. An end-customer deployment of our solution can involve a varying amount of hardware and software depending on the size and requirements of the network. As of January 31, 2015, we had more than 300 end-customers in over 50 countries. Our customers include the top global service providers, including nine of the top ten global broadband service providers, which include three of the top four U.S. cable service providers, and eight of the top ten global mobile service providers.

In the 2015 fiscal year, one of our customers directly accounted for 15% of our total revenue. In the 2014 fiscal year, one of our customers directly accounted for 18% of our total revenue. In the 2013 fiscal year, none of our customers accounted for more than 10% of our total revenue.

We derived 25%, 35% and 13% of our revenue from sales to customers located in the United States in the fiscal years 2015, 2014 and 2013, respectively, and 75%, 65% and 87% of our revenue from international sales in the fiscal years 2015, 2014 and 2013, respectively. We derived 22%, 24% and 28% of our revenue from sales to customers located in the Asia Pacific region in the fiscal years 2015, 2014 and 2013, respectively. We derived 33%, 36% and 51% of our revenue from sales to customers located in EMEA region in the fiscal years 2015, 2014 and 2013, respectively.

MANUFACTURING, PRODUCTION AND SUPPLIERS

We outsource the manufacturing, assembly and testing of our encoding products to FutureQuest Incorporated, a manufacturer located in California. All of our products are manufactured on a purchase order basis whereby we detail the types and quantities of each of our products to be manufactured and the associated delivery terms. We have predefined minimum quantities and lead times in our purchase orders to minimize any product supply shortages that we may encounter due to unexpected fluctuations in demand or manufacturing capacity. We believe that our manufacturing and logistics processes allow us to preserve our working capital, reduce manufacturing costs and optimize fulfillment while maintaining product quality and flexibility. Our operations group oversees the manufacturing process and maintains relationships with our manufacturing partner and other component suppliers. Historically, we have not experienced significant delays in fulfilling customer orders and we maintain a good track record of on-time delivery. In addition, we have not experienced any significant manufacturing capacity constraints. In the future, we may need to add manufacturing partners to satisfy our production needs.

We source the components included in our products from various suppliers as well as source licenses relating to our network management system from a single third-party vendor. We have not historically had any material issues procuring desired quantities of licenses or components necessary for production as a majority are standard off-the-shelf components and are, therefore, typically neither susceptible to supply shortages nor material lead times. However, any unpredicted reductions to the availability of components may require us to temporarily decrease our manufacturing output and we may need to add other licensing partners to satisfy our licensing needs.

COMPETITION

The market for our solution is highly competitive and fragmented. With the rapid adoption of video-enabled mobile devices, ubiquitous broadband connectivity and the growing consumer demand for TV Without Boundaries, the market for our products is attracting competition. As a result, we are experiencing significant competition from large and established companies as well as many emerging companies. We believe the principal competitive factors in our market include the following:

Technological leadership;

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- Maintaining a high quality of video across a wide array of networks and devices including mobile, OTT and IPTV;
- Product performance, price, reliability and total cost of ownership;
- Domain expertise in video and communications, as well as close relationships with service providers;
- Interoperability with existing headend products and network infrastructure;
- Advanced management systems for video delivery solution reliability and manageability; and
- Comprehensive customer support.

Currently, we compete with companies focused on more traditional broadcast delivery, including Harmonic Inc. We also compete with companies focused on multi-screen encoding, including Cisco Systems, Inc. (through its acquisition of Inlet Technologies LLC), Elemental Technologies and Imagine Communications Corp. The competition from these companies and new competitors that enter our market in the future is expected to intensify as the industry continues to evolve, which may lead to increasing pricing pressure and adversely impact revenue and gross margins. Due to the evolving competitive landscape and growing market opportunity, we also expect to encounter direct competition in the future from one or more larger traditional network infrastructure providers that may currently be one of our systems integrators, such as Google Inc. (through its acquisition of Motorola Mobility) and Ericsson AB. These network equipment companies may provide, as a package, encoding solutions in combination with the other equipment that they traditionally sell to service providers. Similarly, we expect competition from one or more telecommunications, cable or satellite service providers, such as Comcast Corp. and Verizon Communications, as they are currently exploring developing their own encoding solutions and related technologies.

We believe we compete favorably based on video quality across all screens, product performance, architecture and reliability and our expertise in seamlessly integrating new features and product updates to adapt to the dynamic requirements of service providers and content providers and evolving technological landscape. We also believe that we offer competitive service and prices. However, some of our current and potential competitors have significantly greater financial, marketing and other resources and may be able to devote greater resources to the development, sale and support of their products.

Conditions in our market could change rapidly as a result of technological advancements in video compression and delivery and from continuing market consolidation, which includes the consolidation of both our current and target customers as well as our competitors. The development of alternative technologies could decrease the demand for our products. We cannot be certain that we will be able to compete successfully against our current or future competitors, which may negatively affect our results of operations in the future.

INTELLECTUAL PROPERTY

Our intellectual property is a key element to the success of our business. We rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary confidentiality and other contractual protections. As of January 31, 2015, we had eight issued U.S. patents and five issued European patents. Our patents will expire on various dates from 2022 to 2028. In particular, we have patented key technologies related to the implementation of our 4Caster product. The key patents that protect the optimal implementation of the MPEG-4 algorithms on a generic multi-core computer platform include the following patents that were all issued in the United States: (i) our patent covering image coding or decoding device and method involving multithreading of processing operations over a plurality of processors, and corresponding computer program and synchronization signal, which expires in 2024; (ii) our patent covering image encoding or decoding method and device, with parallelization of processing over several processors and coprocessors, and corresponding computer-readable storage medium, which expires in 2028; (iii) our patent covering multiple-reference motion estimation method and device, coding method and device, computer program products and corresponding storage means, which expires in 2025; and (iv) our patent covering method and device for detecting transitions in a video sequence, method and device for coding, computer program products and corresponding storage means, which expires in 2025. In addition, we have four patent applications pending in the United States and one patent application pending in Europe. We have rights to 12 patents licensed to us by France Telecom. We own the registered trademark for Envivio in the United States, Hong Kong and the European Community and have protection for the Envivio trademark through the Madrid Protocol in China, France, Japan and South Korea. We also have one trademark application pending with the U.S. Patent and Trademark office.

Our core intellectual property is our video processing software platform. Our video processing technology is not materially dependent on any third-party technology. We protect our intellectual property primarily with patents and by generally requiring our employees and independent contractors with knowledge of our proprietary information to execute nondisclosure and assignment of intellectual property agreements. However, the steps we have taken to protect our technology may not be successful in preventing misuse by unauthorized parties in the future. In addition, if any of our products, patents or patent applications is found to conflict with any patents held by third parties, we could be prevented from selling our products, our patents may be declared invalid or our patent applications may not result in issued patents.

EMPLOYEES

As of January 31, 2015, our total headcount was 157 full-time employees. We had 62 research and development employees, 73 sales and marketing employees and 22 employees in general administration and human resources. As of January 31, 2015, our headcount was 45 employees in the United States, 99 in France, 4 in China and 9 throughout several other countries around the world.

None of our employees are represented by labor unions or are covered by a collective bargaining agreement. We have never experienced any work stoppages, and we consider our relations with our employees to be good.

FACILITIES

Our corporate headquarters is located at 535 Mission Street, San Francisco, California in an office consisting of approximately 4,600 square feet. The lease for this office expires in April 2023. We also have an office in Denver, Colorado consisting of approximately 2,800 square feet. The lease for the Denver office expires in April 2017. In addition, we have a facility in the metropolitan area of Rennes, France consisting of approximately 31,000 square meters used primarily for research and development, sales and support. This lease expires August 31, 2021. We also have a representative office in Beijing, China and an additional sales and support office in Singapore. We believe that our current facilities are suitable and adequate to meet our current needs. We plan to add new facilities or expand our existing facilities as necessary. We do not foresee any issues finding available space to accommodate our future expansion plans.

INSURANCE

From time to time, our products may malfunction or have undetected errors. We have purchased insurance coverage to protect against specific claims related to the use of our products. We believe our current insurance coverage is adequate to protect against claims resulting from federal, state or local laws.

LEGAL PROCEEDINGS

On October 5, 2012 a complaint captioned Wiley v. Envivio, Inc., et al. CIV-517185 was filed in the Superior Court of California, County of San Mateo, naming as defendants the Company, each of our directors, our chief executive officer, our chief financial officer, and certain underwriters of our IPO. The lawsuit purports to be a class action on behalf of purchasers of shares issued in the IPO and generally alleges that the registration statement for the IPO contained materially false or misleading statements. The complaint purports to assert claims under the Securities Act of 1933, as amended, and seeks unspecified damages and other relief. On October 19, 2012 a similar complaint captioned Toth v. Envivio, Inc. et al. CIV-517481 was filed in the same court. On November 2, 2012 defendants removed the cases to the United States District Court for the Northern District of California where they were assigned case numbers 12-cv-05637-CRB and 12-cv-05636-CW. A similar complaint was filed in the United States District Court for the Northern District of California on December 20, 2012 entitled Thomas v. Envivio, Inc., et al. C 12-06464. The Wiley and Toth actions were subsequently remanded to the San Mateo Superior Court, where they are now pending, and the Thomas case was voluntarily dismissed without prejudice. On February 28, 2014, a complaint was filed in the United States District Court for the Northern District of California entitled Gary Silverberg v. Envivio, Inc. et al., Civil No. 14-cv-00933-PJH. The complaint purports to be on behalf of a class of purchasers of our securities between April 25, 2012 and September 7, 2012. It names as defendants the Company and our chief executive officer and chief financial officer, and seeks unspecified damages and other relief for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. On June 25, 2014, the Silverberg case was voluntarily dismissed without prejudice. In November 2014, we reached an agreement in principle to settle the above-described actions without any admission of any wrongdoing by us or any of the named defendants. The parties subsequently entered into a formal settlement agreement, which must be approved by the court before becoming final. The agreement requires us to contribute approximately $1.0 million toward the settlement. On March 16, 2015, we funded into an escrow account our portion of the settlement of approximately $1.0 million, and the remaining settlement payment will be covered by our director and officer insurance providers. The settlement payment will be released from escrow subject to and upon final court approval of the settlement.

We are subject to claims and assessments from time to time in the ordinary course of business. We are not currently a party to any other litigation matters that, individually or in the aggregate, are expected to have a material adverse effect on the our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

If any of the following risks actually occurs, our business, financial condition and results of operations could be harmed. In that case, the trading price of our common stock could decline and you might lose all or part of your investment in our common stock. The risks and uncertainties described below are not the only ones we face. You should also refer to the other information set forth in this Form 10-K, including our consolidated financial statements and the related notes. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

We depend on the capital spending of telecommunications, cable and satellite service providers, as well as broadcast, media and Internet content providers for a substantial majority of our revenue. Any material decrease or delay in capital spending in these industries as a result of many factors including industry consolidation and seasonal spending patterns has in the past and could continue in the future to negatively impact our operating results, financial condition and cash flows.

A substantial majority of our historical revenue has been derived from sales to telecommunications, cable and satellite service providers, as well as, more recently, the emerging broadcast, media and Internet content providers. We expect that revenue from all of these markets will constitute a substantial majority of our revenue for the foreseeable future. Because many of our customers in these markets purchase our products in connection with constructing and upgrading their architecture and systems, demand for our products depends on the magnitude and timing of capital spending by our customers. The capital spending of our target telecommunications, cable and satellite service provider customers has recently slowed and caused a significant decline in our business levels and financial results. If this slowdown continues, our operating results and financial condition will continue to be negatively impacted in a significant manner. We currently have limited visibility into the spending patterns of our large target customers and cannot predict when these conditions will improve.

Our customers capital spending patterns are dependent on a variety of factors, including:

the impact of industry consolidation;

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- the overall demand for communications services and consumer acceptance of new video and data services;
- competitive pressures, including pricing pressures;
- access to financing;
- general economic conditions;
- the annual capital spending budget cycles of each of the industries that our customers serve;
- federal, local and foreign government regulation of telecommunications and television broadcasting;
- evolving industry standards and network architectures; and
- discretionary consumer spending patterns.

In the past, specific factors contributing to reduced capital spending by our customers have included:

- delays in the evaluation of new services, standards and system architectures by many operators;
- emphasis by operators on generating revenue from existing customers, rather than from new customers through new construction or network upgrades;
- a reduction in the amount of capital available to finance projects;
- proposed and completed business combinations and divestitures by our customers and the length of regulatory review thereof; and
- bankruptcies and financial restructuring of customers.

Further, we have a number of international customers to whom sales are denominated in U.S. dollars. The value of the U.S. dollar fluctuates significantly against many foreign currencies, which includes the local currencies of many of our international customers. If the U.S. dollar appreciates relative to the local currencies of our customers, then the prices of our products correspondingly increase for such customers. Such an effect could adversely impact the sale of our products to such customers and result in longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition in the affected countries. Conversely, if the U.S. dollar were to weaken against many major currencies, there can be no assurance that the weaker dollar would lead to growth in capital spending.

As a result of these capital spending issues, we may not be able to maintain or increase our revenue in the future, and our operating results, financial condition and cash flows could be materially and adversely affected.

Our customer base is concentrated, and we are regularly involved in relatively large transactions. The loss of one or more of our key customers, or a failure to diversify our customer base, as well as a decrease in the number of such larger transactions, could harm our business.

Historically, a majority of our revenue has been derived from relatively few customers. Sales to our ten largest customers together accounted for approximately 56% and 52% of our total revenue in fiscal years 2015 and 2014, respectively. In our 2015 fiscal year, sales to Promexar, S.A. de C.V. and sales to Comcast Corporation accounted for 15% and 12% of our total revenue, respectively. We expect to see continuing industry consolidation and customer concentration. For example, Comcast has entered into an agreement to acquire Time Warner Cable. It is unclear, should it be successful, how this acquisition would impact our business with both of these significant customers, but it could have a negative impact on our sales to either or both companies while the two companies pursue the transaction and transition on to a combined entity. At the same time, we are currently targeting large customer accounts, which if successful, could increase our concentration risk to an even smaller group of customers. This customer concentration increases our susceptibility to a slowdown in spending patterns and decreases in capital spending by our large target customers. As slowdowns in spending by our large target customers occur, our operating results can experience significant declines. Furthermore, we may not be able to continue to sell such large volumes to these customers, which could cause our operating results to fluctuate significantly and decline. The combination of a highly competitive market for the supply of our solutions, coupled with customer consolidation may have a negative impact on our operating results.

Additionally, we do not enter into long-term contracts or purchase commitments with our customers, and we have no contractual arrangements for the future sales of our products to existing customers. We sell our solution by entering into purchase orders with our customers. The loss of one or more of our significant customers, any material reduction in orders by any significant customer, or our failure to qualify our new products with a significant customer could materially and adversely affect our operating results, financial condition and cash flows. In addition, we are involved in most quarters in one or more large individual transactions, including, from time to time, projects in which we act similar to a systems integrator. A decrease in the number of larger individual transactions in which we are involved in any quarter could adversely affect our operating results for that quarter.

The markets in which we operate are intensely competitive.

The markets for our products are extremely competitive and have been characterized by rapid technological change and declining average sales prices. We may face declining average sales prices during economic downturns as equipment suppliers compete aggressively for customers reduced capital spending.

Currently, we compete with companies focused on more traditional broadcast delivery, including Harmonic Inc. We also compete with companies focused on multi-screen encoding, including Cisco Systems, Inc. (through its acquisition of Inlet Technologies LLC), Elemental Technologies and Imagine Communications Corp. The competition from these companies and new competitors that enter our market in the future is expected to intensify as the industry continues to evolve, which may lead to increasing pricing pressure and adversely impact revenue and gross margins. Due to the evolving competitive landscape and growing market opportunity, we also expect to encounter direct competition in the future from one or more larger traditional network infrastructure providers that may be one of our systems integrators, such as Arris Group, Inc. and Ericsson AB. These network equipment companies may provide, as a package, encoding solutions in combination with the other equipment that they traditionally sell to service providers. Similarly, we expect competition from one or more telecommunications, cable or satellite service providers, such as Comcast Corp. and Verizon Communications, as they are currently exploring developing their own encoding solutions and related technologies.

Many of our competitors are substantially larger than us, and have greater financial, technical, marketing and other resources than we do. Many of these large enterprises are in a better position to withstand any significant reduction in capital spending by customers in these markets. They often have broader product lines and market focus, and may not be as susceptible to downturns in a particular market. These competitors may also be able to bundle their products together to meet the needs of a particular customer, and may be capable of delivering more complete solutions than we are able to provide. To the extent large enterprises that currently do not compete directly with us choose to enter our markets by acquisition or otherwise, competition would likely intensify.

Further, some of our competitors that have greater financial resources have offered, and in the future may offer, their products at lower prices than we offer for our competing products or on more attractive financing terms, which has in the past caused, and may in the future cause, us to lose sales opportunities and the resulting revenue or to reduce our prices in response to that competition. Reductions in prices for any of our products could materially and adversely affect our operating margins and revenue. In addition, many of our competitors have been in operation longer than we have, and therefore, have more long-standing and established relationships with domestic and foreign customers, making it difficult for us to establish relationships with and to sell our products to those customers.

If any of our competitors products or technologies were to become the industry standard, our business would be seriously harmed. If our competitors are successful in bringing their products to market earlier than us, or if these products are more technologically capable than ours, or are deemed by customers to be more technologically capable than ours, our revenue could be materially and adversely affected. In addition, certain companies that have not had a large presence in the broadband communications equipment market have begun to expand their presence in this market through mergers and acquisitions. The continued consolidation of our competitors could have a significant negative impact on our business.

If we are unable to compete effectively in any of our markets, or are forced to reduce the prices of our products in order to continue to be competitive, our operating results, financial condition and cash flows could be materially and adversely affected.

We have incurred significant losses since inception and may continue to incur losses in the future.

Excluding our fiscal year 2012, when we recorded net income of $138,000, we have incurred significant losses since our inception, including net losses of $15.6 million and $12.2 million during fiscal 2015 and 2014, respectively. As of January 31, 2015, we had an accumulated deficit of $123.6 million. These losses have resulted principally from lower sales compared to costs incurred in our research and development programs and sales and marketing programs. We may incur operating losses for at least the foreseeable future as a result of the expenses associated with the continued development and expansion of our business. We also incur additional operational and reporting costs associated with being a public company, which serves to increase our general and administrative expenses. We may also increase our research and development expenses. Our ability to attain profitability in the future will be affected by, among other things, our ability to execute on our business strategy, the continued acceptance of our products, the timing and size of customer orders, the average sales prices of our products, the costs of our products, and the extent to which we invest in our sales and marketing, research and development, and general and administrative resources. If we are unable to attain profitability, our business would be harmed and our stock price could decline.

Our sales cycles can be long and unpredictable. As a result, our sales are difficult to predict and may vary substantially from quarter to quarter, which may cause our operating results to fluctuate significantly.

The timing of our sales is difficult to predict. Our sales efforts involve educating our customers about the use and benefits of our software-based solution, including the technical capabilities of our products and the potential cost savings achievable by organizations deploying our software-based solution. Customers, particularly in the cable, satellite and telecommunications industries, typically undertake a significant evaluation process, which frequently involves not only our products but also those of our competitors and can result in a lengthy sales cycle. We spend substantial time, effort and money on our sales efforts without any assurance that such efforts will produce any sales. In addition, purchases of our products are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. The length of a customer s deployment period may directly affect the timing of any subsequent purchase of additional products by that customer. In addition, once we deliver our software-based solution to our customers, for certain customers, we may not be able to recognize revenue for the sale until the customer completes its acceptance procedures. If sales expected from a specific customer for a particular quarter are not realized or completed in that quarter or at all, our operating results, financial condition and cash flows could be materially and adversely affected.

Our operating results are likely to fluctuate significantly and may fail to meet or exceed the expectations of securities analysts or investors, causing our stock price to decline.

Our operating results have fluctuated in the past and are likely to continue to fluctuate in the future, on an annual and a quarterly basis, as a result of several factors, many of which are outside of our control. For example, our revenue for the quarter ended January 31, 2015 was $12.7 million compared to $9.0 million for the quarter ended October 31, 2014 due to stronger sales of our software-based solutions and improving market demand in North America.

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Some of the factors that may cause fluctuations in our operating results include:

- the timing and amount of orders, especially from significant customers;
- increases and decreases in the number and size of the relatively large transactions, and projects in which we are involved, from quarter to quarter;
- the timing of revenue recognition with respect to certain of our sales arrangements, which may include multiple deliverables and the timing of customer acceptance;
- the impact of seasonality in our business, particularly in the first quarter of each fiscal year;
- the timing of completion of our customers projects;
- competitive market conditions, including pricing actions by our competitors;
- the level and mix of our international revenue;
- new product introductions by our competitors or by us;
- the level and timing of capital spending of our customers, both in the United States and in foreign markets, due in part to their access to financing, including credit, for capital spending;
- economic and financial conditions specific to the telecommunications, cable and satellite service providers, as well as broadcast, media and Internet content providers;
- changes in market demand for our products or our customers services or products;
- changes in domestic and international regulatory environments affecting our business;
- market acceptance of our new or existing products;
- the impact of new revenue recognition accounting standards;

customers access to licensed content;

the evaluation of new services, new standards and system architectures by our customers;

the cost and availability to us of components and subassemblies;

the mix of our customer base, by industry and size, and sales channels;

the mix of our products sold and the effect it has on gross margins;

changes in our operating and extraordinary expenses, such as litigation expenses and settlement costs;

write-downs of inventory and investments;

the impact of applicable accounting guidance that requires us to record the fair value of stock options, restricted stock units and employee stock purchase plan awards as compensation expense;

changes in our effective tax rate, including as a result of changes in our valuation allowance against our deferred tax assets, changes in our effective state tax rates, including as a result of apportionment, and changes in our mix of domestic versus international revenue, as well as proposed amended tax rules related to the deferral of foreign earnings and compliance with foreign tax rules;

the impact of applicable accounting guidance on accounting for uncertainty in income taxes that requires us to establish reserves for uncertain tax positions and accrue potential tax penalties and interest;

the timing of any acquisitions and the financial impact of any such acquisitions;

the impact of applicable accounting guidance on business combinations that requires us to record charges for certain acquisition-related costs and expenses and generally to expense restructuring costs associated with a business combination subsequent to the acquisition date; and

general economic conditions.

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We typically recognize a substantial portion of our quarterly revenue in the last month of the quarter. We establish our expenditure levels for product development and other operating expenses based on projected revenue levels for a specified period, and expenses are relatively fixed in the short term. Accordingly, even small variations in timing of revenue or revenue recognition, particularly with respect to large individual transactions, can cause significant fluctuations in operating results in a particular quarter.

As a result of these factors and other factors, our operating results in one or more future periods may fail to meet or exceed the expectations of securities analysts or investors. In that event, the trading price of our common stock would likely decline.

We need to develop and introduce new and enhanced products in a timely manner to meet the needs of our customers and to remain competitive.

All of the markets we address are characterized by continuing technological advancement, changes in customer requirements and evolving industry standards. To compete successfully, we must continually design, develop, manufacture and sell new or enhanced products that provide increasingly higher levels of performance and reliability and meet our customers changing needs. However, we may not be successful in those efforts if, among other things, our products:

- are not cost effective;
- are not brought to market in a timely manner;
- are not in accordance with evolving industry standards and architectures;
- fail to meet market acceptance or customer requirements; or
- are ahead of market demand.

Our encoding products are based on industry video compression standards, which can change rapidly. For example, encoding products based on the MPEG-2 compression standards are being increasingly replaced by encoding products based on newer standards, such as HEVC/H.265, that have been recently adopted and provide significantly greater compression efficiency, thereby making more bandwidth available to operators. The availability of more bandwidth is particularly important to those operators seeking to launch, or expand, HDTV services. We have developed and launched products, including HD encoders, based on these new standards in order to remain competitive, and are continuing to devote considerable resources to these efforts. As industry standards continue to evolve, however, we must continue to devote significant resources to address these evolving standards. Our efforts to address these evolving standards may not be successful in the future, or at all, and we may be unable to compete effectively in our target markets when new industry standards are established.

In order to successfully develop and market certain of our planned products, we may be required to enter into technology development or licensing agreements with third parties. We cannot provide assurance that we will be able to enter into any necessary technology development or licensing agreements on reasonable terms, or at all, or that all of our existing technology license agreements will remain in place.

If we fail to develop and market new and enhanced products in a timely manner, our operating results, financial condition and cash flows could be materially and adversely affected.

We have taken actions to reduce our ongoing operating expenses as part of our continuing efforts to become profitable. These actions, and any cost-reduction actions we may take in the future, could have unintended consequences and negatively impact our business.

We have taken in prior years, and may take in the future, actions to reduce our ongoing operating expenses. Despite our efforts to structure our business to operate in a cost-effective manner, some cost reduction measures could have unexpected negative consequences, such as attrition among employees and a slowdown of development projects. While our cost reduction efforts are intended to reduce our costs, we cannot be certain that all of these efforts will be successful, or that we will not be required to implement additional cost reduction measures in the future. If we are unable to recognize the anticipated benefit from our cost-reduction measures, our results of operations would be harmed and it could negatively impact our business.

We rely on systems integrators, who serve as our channel partners, for a significant portion of our revenue, and disruptions to, or our failure to develop and manage, our relationships with these channel partners and the processes and procedures that support them could materially and adversely affect our business.

We generate a significant portion of our revenue through sales to channel partners, principally to assist us with the integration of our software-based solution with other third-party products to provide a tailored solution for the end-customer. Our aggregate revenue through sales to channel partners was $17.6 million, $19.7 million and $26.8 million during the fiscal years 2015, 2014 and 2013, respectively. We expect that sales to channel partners will continue to generate a significant percentage of our revenue in the future. Accordingly, our future success is highly dependent upon establishing and maintaining successful relationships with a variety of channel partners.

We do not have long-term contracts or minimum purchase commitments with any of our channel partners, and our contracts with these parties do not prohibit them from purchasing or offering products or services that compete with ours. Some of our competitors may have stronger relationships with certain of our channel partners than we do, and may also provide incentives to these customers to persuade them to favor our competitors products or, in effect, to prevent or reduce sales of our products. Our channel partners may independently choose not to purchase or offer our products. Some of our channel partners are small, are based in a variety of international locations and may have relatively unsophisticated processes. Any significant disruption to our sales to these channel partners, including as a result of an inability or unwillingness of these channel partners to continue purchasing our products, or their failure to properly manage their business with respect to the purchase of and payment for our products, could materially and adversely impact our business, operating results, financial condition and cash flows. Establishing relationships with new channel partners and training them in our solution requires significant time and resources. Our failure to continue to establish or maintain successful relationships with channel partners could likewise materially and adversely affect our operating results, financial condition and cash flows.

We have derived substantially all of our revenue from a single line of products, and a decline in demand for these products could cause our revenue to grow more slowly or to decline, which could adversely affect our business and results of operations.

Our multi-screen video delivery product line has accounted for substantially all of our revenue and will continue to comprise a significant portion of our revenue for the foreseeable future. As a result, our revenue could be reduced by:

- the failure of our products to achieve broad market acceptance;

- any decline or fluctuation in demand for our products, whether as a result of product obsolescence, technological change, customer budgetary constraints or other factors;

- any constraint on our ability to meet demand for our products, whether as a result of component supply constraint or the inability or unwillingness of our contract manufacturer to timely deliver products;

pricing pressures;

the introduction of products and technologies by competitors that serve as a replacement or substitute for, or represent an improvement over, these products;

an order resulting from a judgment of patent infringement or otherwise, that restricts our ability to market and sell our products; and

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our inability to release enhanced versions of our products, including any related software upgrades, on a timely basis.

We do not have a large portfolio of other products, which could reduce the impact of a decline in demand or other slowdown in the sales of our multi-screen video delivery products. In addition, our competitors may have broader product offerings that they combine with the sale of video encoders, such as ad insertion and content delivery network solutions. These additional system-based product offerings may be more attractive to large service providers and our other target customers for a variety of reasons, including lower average selling prices as a result of purchasing a system as compared to individual products within a system. As a result, if our revenue were to decline from one single line of products, our overall financial results would likely materially decline.

We have had limited success selling our converged, software-based solutions to traditional Pay-TV operators. If Pay-TV operators do not adopt our converged, software-based solutions for delivering traditional Pay-TV, or the operators adoption of our converged, software-based solutions grow more slowly than anticipated, we may not be able to increase our revenue sufficiently to achieve and maintain profitability.

We have devoted a significant amount of resources to developing and marketing our converged, software-based solution video delivery products to traditional Pay-TV operators, who have historically preferred hardware-based, single-function solutions to deliver Pay-TV, and believe our future growth will substantially depend on the market acceptance and adoption of our solutions to this important market segment. Our target customers and those customers that comprise a significant portion of our revenue include very large service providers in the cable, telecommunications and satellite broadcast industries. A decision by these customers to deploy new video delivery infrastructure can take a significant amount of time end depend on a variety of factors. These customers typically undertake a significant evaluation process, which frequently involves not only our products, but also those of our competitors and other third parties. In addition, our sales efforts involve educating our customers about the use and benefits of our software-based solution, including the technical capabilities of our products and the potential cost savings achievable by organizations deploying our software-based solution. As a result, demand for our converged software-based video delivery products may grow more slowly than we anticipate which could cause our operating results, financial condition and cash flows to be materially and adversely affected.

The sales prices of our products may decrease.

The sales prices for our products may decline for a variety of reasons, including pricing pressures resulting from increased competition and industry consolidation of customers, a change in our mix of products, and the anticipation of the introduction of new products or promotional programs. The markets in which we compete are highly competitive and we expect this competition to increase in the future, thereby leading to increased pricing pressures. Larger competitors with more diverse product offerings may reduce the price of products that compete with ours in order to promote the sale of other products or may bundle them with other products. For example, some of our large competitors who provide systems integration may offer video headends at very low prices or on a bundled basis. In addition, industry consolidation of our customers can lead to longer term pricing pressure as the pool of customers, in an already competitive market, decreases which affords more negotiating leverage for these customers. Furthermore, sales prices for our products may decrease over product life cycles. A decline in our sales prices in excess of our expectations may harm our operating results, financial condition and cash flows.

We expect gross margin to vary over time, and our level of gross margin may not be sustainable.

Our level of gross margin may not be sustainable and may be adversely affected by numerous factors, including:

changes in customer (including geographies) or product and service mix;

the introduction of new products;

- our ability to reduce production costs;
- increases in material or labor costs;
- excess inventory, inventory holding charges and obsolescence charges;
- the timing of revenue recognition and revenue deferrals;
- changes in our distribution channels or arrangements with our channel sales partners;
- level of competition;
- increased warranty costs; and
- inbound shipping charges.

As a result of any of these factors, or other factors, our gross margin may be adversely affected, which in turn would harm our operating results.

We rely on a single third party to manufacture our products, and depend on this manufacturer for the supply and quality of our products.

We outsource the manufacturing of our products to a single manufacturer, FutureQuest Incorporated, and are, therefore, subject to the risk that our third-party manufacturer does not provide our customers with the quality and performance that they expect from our products. Our manufacturer may not view fulfilling our orders as a priority in the event it is constrained in its ability to fulfill all of its customer obligations in a timely manner. In addition, if we need to increase our manufacturing capacity beyond what our current manufacturer is able to provide, we may not be able to meet customer demand on a timely basis. If we are required, or we desire, to replace our manufacturer or add an additional manufacturer, we may need to expend a considerable amount of resources, time and money to locate another manufacturer, and as a result, we may experience a delay in our ability to meet customer demand during the transition process. We place manufacturing orders on a purchase order basis under the terms of a master agreement with our manufacturer. This agreement is limited to an initial term of one year, with an automatic renewal feature for additional one-year terms unless either party requests not to renew the agreement in writing at least 90 days prior to the end of the term. In addition, our manufacturer may terminate this agreement for any reason by providing us 120-days notice of termination. If we are unable to fulfill customer demand, we may lose revenue opportunities and our reputation could suffer. In addition, we must also predict the number of products that we will require. If we underestimate our requirements, our manufacturer may have inadequate materials and components required to produce our products. This could result in an interruption of the manufacturing of our products, delays in shipments and deferral or loss of revenue. Quality or performance failures of our products or changes in our manufacturer s financial or business condition could disrupt our ability to supply quality products to our customers and thereby have a material and adverse effect on our operating results, financial condition and cash flows.

We use several key components and subassemblies in our products that are supplied from a single source or a limited number of sources. The loss of any of these suppliers may cause us to incur additional transition costs, result in delays in the manufacturing and delivery of our products, or cause us to carry excess or obsolete inventory and could cause us to redesign our products.

While supplies of our components are generally available from a variety of sources, we currently depend on a single source or limited number of sources for several components for our products. We have also entered into license agreements with some of our suppliers for technologies that are used in our products, and the termination of these licenses, which can generally be done on relatively short notice without penalty, could have a material adverse effect on our business. If we lost any of these suppliers and licensors, we could be required to transition to a new supplier or licensor, which could increase our costs, result in delays in the manufacturing and delivery of our products or cause us to carry excess or obsolete inventory, and we could be required to redesign our hardware and software in order to incorporate components or technologies from alternative sources.

In addition, even for certain components for which there are multiple sources, we are subject to potential price increases and limited availability due to market demand for such components. An increase in demand for components and subassemblies that we use could cause shortages of these parts and cause an increase in the costs of these parts. If such shortages or price increases occur in the future, our business would be adversely affected. We carry very little inventory of our products, and we and our manufacturer rely on our suppliers to deliver necessary components in a timely manner. We and our manufacturer rely on purchase orders rather than long-term contracts with these suppliers, and as a result, even if available, we or our manufacturer may not be able to secure sufficient components at reasonable prices or of acceptable quality to build products in a timely manner and, therefore, may not be able to meet customer demands for our products, which could have a material and adverse effect on our operating results, financial condition and cash flows.

Our products include third-party technology and intellectual property, and our inability to use that technology in the future could harm our business.

We incorporate certain third-party technologies, including software programs, into our products, and intend to utilize additional third-party technologies in the future. Licenses to relevant third-party technologies or updates to those technologies may not continue to be available to us on commercially reasonable terms, or at all. In addition, the technologies that we license may not operate properly or as specified, and we may not be able to secure alternatives in a timely manner, either of which could harm our business. We could face delays in product releases until alternative technology can be identified, licensed or developed, and integrated into our products, and we may not be able to do so at all. These delays, or a failure to secure or develop adequate technology, could materially and adversely affect our operating results, financial condition and cash flows.

We may engage in future acquisitions that could disrupt our business, cause dilution to our stockholders and materially and adversely affect our operating results, financial condition and cash flows.

In the future we may acquire other businesses, products or technologies. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, or such acquisitions may be viewed negatively by customers, financial markets or investors. We may also face additional challenges because acquisitions entail numerous risks, including:

- difficulties in the integration of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition transaction;
- the diversion of management s attention from the regular operations of the business and the challenges of managing larger and more widespread operations;
- adverse effects on new and existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience;

- the potential loss of key employees of acquired businesses; and
- delays in realizing or failure to realize the anticipated benefits of an acquisition.

Competition within our industry for acquisitions of businesses, technologies, assets and product lines has been, and may in the future continue to be, intense. As such, even if we are able to identify an acquisition that we would like to consummate, we may not be able to complete the acquisition on commercially reasonable terms or because the target is acquired by another company. Furthermore, in the event that we are able to identify and consummate any future acquisitions, we could:

- issue equity securities, which would dilute current stockholders percentage ownership;
- incur substantial debt;
- incur significant acquisition-related expenses;

assume contingent liabilities; or

expend significant cash.

We or our customers may face intellectual property infringement and other claims from third parties.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, leading companies in the telecommunications industry have extensive patent portfolios. From time to time, third parties may assert patent, copyright, trademark and other intellectual property rights against us or our customers. Our suppliers and their customers, including us, may have similar claims asserted against them. Any future intellectual property litigation, regardless of its outcome, could result in substantial expense and significant diversion of the efforts of our management and technical personnel. An adverse determination in any such proceeding could subject us to significant liabilities, temporary or permanent injunctions, or require us to seek licenses from third parties or pay royalties that may be substantial. Furthermore, necessary licenses may not be available on terms satisfactory to us, or at all. An unfavorable outcome on any such litigation matter could require that we pay substantial damages or ongoing royalty payments or could prohibit us from selling certain of our products. Any such outcome could have a material adverse effect on our operating results, financial condition and cash flows.

Our suppliers and customers may have intellectual property claims relating to our products asserted against them. We have agreed to indemnify some of our suppliers and customers for patent infringement relating to our products. The scope of this indemnity varies, but, in some instances, includes indemnification for damages and expenses, including reasonable attorney s fees, incurred by the supplier or customer in connection with such claims. If a supplier or customer seeks to enforce a claim for indemnification against us, we could incur significant costs defending against the underlying claim. An adverse determination in such a proceeding could subject us to significant liabilities.

If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.

We depend on our ability to protect our proprietary technology. We protect our proprietary information and technology through licensing agreements, nondisclosure agreements and other contractual provisions, as well as through patent, trademark, copyright and trade secret laws in the United States and through similar laws in other countries. These protections may not be available in all cases or may be inadequate to prevent our competitors from copying, reverse engineering or otherwise obtaining and using our technology, proprietary rights or products. In addition, third parties may seek to challenge, invalidate or circumvent our patents, trademarks, copyrights and trade secrets, or applications for any of the foregoing. Our competitors may independently develop technologies that are substantially equivalent, or superior, to our technology or design around our proprietary rights. In each case, our ability to compete could be significantly impaired.

We also rely on customary contractual protections with our customers, suppliers, distributors, employees and consultants, and we implement security measures to protect our trade secrets. We cannot assure that these contractual protections and security measures will not be breached, that we will have adequate remedies for any such breach or that our suppliers, employees or consultants will not assert rights to intellectual property arising out of such contracts.

In addition, our proprietary rights may not be adequately protected because the laws of other countries in which we market our products may offer little or no protection for our proprietary technologies.

To prevent substantial unauthorized use of our intellectual property rights, it may be necessary to prosecute actions for infringement or misappropriation of our proprietary rights against third parties. Any such action could result in significant costs and diversion of our resources and management s attention, and there can be no assurance that we would be successful in such action. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we can. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing or misappropriating our intellectual property.

We have a limited patent portfolio. While we plan to protect our intellectual property with, among other things, patent protection, there can be no assurance that:

- current or future U.S. or future foreign patent applications will be approved;
- our issued patents will protect our intellectual property and not be held invalid or unenforceable if challenged by third parties;
- we will succeed in protecting our technology adequately in all key jurisdictions in which we or our competitors operate;
- the patents of others will not have an adverse effect on our ability to do business; or
- others will not independently develop similar or competing products or methods or design around any patents that may be issued to us.

Our failure to obtain patents with claims of a scope necessary to cover our technology, or the invalidation of our patents, or our inability to protect any of our intellectual property, may weaken our competitive position and may materially and adversely affect our operating results, financial condition and cash flows.

Our products incorporate complex technology and may contain defects or errors, which could negatively affect the performance of our solution and could harm our reputation and adversely affect our business.

Our products incorporate complex technology that must operate with a significant number and type of devices and that attempt to run new and complex applications in a variety of environments that utilize different communication industry standards. Our products have contained and may in the future contain defects or errors. In some cases, these defects or errors have delayed the introduction of our new products. We may also be subject to liability claims for damages related to product errors or defects. While we carry insurance policies covering these types of liability claims, which we believe to be reasonable for the level of our business activity, these policies may not provide sufficient protection in the event of a liability claim. Moreover, errors in our products are most prevalent when new products are introduced into the market.

We incorporate third-party hardware into our products which could cause errors or failures of our solution and damage our reputation.

We incorporate hardware purchased from third parties into our products. This hardware has in the past, and may in the future contain errors or defects, which in turn could result in errors or a failure of our solution. We may not learn of these hardware errors or defects until after we have shipped our solution to our customers. Errors or defects in the third-party hardware that we incorporate into our products could significantly damage our reputation, even though we did not cause these errors or defects, which could have a material and adverse effect on our operating results, financial condition and cash flows.

Our ability to sell our products is highly dependent on the quality of our support and service offerings, and our failure to offer high-quality support and services would harm our operating results and reputation.

Once our products are deployed within our customers   networks, our customers depend on our support organization to resolve any issues relating to our products. A high level of support is critical for the successful marketing and sale of our products. If we or our channel partners do not effectively assist our customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing support, it would adversely affect our ability to sell our products to existing customers and would harm our reputation with potential customers. In addition, as we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. Any failure to maintain high-quality support and services could materially and adversely affect our operating results, financial condition and cash flows.

We are an emerging growth company as well as a smaller reporting company and intend to comply with reduced public company reporting requirements applicable to such companies, which could make our common stock less attractive to investors.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act (the JOBS Act) enacted in April 2012, and, for as long as we continue to be an emerging growth company, we intend to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will remain an emerging growth company for up to five years, although, we will cease to be an emerging growth company upon the earliest of (i) our 2017 fiscal year, (ii) the first fiscal year after our annual gross revenue is $1 billion or more, (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt securities, or (iv) the date on which we are deemed to be a large accelerated filer as defined in the Securities Exchange Act of 1934. We cannot predict if investors will find our common stock less attractive if we choose to continue to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

Notwithstanding the above, we are also currently a smaller reporting company, meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and have a public float of less than $75 million and annual revenues of less than $50 million during the most recently completed fiscal year. In the event that we are still considered a smaller reporting company, at such time we cease to be an emerging growth company, the disclosures we will be required to provide in our SEC filings will increase, but will still be less than it would be if we were not considered either an emerging growth company or a smaller reporting company. Specifically, similar to emerging growth companies, smaller reporting companies are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports. We cannot predict if investors will find our common stock less attractive if we choose to continue to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

We incur significant costs as a result of operating as a public company, our management has limited experience managing a public company, and our management devotes substantial time to new compliance initiatives.

As a public company, we have incurred significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, or NASDAQ, impose a number of requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal, accounting and financial compliance costs and make some activities more time-consuming and costly. For

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example, these new rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance, and may require us to accept reduced policy limits and coverage or incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

In addition, the Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. These requirements will increase once we cease being an emerging growth company or smaller reporting company, and therefore, the costs associated with being a public company are likely to increase in the future for us. Our compliance with the Sarbanes-Oxley Act requires that we incur substantial accounting expense and expend significant management time on compliance-related issues.

If we are unable to maintain effective internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected.

We are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. While we were able to determine in our management s report for our 2015 fiscal year that our internal control over financial reporting was effective as of January 31, 2015, there can be no assurance that material weaknesses in our financial reporting will not occur in the future. Since we are an emerging growth company, as defined by the JOBS Act and for as long as we maintain such status, we will not be required to include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. The absence of such a requirement to include an attestation report from our registered public accounting firm could reduce the likelihood that weaknesses or errors in our internal control over financial reporting are detected. In the event that our internal control over financial reporting is not effective in the future, we could be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments and causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our stock. Internal control deficiencies could also result in a restatement of our financial statements in the future or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price. In addition, we will continue to incur significant expenses, and a significant amount of management s attention will be consumed, in order to maintain our internal control over financial reporting and to remediate any weaknesses or deficiencies that may be identified in the future.

We have a limited operating history, which makes it difficult to predict our future operating results.

We were incorporated in January 2000 and began commercial shipments of our products in 2001. As a result of our limited operating history, it is very difficult to forecast our future operating results. For example, our revenue results for fiscal 2013 were significantly below our expectations. We face challenges in our business and financial planning as a result of the uncertainties resulting from having had a relatively limited time period in which to implement and evaluate our business strategies as compared to more mature companies with longer operating histories. In addition, we typically sell our products on a purchase order basis, and not under long-term contracts, which means we do not have extended visibility into our future levels of revenue. These uncertainties make it difficult to predict our future operating results. If the assumptions we use to plan our business are incorrect or change in reaction to a change in our markets, our operating results, financial condition and cash flows could be materially and adversely affected.

We must increase market awareness of our software-based solution and develop and expand our sales channels and opportunities, and if we are unsuccessful, our operating results, financial condition and cash flows could be materially and adversely affected.

We must improve the market awareness of our software-based solution, particularly for traditional TV opportunities, and expand our relationships with our channel partners in order to increase our revenue. We must

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also improve our sales execution to, among other things, increase the number of our sales opportunities. We intend to continue to utilize our sales and marketing functions to expand awareness of our software-based solution. Further, we believe that we must continue to develop our relationships with new and existing channel partners and create additional sales opportunities to effectively and efficiently extend our geographic reach and market penetration. Our efforts to improve our sales could result in a material increase in our sales and marketing expense and general and administrative expense, and there can be no assurance that such efforts will be successful. If we are unable to significantly increase the awareness of our software-based solution, create additional sales opportunities, expand our relationships with channel partners, or effectively manage the costs associated with these efforts, our operating results, financial condition and cash flows could be materially and adversely affected.

We depend significantly on our international revenue and are subject to the risks associated with international operations, which may negatively affect our operating results.

Revenue derived from customers outside of the United States during fiscal 2015, 2014 and 2013 represented 75%, 65% and 87% of our revenue, respectively. We expect that international revenue will continue to represent a similarly substantial percentage of our revenue for the foreseeable future. Our international operations and our efforts to maintain and increase revenue in international markets are subject to a number of risks, which are generally greater with respect to emerging market countries, including the impact on our business and operating results of:

- general economic conditions in international economies, which may adversely affect our customers capital spending;
- changes in foreign government regulations and standards;
- import and export license requirements, tariffs, taxes and other trade barriers;
- fluctuations in currency exchange rates;
- a significant reliance on distributors, resellers and other third parties to sell our products and solutions, particularly in emerging market countries;
- difficulty in collecting accounts receivable, especially from smaller customers and resellers, particularly in emerging market countries;
- compliance with the United States Foreign Corrupt Practices Act, or FCPA, and the Office of Foreign Asset Control regulations, particularly in emerging market countries;
- the burden of complying with a wide variety of foreign laws, treaties and technical standards;

- fulfilling country of origin requirements for our products for certain customers;

- difficulty in staffing and managing foreign operations;

- political and economic instability, including risks related to terrorist activity, particularly in emerging market countries;

- changes in economic policies by foreign governments;

- lack of basic infrastructure, particularly in emerging market countries;

- availability of credit, particularly in emerging market countries;

- impact of social and political unrest, particularly in the Middle East; and

- impact of potential trade and banking sanctions upon a country, such as Russia, where we do business.

In the past, certain of our international customers accumulated significant levels of debt and have undertaken reorganizations and financial restructurings, including bankruptcy proceedings. Even where these restructurings have been completed, in some cases these customers have not been in a position to purchase new equipment at levels we had seen in the past.

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Furthermore, payment cycles for international customers are typically longer than those for customers in the United States. Unpredictable payment cycles could cause us to fail to meet or exceed the expectations of securities analysts and investors for any given period.

The effect of one or more of these international risks could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

While our international revenue has typically been denominated in U.S. dollars, fluctuations in currency exchange rates could cause our products to become relatively more expensive to customers in a particular country, leading to a reduction in revenue or profitability from sales in that country. A portion of our overall expenses, primarily from our research and development facility in France, is denominated in Euros, which subjects us to increased foreign currency risk. We currently do not enter into hedging arrangements to minimize the impact of foreign currency fluctuations. Our exposure to foreign currency fluctuation may change over time as our business practices evolve and could have a material adverse impact on our financial condition and results of operations. Gains and losses on the conversion to U.S. dollars of accounts payable and other monetary assets and liabilities arising from international operations may contribute to fluctuations in operating results.

Our use of, and reliance on, research and development resources in France may expose us to unanticipated costs or events.

We have a significant research and development center in France and, in recent years, have increased headcount and development activity at this facility. Our research and development efforts and other operations in France involve significant risks, including:

- difficulty hiring and retaining appropriate engineering personnel due to competition for such limited resources;
- a disruption in relations with our employees;
- fluctuations in currency exchange rates between the Euro and the U.S. dollar; and
- compliance with regulatory requirements, including local employment regulations and organized labor.

Difficulties resulting from the factors above and other risks related to our operations in France could expose us to increased expense, impair our development efforts and harm our competitive position.

If we do not appropriately manage any future growth, or are unable to improve our systems and processes, our operating results could be negatively affected.

Our future growth, if it occurs, could place significant demands on our management, infrastructure and other resources. We may need to increasingly rely on information technology systems, some of which we do not currently have significant experience in operating, to help manage critical functions. Some of our critical information technology systems are hosted by third parties, and we may have interruptions in our ability to access these systems in a timely manner, which could disrupt our business. To manage any future growth effectively, we must continue to improve and expand our information technology and financial infrastructure, operating and administrative systems and controls, and continue to manage headcount, capital and processes in an efficient manner. We may not be able to successfully implement improvements to these systems and processes in a timely or efficient manner, which could result in additional operating inefficiencies and could cause our costs to increase more than planned. If we do increase our operating expenses in anticipation of the growth of our business and this growth does not meet our expectations, our financial results may be negatively impacted. In addition, our systems and processes may not prevent or detect all errors, omissions or fraud. Our failure to improve our systems and processes, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to accurately forecast our revenue, expenses and earnings, or to prevent certain losses. Any future growth would add complexity to our organization and require effective coordination within our organization. Failure to manage any future growth effectively could result in increased costs and harm our business.

If demand for our products increases more quickly than we expect, we may be unable to meet our customers requirements.

If demand for our products increases, the difficulty of accurately forecasting our customers requirements and meeting these requirements will increase. Forecasting customers needs and effectively managing our supply chain is particularly difficult in connection with newer products. Our ability to meet customer demand depends significantly on the availability of components and other materials, as well as the ability of our contract manufacturers to scale their production. Furthermore, we purchase several key components and subassemblies used in the manufacture or integration of our products from sole or limited sources. Our ability to meet customer requirements depends in part on our ability to obtain sufficient volumes of these materials in a timely fashion. Increases in demand on our suppliers and subcontractors from other customers may cause sporadic shortages of certain components and products. In order to be able to respond to these issues, we may increase our inventories of certain components and products, particularly for our customers that order significant dollar amounts of our products, and expedited shipments of our products when necessary, which may increase our costs and could increase our risk of holding obsolete or excessive inventory. Nevertheless, we may be unable to respond to customer demand if it increases more quickly than we expect. If we fail to meet customers supply expectations, our revenue would be adversely affected and we may lose business, which could materially and adversely affect our operating results, financial condition and cash flows.

We may invest in engineering, sales, marketing, services and infrastructure, and these investments, if made, may achieve delayed or lower than expected benefits, which could harm our operating results, financial condition and cash flows.

We may add personnel and other resources to our engineering, sales, marketing, services and infrastructure functions as we focus on developing new technologies, growing our market segment, capitalizing on existing or new market opportunities, increasing our market share, and enabling our business operations to meet anticipated demand. We are likely to recognize the costs associated with any of these investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results, financial condition and cash flows could be materially and adversely affected.

Our reported financial results may be adversely affected by changes in accounting principles applicable to us.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC and other various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our operating results could fall below expectations of securities analysts and investors, resulting in a decline in our stock price.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as described under Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below market expectations, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, allowances for doubtful accounts, valuation of deferred inventory costs, useful lives of property and equipment, valuation of deferred tax assets and stock-based compensation.

Our future capital needs are uncertain, and we may need to raise additional funds in the future.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash requirements for at least the next 12 months. We may, however, need to raise substantial additional capital to:

- expand the commercialization of our products;
- fund our operations;
- continue our research and development;
- defend, in litigation or otherwise, any claims that we infringe third-party patents or violate other intellectual property rights;
- commercialize new products;
- acquire companies and in-license products or intellectual property; and
- meet capital expenditure requirements for operations.

Our future funding requirements will depend on many factors, including:

- market acceptance of our products;
- the cost of our research and development activities;
- the cost of filing and prosecuting patent applications;

- the cost of defending, in litigation or otherwise, any claims that we infringe third-party patents or violate other intellectual property rights;
- the cost to defend or settle any litigation to which we are or become a party;
- the cost and timing of establishing additional sales, marketing and distribution capabilities;
- the cost and timing of establishing additional technical support capabilities;
- the effect of competing technological and market developments;
- the market for such funding requirements and overall economic conditions; and
- the level of capital expenditures required for operations.

If we require additional funds in the future, such funds may not be available on acceptable terms, or at all.

We may require additional funds in the future and we may not be able to obtain such funds on acceptable terms, or at all. If we raise additional funds by issuing equity securities, our stockholders may experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt or additional equity financing that we raise may contain terms that are not favorable to us or our stockholders. If we do not have, or are not able to obtain, sufficient funds, we may have to delay development or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or grant licenses on terms that are not favorable to us. If we are unable to raise adequate funds, we may have to liquidate some or all of our assets, or delay, reduce the scope of or eliminate some or all of our development programs. We also may have to reduce marketing, customer support or other resources devoted to our products or cease operations. Any of these factors could materially and adversely affect our operating results, financial condition and cash flows.

If we are not successful in addressing management succession issues and attracting and retaining qualified personnel, our business and operating results could be materially and adversely affected.

Our future success will depend, to a significant extent, on the ability of our management to operate effectively, both individually and as a group. We must successfully manage transition and replacement issues that may result from the departure or retirement of members of our executive management, whether in the context of an acquisition or otherwise. Changes of management personnel in the future could cause disruption to our operations or customer relationships or a decline in our operating results.

We are also dependent on our ability to retain and motivate our existing highly qualified personnel, including Julien Signès, our President and Chief Executive Officer. These personnel may terminate employment with us at any time with no advance notice. The replacement of Mr. Signès likely would involve significant time and costs, and the loss of his services may significantly delay or prevent the achievement of our business objectives.

Competition for highly skilled personnel is frequently intense, especially in the locations where we have a substantial presence and need for highly-skilled personnel, including the San Francisco Bay Area and France. We may not be successful in attracting qualified personnel to fulfill our current or future needs. Competitors and others have in the past attempted, and are likely in the future to attempt, to recruit our employees. While our employees are required to sign standard agreements concerning confidentiality and ownership of inventions, we generally do not have employment contracts or non-competition agreements with any of our personnel. The loss of the services of any of our key personnel, the inability to attract or retain highly qualified personnel in the future or delays in hiring such personnel, particularly senior management and engineers and other technical personnel, could materially and adversely affect our operating results, financial condition and cash flows.

We are subject to import and export controls that could subject us to liability or impair our ability to compete in international markets.

Our products are subject to U.S. export controls, and may be exported outside the United States only with the required level of export license or through an export license exception, in most cases because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain technology and have enacted laws that could limit our ability to distribute our products or could limit our customers ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers internationally.

In addition, we may be subject to customs duties that could have a significant adverse impact on our operating results or, if we are able to pass on the related costs in any particular situation, would increase the cost of the related product to our customers. As a result, the future imposition of significant increases in the level of customs duties or the creation of import quotas on our products in Europe or in other jurisdictions, or any of the limitations on international sales described above, could have a material adverse effect on our business, operating results, financial condition and cash flows. Further, some of our customers in Europe have been, or are being, audited by local governmental authorities regarding the tariff classifications used for importation of our products. Import duties and tariffs vary by country and a different tariff classification for any of our products may result in higher duties or tariffs, which could have an adverse impact on our operating results and potentially increase the cost of the related products to our customers.

Our limited use of open source software could impose limitations on our ability to commercialize our products.

Our products contain software modules licensed for use from third-party authors under open source licenses, including the GNU Public License, the GNU Lesser Public License, the Apache License and others. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software to the public. This could allow our competitors to create similar products with lower development effort and in less time and ultimately could result in a loss of product sales for us.

Although we monitor our use of open source closely, it is possible our past, present or future use of open source has triggered or may trigger the foregoing requirements. Furthermore, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could materially and adversely affect our operating results, financial condition and cash flows.

We could be required to provide the source code of our products to our customers.

Some of our customers have the right to require the source code of our products to be deposited into a source code escrow. Under certain circumstances, our source code could be released to our customers. The conditions triggering the release of our source code vary by customer, but include, among other things, breach of the applicable customer agreement, failure to provide required product support or maintenance, and if we are subject to a bankruptcy proceeding or otherwise fail to carry on our business in the ordinary course. A release of our source code would give our customers access to our trade secrets and other proprietary and confidential information.

Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes. In addition, future changes in our stock ownership, many of which are outside of our control, could result in an ownership change under Section 382 of the Internal Revenue Code. Our net operating losses may also be impaired under state law. Accordingly, we may not be able to utilize a material portion of the NOLs.

An economic downturn, in the United States and/or elsewhere in the world, may materially and adversely affect our operating results, financial condition and cash flows.

In the past, financial markets in the United States, Europe and Asia experienced extreme disruption, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit

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availability, rating downgrades of certain investments and declining valuations of others. Governments took unprecedented action intended to address extreme market conditions, such as the severe restrictions on credit and declines in real estate values. While these conditions did not impair our ability to access credit markets and finance operations, there can be no assurance that there will not be developments in other financial markets or other major economies that would have an adverse effect on our operating results. These economic developments affect our business in a number of ways. A tightening of credit in financial markets may adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations, and could result in a decrease in demand for our products and services. Our customers ability to pay for our solution may also be impaired, which may lead to an increase in our allowance for doubtful accounts and write-offs of accounts receivable, reducing our cash flow.

Our global business could also be adversely affected by decreases in the general level of economic activity, such as decreases in business and consumer spending. Our success depends on our ability to effectively plan and manage our resources through rapidly fluctuating economic market conditions. We are unable to predict the likely duration and severity of any disruption in financial markets and adverse economic conditions in the United States and other countries. Should these economic conditions result in our not meeting our revenue growth objectives, it may have a material and adverse effect on our operating results, financial condition and cash flows.

Changes in our provision for income taxes or adverse outcomes resulting from examination of our income tax returns could materially and adversely affect our operating results, financial condition and cash flows.

Our provision for income taxes is subject to volatility and could be adversely affected by the following:

- earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates;
- changes in the valuation of our deferred tax assets and liabilities;
- expiration of, or lapses in, the research and development tax credit laws;
- transfer pricing adjustments;
- tax effects of nondeductible compensation;
- tax costs related to intercompany realignments;
- changes in accounting principles; or

changes in tax laws and regulations, including possible changes to the taxation of earnings in the United States of our foreign subsidiaries, and the deductibility of expenses attributable to foreign income, or the foreign tax credit rules.

Significant judgment is required to determine the recognition and measurement attribute prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes or additional paid-in capital. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. The outcomes from these examinations may have a material and adverse effect on our operating results, financial condition and cash flows.

Our business is subject to the risks of earthquakes, fire and other natural catastrophic events.

Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. We also have significant research and development activities in France and facilities in Asia, regions that have experienced fires, floods and other natural disasters. Our customers and suppliers may also experience a disruption in their business as a result of natural disasters, which could negatively impact our business. A significant natural disaster, such as an earthquake, flood or fire, occurring at our headquarters, our other facilities or where our channel partners, suppliers or customers are located, could have a material and adverse effect on our operating results, financial condition and cash flows.

Man-made problems such as computer viruses, terrorism or electrical blackouts may disrupt our operations and could adversely affect our operating results, financial condition and cash flows.

Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, operating results, and financial condition. Efforts to limit the ability of third parties to disrupt the operations of the Internet or undermine our own security efforts may be ineffective. In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the United States and other countries and create further uncertainties or otherwise materially harm our business, operating results, and financial condition. Likewise, events such as widespread electrical blackouts could have similar negative impacts. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders, our research and development efforts or the deployment, manufacture or shipment of our products, our operating results, financial condition and cash flows could be materially and adversely affected.

Risks Related to Our Industry

Our future growth depends on market acceptance of several broadband services, on the adoption of new broadband and other technologies and on several other industry trends.

Future demand for many of our products will depend significantly on the growing market acceptance of, and demand for, emerging broadband services, including digital video, on-demand video services, HD video, 4K UltraHD video, IPTV, mobile video services and high-speed data services. The market demand for such emerging services is rapidly growing, with many de facto or proprietary systems in use, which increases the challenge of delivering interoperable products intended to address the requirements of such services.

The effective delivery of these services will depend, in part, on a variety of new network architectures, standards and equipment, such as:

- video compression standards, such as MPEG-4 AVC (H.264) and HEVC (H.265), for both standard definition and high definition services;
- delivery of high-speed services, such as fiber-to-the-premises, or FTTP, and digital subscriber line, or DSL, networks designed to facilitate the delivery of video services by telecommunications operators;
- higher speed mobile technologies, such as LTE or 3G;

the further adoption of bandwidth-optimization techniques, such as switched digital video and DOCSIS 3.0; and

the introduction of new consumer devices, such as advanced set-top boxes, personal video recorders, or PVRs, and a variety of smartphones, such as the iPhone.

If the adoption of these emerging services or technologies is not as widespread or as rapid as we expect, or if we are unable to develop new products based on these technologies on a timely basis, our revenue will be materially and adversely affected.

Furthermore, other technological, industry and regulatory trends will affect the growth of our business. These trends include the following:

convergence, or the need of many network operators to deliver a package of video, voice and data services to consumers, including 4K HEVC streaming and mobile delivery options;

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- the increasing availability of traditional broadcast video content on the Internet;
- the availability of 4K UltraHD video content;
- sufficient bandwidth to customers premises to facilitate the delivery of high resolution content such as 4K UltraHD;
- the further penetration of telecommunications operators into video service delivery;
- the emergence of a viable mobile video content delivery standard;
- efforts by regulators and governments in the United States and abroad to encourage the adoption of broadband and digital technologies;
- level of consumer interest in 4K television and content;
- the extent and nature of regulatory attitudes towards such issues as network neutrality, competition between operators, access by third parties to networks of other operators, local franchising requirements for telecommunications operators to offer video, and other new services, such as mobile video; and
- the outcome of litigation and negotiations between content owners and service providers regarding rights of service providers to store and distribute recorded broadcast content, which outcomes may drive adoption of one technology over another in some cases.

If we fail to recognize and respond to these trends by timely developing products, features and services required by these trends, we are likely to lose revenue opportunities and our operating results, financial condition and cash flows could be materially and adversely affected.

Changes in telecommunications legislation and regulations could harm our prospects and future revenue.

Changes in telecommunications legislation and regulations in the United States and other countries could affect the revenue from our products. In particular, regulations dealing with access by competitors to the networks of incumbent operators could slow or stop additional construction or expansion by these operators. Increased regulation of our customers pricing or service offerings could limit their investments and, consequently, revenue from our products. The impact of new or revised legislation or regulations could have a material adverse effect on our business, operating results and financial condition.

Newly adopted regulations will likely impact the demand for product features by our customers. For example, in the United States, these regulations include the Commercial Advertisement Loudness Mitigation Act and the Twenty-First Century Communications and Video Accessibility Act of 2010, which address accessibility for the hearing and visually impaired. We may be required to add features to our products to address these regulations or new regulations in the future. These and other regulations may require us to develop features on a schedule which may be inflexible and difficult to meet. In addition, certain countries do not currently allow for specific types of video distribution, such as IPTV, or restrict our customers from delivering video using certain technology. These restrictions could prohibit or limit our ability to sell our solution in these countries. Changes in legislation and regulations could result in our inability to develop other product features necessary for particular transactions at the same time, and thus we could lose business and the related revenue.

Video delivery markets are characterized by rapid technological change.

Video delivery markets are subject to rapid changes, making it difficult to accurately predict the markets future growth rates, sizes or technological directions. In view of the evolving nature of these markets, it is possible that Pay-TV service providers, broadcasters, content providers and other video production and delivery companies will decide to adopt alternative architectures, new business models, or technologies that are incompatible with our current or future products. In addition, successful new entrants into the media markets, both domestic and international, may impact existing industry business models, resulting in decreased spending by our existing customer base. Finally, decisions by customers to adopt new technologies or products are often delayed by extensive evaluation and qualification processes, which can result in delays in revenue of current and new products. If we are unable to design, develop, manufacture and sell products that incorporate, or are compatible with, these new architectures or technologies, our operating results, financial condition and cash flows could be materially and adversely affected.

We are subject to various laws and regulations related to the environment and potential climate change that could impose substantial costs upon us and may adversely affect our business, operating results and financial condition.

Our operations are regulated under various federal, state, local and international laws relating to the environment and potential climate change, including those governing the management, disposal and labeling of hazardous substances and waste and the cleanup of contaminated sites. We could incur costs and fines, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. The ultimate costs to us under these laws and the timing of these costs are difficult to predict.

We also face increasing complexity in our product design as we adjust to new and future requirements relating to the presence of certain substances in electronic products and requiring producers of those products to be financially responsible for the collection, treatment, recycling and disposal of certain products. For example, the European Parliament and the Council of the European Union have enacted the Waste Electrical and Electronic Equipment (WEEE) directive, which regulates the collection, recovery and recycling of waste from electrical and electronic products, and the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) directive, which bans the use of certain hazardous materials, including lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBBs) and polybrominated diphenyl ethers (PBDEs) that exceed certain specified levels. Legislation similar to RoHS and WEEE has been or may be enacted in other jurisdictions, including in the United States, Japan and China. Our failure to comply with these laws could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in such regions and countries.

We also expect that our operations will be affected by other new environmental laws and regulations on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, and could require that we redesign or change how we manufacture our products, any of which could have a material and adverse effect on our operating results, financial condition and cash flows.

Risks Related to Our Common Stock

There may have been potential deficiencies in the process by which we obtained approvals of certain prior amendments to our certificate of incorporation. As a result, stockholders who acquired shares of our capital stock prior to our IPO and who did not participate in our 2011 exchange offer could have claims against us for additional or different shares of our capital stock, for monetary damages or both.

There may have been potential deficiencies in the process by which we obtained approvals of prior amendments to our certificate of incorporation, and in particular the means by which our certificate of incorporation was approved in connection with our Series D preferred stock financing in 2003, or the Series D charter. Delaware law, which is the state in which we are incorporated, requires a specific ordering of board and stockholder approvals in order for charter amendments to be properly approved. Our records from the Series D financing, which occurred ten years ago and among other things effected a 1-for-100 reverse stock split and an automatic conversion into shares of common stock of all of the then-outstanding shares of Series A preferred stock, Series B preferred stock, Series C1 preferred stock and Series C2 preferred stock held by any stockholder who did not purchase its full pro rata allocation in the Series D financing, do not provide clear evidence that the ordering process was correctly adhered to in all instances.

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There are Delaware court decisions that have emphasized the importance of strict compliance with the board and stockholder approval requirements for charter amendments, and the Delaware courts have concluded in those decisions that non-compliance may result in invalidation of the purported amendments. In the event that a stockholder who acquired shares of our capital stock prior to this offering were to prevail in a claim that the Series D charter was invalid, persons listed on our stock ledger as owning shares of our capital stock could have claims against us for additional or different shares, for monetary damages or both, depending on what shares they hold and when they originally purchased them from us.

Holders of any shares of common stock traceable to shares of common stock outstanding prior to the filing of the Series D charter could have a claim to a number of shares equal to 100 times the amount currently shown on our stock ledger. This is because the Series D charter effected a 1-for-100 reverse stock split, and if the Series D charter were held to be invalid, then such holders could claim that the reverse stock split never occurred. Similarly, because the Series D charter, in addition to the reverse stock split described above, provided for the automatic conversion into shares of common stock of all of the then-outstanding shares of Series A preferred stock, Series B preferred stock, Series C1 preferred stock and Series C2 preferred stock held by investors that did not purchase their full pro rata allocation in the Series D financing, holders of any shares of common stock traceable to such converted preferred shares could have a claim that, were the Series D charter held invalid, such shares of preferred stock were never converted and are still outstanding in an amount equal to 100 times the amount shown on our stock ledger at the time of their conversion. A determination that the Series D charter was invalid also could raise concerns about the validity of our subsequently adopted certificates of incorporation, including those adopted in connection with our Series E, F, G and H preferred stock financings. As a result, holders of any shares of common stock traceable to shares of Series A preferred stock, Series B preferred stock, Series C1 preferred stock and Series C2 preferred stock who did purchase their full pro rata allocation in the Series D financing also could have a claim that such preferred shares remain outstanding in an amount equal to 100 times the amount shown on our stock ledger at the time of their later conversion, and holders of any shares of capital stock that were purchased, or are traceable only to shares originally purchased, after the filing of the Series D charter could have contractual or other claims for monetary damages against us based on the amount paid for such shares.

We have consulted with legal counsel regarding the validity of the Series D charter. It is our position and belief, based in part on our consultation with legal counsel, that the Series D charter was validly approved by our board of directors and stockholders at the time of the Series D financing, and as a result, the corporate actions effected by the filing of the Series D charter, including the 1-for-100 reverse stock split, and the conversion into shares of common stock of any shares of Series A preferred stock, Series B preferred stock, Series C1 preferred stock and Series C2 preferred stock held by any stockholder who did not purchase its full pro rata allocation in the Series D financing, validly occurred.

Nevertheless, to address this matter and any other matters that could raise concerns about our current capital structure, we conducted an Exchange Offer in 2011 to provide holders of outstanding shares of capital stock the opportunity to exchange each share of capital stock shown as owned by such holder, together with any claims relating to the original acquisition of such share, or of the shares from which it was converted or reclassified, including claims for additional or different shares of our capital stock and claims for monetary damages (each such share, together with such claims, referred to as an Existing Share), for one share of the same class and series of capital stock (each, referred to as an Exchange Share). As part of the consideration for the Exchange Shares issued, each participating holder also was required to agree that, following the Exchange Offer, the Exchange Shares would represent their entire equity interest in and to Envivio (other than unexercised stock options or warrants outstanding as of the date of the closing of the Exchange Offer) and to provide us a release from any claims that such holder may have relating to such holder s acquisition of the outstanding shares being tendered or of the shares from which they were converted or reclassified.

Holders of more than 99% of the Existing Shares, measured on an as-converted basis based on the conversion ratios set forth in our existing certificate of incorporation, participated in the Exchange Offer and, therefore, surrendered in the exchange all claims relating to the original acquisition of their shares (or their acquisition of shares upon the conversion or reclassification of those original shares), and also both agreed that the Exchange Shares they received in the Exchange Offer represent their entire equity interest in and to Envivio (other than unexercised stock options or warrants outstanding as of the date of the closing of the Exchange Offer) and provided us a release from any and all claims that such holder may have relating to such holder s acquisition of the outstanding shares being tendered or of the shares from which they were converted or reclassified.

Even though we have completed the Exchange Offer with almost all of our outstanding shares participating, the stockholders who did not participate in the Exchange Offer may bring claims against us for additional or different shares, for monetary damages or both, depending on what shares they hold and when they originally acquired them from us. These claims, regardless of outcome, could result in substantial expense and significant diversion of the efforts of our management. In the event each such non-participating stockholder prevails on a claim against us, we could be required to pay substantial damages or issue additional shares of our common stock, or both, which could have a material adverse effect on our operating results, financial condition and cash flows and you may incur additional dilution.

Our stock price may be volatile.

Our common stock has a limited trading history. The trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. For example, the closing sale price per share of our common stock on the NASDAQ Global Market was $1.22 on December 8, 2014 and $2.09 on September 8, 2014. Factors that may lead to volatility in our stock price include:

- actual or anticipated variation in our and our competitors results of operations;
- announcements by us or our competitors of new products, new or terminated significant contracts, commercial relationships or capital commitments;
- issuance of new securities analysts reports or changed recommendations for our stock;
- developments or disputes concerning our intellectual property or other proprietary rights;
- commencement of, or our involvement in, litigation;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- any major change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company s securities, securities class action litigation has often been instituted against these companies. Any such litigation could result in substantial costs and a diversion of our management s attention and resources.

We have been named as a defendant in a purported securities class action lawsuit. This and other litigation could cause us to incur substantial costs and divert our attention and resources.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Companies such as ours in the high technology industry are particularly vulnerable to this kind of litigation due to the high volatility of their stock prices. On October 5, 2012, we were named, among other defendants, in a purported class action on behalf of purchasers of shares issued in our IPO that generally alleges that the registration statement for our IPO contained materially false or misleading statements. In February 2014, we were named, among other defendants, in another purported class action on behalf of purchasers of our shares between April 25, 2012 and September 7, 2012 alleging securities act violations. In November 2014, we and the named defendants reached an agreement in principle to settle the above-described actions without any admission of any wrongdoing by us or any of the named defendants. The parties subsequently entered into a formal settlement agreement, which must be approved by the court before becoming final. The agreement requires us to contribute approximately $1.0 million toward the settlement. On March 16, 2015, we funded into an escrow account our portion of the settlement of approximately $1.0 million, and the remaining settlement payment will be covered by our director and officer insurance providers. The settlement payment will be released from escrow subject to and upon final court approval of the settlement. As of January 31, 2015, we had also incurred over $1.0 million in legal fees related to these lawsuits, and expect to incur additional fees as we finalize the settlement. Any future lawsuits to which we may become a party will likely be expensive and time consuming to investigate, defend and resolve, and will divert our management s attention. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal or in payments of substantial monetary damages or fines, or we may decide to settle lawsuits on similarly unfavorable terms, which could adversely affect our business, financial conditions, or results of operations.

If securities or industry analysts issue an adverse opinion regarding our stock or do not publish research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts or the content and opinions included in their reports. The price of our common stock could decline if one or more equity research analysts downgrade our common stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more equity research analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline. Further, securities analysts may elect not to provide research coverage of our common stock after the completion of this offering, and such lack of research coverage may adversely affect the market price of our common stock.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. These provisions include the following:

- the right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors;

- the classification of our board of directors so that only a portion of our directors are elected each year, with each director serving a three-year term;

the requirement for advance notice for nominations for election to our board of directors or for proposing matters that can be acted upon at a stockholders meeting;

the ability of our board of directors to alter our bylaws without obtaining stockholder approval;

the ability of our board of directors to issue, without stockholder approval, up to 2,500,000 shares of preferred stock with rights set by our board of directors, which rights could be senior to those of common stock;

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- the required approval of holders of at least two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or amend or repeal the provisions of our certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action by written consent; and

- the elimination of the right of stockholders to call a special meeting of stockholders and to take action by written consent.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware. These provisions may prohibit or restrict large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our certificate of incorporation and bylaws and under Delaware law could discourage potential takeover attempts and could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in our market price being lower than it would without these provisions.

We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on any of our classes of capital stock to date, have contractual restrictions against paying cash dividends and currently intend to retain our future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located at 535 Mission Street, San Francisco, California and consists of approximately 4,600 square feet and has a lease term of eight years. All of our facilities are leased, including our principal operations and corporate headquarters in San Francisco, California. We also have research and development centers in the metropolitan area of Rennes, France, several sales offices in the U.S. and sales and support centers in Europe and Asia. Our leases, which expire at various dates through April 2023, are for an aggregate of approximately 39,000 square feet of space.

ITEM 3. LEGAL PROCEEDINGS

On October 5, 2012 a complaint captioned Wiley v. Envivio, Inc., et al. CIV-517185 was filed in the Superior Court of California, County of San Mateo, naming as defendants the Company, each of our directors, our chief executive officer, our chief financial officer, and certain underwriters of our IPO. The lawsuit purports to be a class action on behalf of purchasers of shares issued in the IPO and generally alleges that the registration statement for the IPO contained materially false or misleading statements. The complaint purports to assert claims under the Securities Act of 1933, as amended, and seeks unspecified damages and other relief. On October 19, 2012 a similar complaint captioned Toth v. Envivio, Inc. et al. CIV-517481 was filed in the same court. On November 2, 2012 defendants removed the cases to the United States District Court for the Northern District of California where they were assigned case numbers 12-cv-05637-CRB and 12-cv-05636-CW. A similar complaint was filed in the United States District Court for the Northern District of California on December 20, 2012 entitled Thomas v. Envivio, Inc., et al. C 12-06464. The Wiley and Toth actions were subsequently remanded to the San Mateo Superior Court, where they are now pending, and the Thomas case was voluntarily dismissed without prejudice. On February 28, 2014, a complaint was filed in the United States District Court for the Northern District of California entitled Gary Silverberg v. Envivio, Inc. et al., Civil No. 14-cv-00933-PJH. The complaint purports to be on behalf of a class of purchasers of our securities between

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April 25, 2012 and September 7, 2012. It names as defendants the Company and our chief executive officer and chief financial officer, and seeks unspecified damages and other relief for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. On June 25, 2014, the Silverberg case was voluntarily dismissed without prejudice. In November 2014, we and the named defendants reached an agreement in principle to settle the above-described actions without any admission of any wrongdoing by us or any of the named defendants. The parties subsequently entered into a formal settlement agreement, which must be approved by the court before becoming final. The agreement requires us to contribute approximately $1.0 million toward the settlement. On March 16, 2015, we funded into an escrow account our portion of the settlement of approximately $1.0 million, and the remaining settlement payment will be covered by our director and officer insurance providers. The settlement payment will be released from escrow subject to and upon final court approval of the settlement.

We subject to claims and assessments from time to time in the ordinary course of business. We are not currently a party to any other litigation matters that, individually or in the aggregate, are expected to have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURE

None.

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PART II

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

MARKET PRICE OF COMMON STOCK

Envivio s Common Stock is traded on the NASDAQ Global Market under the symbol ENVI, and has been listed on NASDAQ since Envivio s initial public offering on April 25, 2012. The following table sets forth, for the periods indicated, the high and low sales price per share of the Common Stock as reported on the NASDAQ Global Market:

	High	Low
Fiscal Year Ended January 31, 2015		
Fourth Quarter	$ 1.85	$ 1.18
Third Quarter	$ 2.16	$ 1.57
Second Quarter	$ 2.88	$ 1.93
First Quarter	$ 4.25	$ 2.59

	High	Low
Fiscal Year Ended January 31, 2014		
Fourth Quarter	$ 4.05	$ 2.69
Third Quarter	$ 3.70	$ 2.31
Second Quarter	$ 2.65	$ 1.48
First Quarter	$ 1.95	$ 1.53

As of April 7, 2015, there were 1,367 holders of record of our Common Stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The closing sale price of our Common Stock on April 7, 2015 was $1.78 per share.

We do not plan to pay dividends on shares of our Common Stock in the foreseeable future and are currently prohibited from doing so in specific circumstances under agreements governing our borrowing arrangements.

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STOCK PERFORMANCE GRAPH

This performance graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Envivio under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph shows a comparison from April 25, 2012, through January 31, 2015 of the cumulative total return for our common stock (ENVI), the S&P 500 Index and the NASDAQ Composite Index. Such returns are based on historical results and are not intended to suggest future performance. The graph assumes that $100 was invested on April 25, 2012 in Envivio Common Stock or the index on March 31, 2012. Data for the S&P 500 Index and the NASDAQ Composite Index assume reinvestment of dividends.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read together with our consolidated financial statements and accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data in this section is not intended to replace our consolidated financial statements and the accompanying notes. Our historical results are not necessarily indicative of our future results.

We derived the consolidated statements of operations data for the fiscal years ended January 31, 2015, 2014, and 2013 and the consolidated balance sheets data as of January 31, 2015 and 2014 from our audited consolidated financial statements appearing elsewhere in this filing. The consolidated statements of operations data for the fiscal years ended January 31, 2012 and 2011 and the consolidated balance sheets data as of January 31, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements not included in this filing. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included herein.

	Year Ended January 31,				
	2015	2014	2013	2012 (3)	2011
	(in thousands, except for share and for per share amounts)				
Consolidated Statement of Operations Data					
Revenue	$ 41,556	$ 43,204	$ 39,099	$ 50,646	$ 30,004
Cost of revenue (1)	15,177	14,610	14,993	18,492	11,504
Gross profit	26,379	28,594	24,106	32,154	18,500
Operating expenses:					
Research and development (1)	9,438	9,141	7,589	6,728	5,152
Sales and marketing (1)	20,091	19,726	21,359	16,206	8,886
General and administractive (1)	11,984	11,595	11,730	8,561	6,449
Total operating expenses	41,513	40,462	40,678	31,495	20,487
Income (loss) from operations	(15,134)	(11,868)	(16,572)	659	(1,987)
Interest expense, net	1	43	84	(134)	(270)
Other income (expense), net	(95)	(12)	(72)	237	(61)
Income (loss) before provision for income taxes	(15,228)	(11,837)	(16,560)	762	(2,318)
Provision for income taxes	384	351	375	624	167
Net income (loss)	(15,612)	(12,188)	(16,935)	138	(2,485)
Deemed dividend on convertible preferred stock					(2,286)
Accretion of redeemable convertible preferred stock				(5)	

Noncumulative dividends to convertible preferred stockholders				(133)	
Net loss attributable to common stockholders (2)	$ (15,612)	$ (12,188)	$ (16,935)	$	$ (4,771)
Net loss per share attributable to common stockholders, basic and diluted (2)	$ (0.57)	$ (0.45)	$ (0.72)	$	$ (0.58)
Shares used in computing net loss per share attributable to common stockholders, basic and diluted (2)	27,500,647	27,102,111	23,577,491	13,123,524	8,203,001

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(1) Includes employee stock-based compensation as follows:

	Year Ended January 31, 2015	2014	2013	2012	2011
Cost of revenue	$ 34	$ 3	$ 5	$ 3	$ 37
Research and development	95	122	129	89	71
Sales and marketing	262	372	583	279	65
General and administrative	1,481	1,847	2,116	1,279	578
Total stock-based compensation	$ 1,872	$ 2,344	$ 2,833	$ 1,650	$ 751

(2) Please see Note 8 to our audited consolidated financial statements for an explanation of the calculations of our basic and diluted net income (loss) per share attributable to common stockholders.

(3) We prospectively adopted new accounting guidance with respect to multiple element revenue arrangements for transactions entered into or materially modified on or subsequent to February 1, 2011.

	As of January 31, 2015	2014	2013	2012	2011
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 37,790	$ 47,873	$ 51,344	$ 27,405	$ 10,017
Working capital (deficit)	30,637	44,489	54,237	19,179	2,283
Total assets	54,603	67,279	72,373	44,578	26,751
Warrant liability				103	196
Total debt				1,000	
Convertible preferred stock				47,764	31,421
Total stockholders equity (deficit)	31,987	45,676	55,561	(26,688)	(28,915)

	Three Months Ended, January 31, 2015	October 31, 2014	July 31, 2014	April 30, 2014	January 31, 2014	October 31, 2013	July 31, 2013	April 30, 2013
	(unaudited, in thousands, except for share and for per share amounts)							
Selected Quarterly Financial Data								
Revenue	$ 12,730	$ 8,960	$ 11,452	$ 8,414	$ 12,487	$ 11,707	$ 11,548	$ 7,462
Gross profit	8,247	5,741	6,671	5,720	8,341	7,628	7,904	4,721
Loss from operations	(1,362)	(5,295)	(3,949)	(4,528)	(1,834)	(2,816)	(2,356)	(4,862)
Net loss	(1,568)	(5,429)	(4,085)	(4,530)	(2,041)	(2,929)	(2,479)	(4,739)
Net loss per share	(0.06)	(0.20)	(0.15)	(0.17)	(0.08)	(0.11)	(0.09)	(0.18)

of common stock, basic and diluted								
Shares used in computing net loss per share of common stock, basic and diluted	27,713,625	27,712,288	27,496,793	27,141,757	27,118,399	27,116,388	27,109,942	27,061,498

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and elsewhere in this Annual Report on Form 10-K, including those discussed in Risk Factors.

OVERVIEW

We are a leading provider of software-based IP video processing and distribution solutions that enable the delivery of high-quality video to consumers. Based on our unique video compression and advanced IP video networking technologies, our solutions are designed to enable service providers and content providers to offer high-quality video anytime, anywhere across a broad array of video formats, networks, consumer devices and operating systems. Our software-based solutions run on industry-standard hardware and includes encoders, transcoders, network media processors, all controlled through our network management system.

We were founded in January 2000 by a small group of talented software and electrical engineers from France Telecom. Since our inception, we have been focused on developing a software-based architecture for processing and distributing IP video to video-enabled devices at the highest video quality possible. At that time, our software-based approach was a novel strategy for addressing video processing and distribution as most existing technologies processed and distributed video by designing hardware products for the transfer of video over a fixed format to standard TVs. These hardware products generally focused on improving quality of video, but did not attempt to address multiple formats or the challenges created by multiple devices and different networks. Because of our founding team s software expertise and the challenge of delivering video to mobile devices, which utilizes multiple formats and has multiple delivery requirements, our solution was designed from the beginning to provide a flexible solution that could adapt quickly and cost-effectively to the rapidly changing landscape of technologies, formats and capabilities of mobile devices.

While attempting to address the challenges of processing and distributing video across a rapidly changing landscape of formats, networks, devices and operating systems, we have maintained our focus on improving the quality of the video delivered by our solution. We originally focused on developing technologies supported by the MPEG-4 standard, which is an industry standard for a group of audio and video coding formats and related technology that is capable of providing the highest quality video in the marketplace today. When we initially developed this technology, the standard in the marketplace was MPEG-2, a previous similar standard available since 1992. Throughout our history, we believe we have made valuable contributions to the ISO/IEC Moving Picture Experts Group, or MPEG, including having several of our employees sit on the governing standards body and by contributing several technologies to the video community that fostered the development of MPEG-4 as an industry standard. We believe these contributions demonstrate our innovation and thought leadership in the video processing and distribution industry.

Our software-based approach to developing a flexible solution while delivering high-quality video has led to the development of several key products throughout our history. In 2001, we completed our first product based on the MPEG-4 standard. In 2002, we developed our first MPEG-4 webcasting system, which allowed us to address the enterprise market. In 2004, our first H.264 live transmission over satellite was successful, which allowed us to address the needs of satellite providers looking to deliver low bitrate video over satellite. In 2007, we developed our first all IP-based headend, an innovative and cost-reducing design for consumer video distribution, and our first AVS encoder, which allowed us to address the expanding video services market in China. In 2008, we introduced the world s first three-screen convergence encoder, which enabled operators to deliver video to three screens (mobile, PC and TV) from a single product. In 2010, we introduced support for the

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expanding set of mobile and web streaming formats. In November 2010, we launched a new class of product, a network media processor, which we call Halo, which enables the optimization of networks for distribution of multi-screen, multi-format video. In December 2011, we released Muse, our multi-screen software designed for live or file-based video transcoding and distribution to any device. In March 2013, we introduced our early access program for HEVC encoding, based on the latest compression standard, HEVC (H.265), which promises up to 50% bandwidth improvement compared to MPEG-4 AVC. Envivio Halo Experience Server, announced in April 2013, is an innovative new multi-screen technology that allows operators to further personalize the user experience based on individual viewer requests. In September 2013, we also publicly demonstrated 4K Ultra HD compression using Muse encoders for the first time. In September 2014, we announced a new service offering, Envivio Nuage[SM], a fully virtualized cloud-based software-as-a-service (SAAS) video solution. Envivio Nuage[SM] is designed to manage content for video service and content providers from content acquisition to the consumer on any screen. Envivio Nuage[SM] supports live linear and on-demand video, and operates as a service on private, operator-owned networks, in the public cloud, or in hybrid environments.

As a result of our close relationship with France Telecom, we initially focused on the telecommunications market both for broadband IPTV delivery and delivery of video to mobile devices. However, as consumer demands have evolved over time, our solution has become attractive to a larger set of customers. In reaction to telecommunications companies providing video content and services to multiple devices with IPTV as well as mobile video services, traditional cable TV service providers have launched innovative services that deliver video content to PCs and mobile devices. Most recently over-the-top, or OTT, providers have also gained market share by offering innovative and cost-effective video services to mobile devices, PCs and even TVs for consumers through the open Internet. This set of competing service offerings, when combined with increased consumer demand for video on multiple screens, led us to design a single solution that addresses the needs of a broader customer base of service providers and content providers. For example, one of our first major end-customers purchased our IPTV solution in 2008 to enable delivery of video to TVs over broadband networks. This same customer began providing OTT services in 2009, and purchased our OTT solution to enable its OTT services. Finally, in 2010, this customer began to offer mobile video content and purchased our solution to address this video delivery mode as well.

We target several different types of video service providers and content providers, including telecommunications companies and cable, satellite and OTT providers. These target customers have unique characteristics, including their infrastructure, target consumer demands, scale, delivery models and business models. We focus on providing video delivery solutions to these customers that allow them to better target their growth markets, such as mobile TV, Pay-TV, IPTV and OTT. To date, our solution has been deployed by over 300 end-customers worldwide in over 50 different countries.

We outsource the manufacturing of our products to a single manufacturer in California. In some cases, we rely on our manufacturer to procure the components for our equipment. For certain components, we contract directly with the supplier. We ship our solutions directly from our manufacturer.

Our products and support services are sold worldwide, either through systems integrators, which serve as our channel partners or directly through our internal sales force. Our channel partners assist us with the sales process, systems integration, deployment and support. We employ a sales force that is responsible for managing our relationships with our channel partners within each geographic territory in which we market and sell our products. We also sell our products and support services directly to end-customers. In many cases, even when we sell our products through channel partners, we market and work directly with the end-customer to promote our products.

Since inception, we have expended significant resources on our research and development operations. Our research and development activities are exclusively conducted in the metropolitan area of Rennes, France, which we believe provides us access to highly qualified engineers on a cost-effective basis located in what has traditionally been viewed as a top broadcast center of Europe.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following are key factors that impact our results of operations:

Consumer Demand and Infrastructure Capacity

Most of our products are installed into networks operated by telecommunications, cable, satellite and OTT providers to deliver high-quality video to a consumer. The demand for our products is significantly impacted by the end consumer of video services and the demands these end consumers place on service providers and content providers to deliver high-quality video across disparate networks and to multiple devices. As this consumer demand increases, service providers respond by expanding or enhancing their infrastructure and equipment to address these needs. As the infrastructure capacity increases, high-quality video can be made available to more consumers over broadband and wireless IP networks, which we believe will also increase the number of global broadband users.

Our solution is designed to address the infrastructure challenge of delivering massive amounts of content over different types of networks to consumers who are increasingly viewing video on a growing variety of devices, such as tablets, smartphones, laptops, and Internet-enabled TVs and media players. As consumer expectations of video delivery increase, the demand from telecommunications, cable, satellite and OTT providers for the type of video delivery solutions that we provide increases. Accordingly, we measure consumer demand for video services by monitoring a collection of key market metrics, including the introduction of new mobile devices, such as tablets, new access mediums that are emerging in the digital home, such as Internet-enabled TVs and new video applications, and enhanced product offerings, such as bundling on-demand video services with other traditional service offerings.

We believe the combination of the increased availability of video-enabled connected devices combined with the evolution of the network infrastructure will, in turn, drive service providers and content providers to seek flexible solutions to deliver video to consumers that can continue to adapt to changing formats, networks and devices, while maintaining the highest possible video quality.

Competitive Environment and Geographic Mix

The market for our products is competitive and our gross margin is impacted by the level of competition we face and the geographic mix of product sales worldwide. We face significant competition in selling our solution. In any given sales opportunity, the level of competition we face could impact our gross margin. In addition, our gross margin may be impacted by the location of our target customer as different geographic regions have different pricing environments based on customer expectation, business models and our customers revenue opportunity from the services we enable. For example, we typically experience lower average sales prices in the Asia-Pacific region. We anticipate that our geographic mix will continue to fluctuate in the future from quarter to quarter, which could impact our future gross margin.

Evolution of Hardware Platform

We utilize industry-standard hardware, and therefore, are able to leverage the evolutionary increase in computing power in each new generation of hardware. In the past, this has allowed us to increase the number of video streams at a given resolution with each new hardware platform, and we expect this to continue. This increase in performance may offset any potential decline in the average sales prices of the prior generation of our solution.

Seasonality

Our business may be subject to seasonality, particularly in the first quarter of each fiscal year. A significant portion of our revenue comes from major service providers whose capital and operational spending are dependent on annual budget levels and timing of budgeting cycles. Therefore, we expect that a typical calendar year service provider will utilize the remainder of its budget towards the end of the year, postpone or slowdown spending during the first quarter of the following year as new projects are planned and the new fiscal budget is created, and resume spending thereafter as a function of the projects that are planned for the year. As a result, we would typically expect our revenue in the first quarter of our fiscal year to be even with or lower than our revenue in the preceding fourth quarter of our fiscal year. This seasonality in our business has been discernible in the past, but could become more pronounced as our business and the spending patterns of our service provider customers evolve.

COMPONENTS OF REVENUE, COST OF REVENUE AND OPERATING EXPENSES

Revenue

Our revenue is derived primarily from the sale of our IP video processing and distribution solutions, which consists of both hardware and software. Our proprietary software is an essential component in the products we sell and provides a key differentiator between us and our competitors. Our hardware generally consists of industry-standard components, which are readily available from third-party providers. To a lesser extent, we derive revenue from professional services as well as support and maintenance of our products. Our maintenance contracts may include future software upgrades on a when-and-if-available basis, depending on the level of maintenance purchased. Our support contracts typically include telephone and email access to technical support personnel. When we sell an enhanced support offering we provide our customers with rights to software upgrades as well as maintenance releases and patches released during the term of the support period.

Cost of Revenue

Our cost of revenue consists primarily of third-party manufacturing costs and component costs. Our cost of revenue also includes shipping costs, royalties, third-party logistics costs, personnel costs associated with both our technical support and professional services team as well as our operations and logistics team and write-offs for excess and obsolete inventory.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. The largest component of our operating expenses is personnel costs. Personnel costs consist of salaries and benefits for our employees.

Research and Development Expenses

Research and development expenses primarily consist of personnel, engineering, testing and compliance, facilities and professional services costs. We expense research and development costs as incurred. Research and development expenses are presented net of French government research tax credits. We continue to closely manage our existing research and development resources as well as strategically invest in additional resources to add more functionality to our existing products and develop new products that support our overall company strategy.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of personnel costs, sales commissions, travel costs, costs for marketing programs, facilities costs and demo inventory depreciation costs. We continue to closely monitor sales and marketing expenses and reorganize our sales force in key areas to further expand our strategic relationships with current and future channel partners and direct customers.

General and Administrative Expenses

General and administrative expenses primarily consist of personnel, professional services and facilities costs related to our executive, finance, human resource and information technology functions. Professional services costs consist of outside legal, accounting and information technology consulting costs. As a public company, we

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expect to continue to incur additional costs related to compliance with rules and regulations enacted by the SEC. Such additional costs include additional professional services costs, additional insurance, investor relations and similar costs associated with being a public company.

Interest Income (Expense), net

Interest income (expense), net, consists primarily of interest income from our cash and cash equivalent balances held during the fiscal year and interest expense on balances related to our line of credit.

Other Income (Expense), net

Other income (expense), net, consists primarily of charges due to fluctuations in foreign exchange rates on receivables and payables denominated in currencies other than the U.S. dollar. The foreign currency transaction gains and losses relate to transactions that are exercised in a different currency than the respective functional currency of the Company s subsidiaries.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period-to-period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management s judgments and estimates.

Revenue Recognition

We derive revenue from the sale of our IP video processing and distribution solutions which consist of hardware and integrated software that is essential to the functionality of the equipment we sell, and stand-alone software. We also derive revenue from related professional services and support and maintenance agreements.

We recognize revenue only when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is deemed probable. We evaluate each of these criteria as follows:

Evidence of an arrangement We use contracts and customer purchase orders to determine the existence of an arrangement.

Delivery We consider delivery to occur when title has been transferred, except in instances when final acceptance of the product, system or solution is specified by the customer. In these instances, we defer revenue recognition until all acceptance criteria have been met. In the case of electronic delivery of the licensed software, title transfers when the customer is given access to download the software.

Fixed or determinable fee We assess whether fees are fixed or determinable at the time of sale. We only consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment. Our payment terms may vary based on the country in which the agreement is executed and the credit standing of the individual customer, among other factors. If the arrangement fee is not fixed or determinable, we recognize revenue as amounts become due and payable.

Collection is deemed probable We deem collection probable if we expect that the customer will be able to pay amounts under the arrangement as payments become due. If we determine that collection is not probable, revenue is deferred until actual cash collection from the customer.

In October 2009, the Financial Accounting Standards Board, or FASB, amended the accounting standards for revenue recognition to remove from the scope of industry-specific software revenue recognition guidance any tangible products containing software components and non-software components that operate together to deliver the product s essential functionality. In addition, the FASB amended the accounting standards for certain multiple element revenue arrangements to:

- Provide updated guidance on whether multiple elements exist, how the elements in an arrangement should be separated, and how the arrangement consideration should be allocated to the separate elements;

- Provide for price hierarchy, where the selling price for an element is based on vendor specific objective evidence, or VSOE, if available; third-party evidence, or TPE, if available and VSOE is not available; or the best estimate of selling price, or BESP, if neither VSOE or TPE is available; and

- Eliminate the use of the residual method and require an entity to allocate arrangement consideration using the selling price hierarchy.

We adopted the new accounting guidance on a prospective basis at the beginning of the fiscal year ending January 31, 2012 for all transactions, except for stand-alone sales of software, entered into or materially modified on or after February 1, 2011.

We enter into multiple element revenue arrangements in which a customer may purchase a combination of hardware, software, hardware and software maintenance and professional services. We account for multiple agreements with a single customer as one arrangement if the contractual terms or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single arrangement.

For transactions entered into prior to February 1, 2011, the adoption date of the amended revenue standards, we allocated revenue for arrangements with multiple deliverables, such as sales of our solution with software that include support, training or other professional services, to the delivered elements of the arrangement using the residual value method based on VSOE of fair value of the undelivered items. VSOE of fair value for undelivered elements is determined based upon prices paid by the customers for the separate renewal or sales of such services.

For transactions, other than stand-alone sales of software, entered into or materially modified on or after February 1, 2011, we allocate the arrangement fee to each element based upon the relative selling price of such element and, if software and software-related elements, such as maintenance for the software elements, are also included in the arrangement, we allocate the arrangement fee to each of those software and software-related elements as a group based on its BESP for those elements. When applying the relative selling price method, we determine the selling price for each element using VSOE of selling price, if it exists, or TPE of selling price, if it exists and VSOE does not exist. If neither VSOE nor TPE of selling price exist for an element, we use BESP for that element. The revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for that element. The manner in which we account for multiple element arrangements that contain only software and software-related elements remains unchanged.

Consistent with our methodology under previous accounting guidance, we determine VSOE for each element based on historical stand-alone sales to third parties. For hardware and software maintenance and professional services, we determine VSOE of fair value based on our history of stand-alone sales demonstrating that a substantial majority of transactions fall within a narrow range for each service offering.

We presently are not able to determine TPE for our products, maintenance or professional services. TPE is determined based on competitor prices for similar elements when sold separately. Generally, our offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, our go-to-market strategy differs from that of our peers and we are unable to reliably determine what similar competitor products selling prices are on a stand-alone basis.

When we are unable to establish the selling price of an element using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. We determine BESP for a product or service by considering multiple factors including, but not limited to, historical pricing practices by geography, customer class and distribution channel and gross margin objectives.

We regularly review VSOE and BESP data provided by actual transactions to update these estimates and the relative selling prices allocated to each element.

Revenue from support and maintenance agreements is recognized ratably over the term of the maintenance agreement, which is typically one year, and we defer the unrecognized revenue portion of the maintenance agreements. We recognize revenue from professional services upon performance of the services and recognize costs associated with services as incurred.

Deferred Revenue

A portion of our deferred revenue represents customer payments made in advance for support and maintenance contracts because we typically bill our support contracts on an annual basis in advance and recognize the associated revenue ratably over the support period, which can range from one to four years.

Our deferred revenue also includes arrangements where final acceptance of the product, system or solution is specified by the customer, and the recognition of revenue for these arrangements is deferred until all acceptance criteria are met.

Stock-Based Compensation

We recognize compensation costs related to stock options, share purchase rights and restricted stock units granted to employees based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. We estimate the grant date fair value of stock options and share purchase rights, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. We use a modified binary option pricing model (European, call option) to establish the expected value of restricted stock awards with market and performance vesting conditions. The fair value of the restricted stock units is the fair value of our common stock on the date of grant. The grant date fair value of the stock-based awards is generally recognized on a straight-line basis over the requisite service period, which is generally the vesting period of the respective awards.

We account for stock options issued to non-employees based on the estimated fair value of the awards determined using the Black-Scholes option-pricing model. The fair value of the equity awards granted to non-employees is remeasured as the awards vest, and the resulting change in value, if any, is recognized as expense during the period the related services are rendered.

The determination of fair value of stock options and share purchase rights on the date of grant, using an option-pricing model, is affected by our stock price, as well as assumptions regarding a number of highly complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, and expected dividends. For option grants that are considered to be plain vanilla, we used the simplified method to determine the expected term as provided by the SEC. The simplified method calculates the expected term as the average of the time-to-vesting and the contractual life of the options. For option grants that are not considered plain vanilla, the expected term is based on historical option exercise behavior and post-vesting cancellations of options by employees. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the awards. We do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future. Accordingly, our expected dividend yield is zero.

Stock-based compensation expense recognized in the consolidated statement of operations is based on awards ultimately expected to vest and therefore has been reduced for estimated forfeitures. The stock-based compensation guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

We will continue to use judgment in evaluating the expected volatility, expected terms and forfeiture rates utilized for our stock-based compensation calculations on a prospective basis. As we continue to accumulate additional data related to our common stock, we may have refinements to the estimates of our expected volatility, expected terms and forfeiture rates, which could materially impact our future stock-based compensation expense.

Our stock-based compensation expense for our stock-based awards was $1.9 million, $2.3 million and $2.8 million for the years ended January 31, 2015, 2014 and 2013, respectively. See Note 7 of our consolidated financial statements for additional information.

Allowance for Doubtful Accounts

We record a provision for doubtful accounts based on historical experience and a detailed assessment of the collectability of our accounts receivable. To assist with the estimate, our management considers, among other factors, the aging of the accounts receivable, including trends within the age of the accounts receivable, our historical write-offs, credit-worthiness of each customer, the economic conditions of the customer s industry and general economic conditions. In cases where we become aware of circumstances that may impair a specific customer s ability to meet their financial obligations to us, we record a specific allowance against amounts due from the customer, and thereby reduce the net recognized receivable to the amount we reasonably believe will be collected. There is significant judgment involved in estimating the allowance for doubtful accounts.

Income Taxes

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We make these estimates and judgments about our future taxable income that are based on assumptions that are consistent with our future plans. As of January 31, 2015, we had recorded a full valuation allowance on our net deferred tax assets due to uncertainties related to our ability to utilize our deferred tax assets in the foreseeable future. These deferred tax assets primarily consist of net operating loss carry-forwards. Should the actual amounts differ from our estimates, the amount of our valuation allowance could be materially impacted.

With the exception of fiscal 2012, we have incurred operating losses since inception, and, accordingly, we have not recorded significant provisions for income taxes for any of the periods presented. Accordingly, there have not been significant changes to our provision for income taxes and we do not expect any significant changes until we are no longer incurring losses.

As of January 31, 2015, we had federal net operating loss carry-forwards of $85.8 million and state net operating loss carry-forwards of $80.6 million. Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. If not utilized, the federal net operating loss carry-forwards will begin to expire in 2021 and the state net operating loss carry-forwards will begin to expire in 2015. Utilization of these net operating loss carry-forwards may be subject to an annual limitation due to applicable provisions of the Internal Revenue Code, and state and local tax laws if we have experienced an ownership change in the past, or if an ownership change occurs in the future, including, for example, as a result of the shares issued in this offering aggregated with certain other sales of our stock before or after this offering.

We regularly review our tax positions and for benefits to be realized, a tax position must be more likely than not to be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is more likely than not to be realized upon settlement. Our policy is to recognize interest and penalties related to

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income tax matters as income tax expense. Through January 31, 2015, approximately $67,000 of interest and penalties associated with unrecognized tax benefits has been recognized.

RESULTS OF OPERATIONS

Fiscal Year Ended January 31, 2015 Compared to Fiscal Year Ended January 31, 2014

The following table presents our historical operating results and the changes in these results in dollars (in thousands) and as a percentage for the periods presented:

	Year Ended January 31, 2015	2014	**$ Change**	**% Change**
Revenue:				
Product	$ 30,254	$ 34,488	(4,234)	(12)%
Professional services and support	11,302	8,716	2,586	30
Total revenue	41,556	43,204	(1,648)	(4)
Cost of revenue:				
Product	12,452	12,342	110	1
Professional services and support	2,725	2,268	457	20
Total cost of revenue	15,177	14,610	567	4
Gross profit	26,379	28,594	(2,215)	(8)
Gross profit %	63%	66%		(3)
Operating expenses:				
Research and development	9,438	9,141	297	3
Sales and marketing	20,091	19,726	365	2
General and administrative	11,984	11,595	389	3
Total operating expenses	41,513	40,462	1,051	3
Loss from operations	(15,134)	(11,868)	(3,266)	28
Interest income, net	1	43	(42)	(98)
Other expense, net	(95)	(12)	(83)	692
Loss before provision for income taxes	(15,228)	(11,837)	(3,391)	29
Income tax provision	384	351	33	9
Net loss	$ (15,612)	$ (12,188)	(3,424)	28

Revenue

Our total revenue decreased by $1.6 million, or 4%, to $41.6 million for the year ended January 31, 2015 from $43.2 million for the year ended January 31, 2014, due to a decrease of $4.2 million in product revenue offset by an increase of $2.6 million in our professional services and support revenue. The decrease in product revenue was primarily due to decreased sales volume in EMEA and Asia Pacific, with much of the decline attributable to challenging macroeconomic conditions in Western Europe. This decrease was partially offset by increased sales volume in the Americas, which was largely driven by sales into Latin America as we continue to expand into that region. Our professional services and support revenue increased primarily due to an increase in our install base as well as the completion of more customer projects compared to the prior year.

Cost of Revenue and Gross Profit

Our total cost of revenue overall increased by $0.6 million, or 4%, to $15.2 million for the year ended January 31, 2015 from $14.6 million for the year ended January 31, 2014. Our gross margin percentage decreased from 66% during the year ended January 31, 2014 to 63% during the year ended January 31, 2015. Our product gross margin percentage decreased from 64% for the prior year period to 59% for the year ended January 31, 2015 primarily due to lower sales of our higher margin software-only products in North America and higher sales in Latin America where gross margins are typically lower. This was partially offset by an increase in professional services and support gross margin from 74% in the prior year period to 76% for the year ended January 31, 2015, which was primarily due to increased professional services and support revenue compared to a smaller increase in costs within the professional services organization.

Operating Expenses

Our operating expenses increased by $1.0 million, or 3%, to $41.5 million for the year ended January 31, 2015 from $40.5 million for the year ended January 31, 2014.

Research and Development Expenses

Research and development expenses increased by $0.3 million, or 3%, to $9.4 million for the year ended January 31, 2015 from $9.1 million for the year ended January 31, 2014. Research and development expenses increased primarily due to an increase of $0.8 million in personnel-related expenses for additional engineering resources, including contractors to supplement and support existing personnel for certain research and development activities. This was partially offset by an increase in the French governmental research tax credit of $0.5 million which is recorded as a reduction of research and development expense as the tax credit is earned. The total reduction of research and development expense due to the French governmental research tax credit was $2.8 million. Although we are devoting substantial resources to the development of additional functionality for our existing products and the development of new products, we are focusing on only deploying resources to activities that align with our overall corporate strategy and implementing cost reduction initiatives where appropriate. We expect research and development expenses to decrease for the year ended January 31, 2016 compared to the year ended January 31, 2015.

Sales and Marketing Expenses

Sales and marketing expenses increased by $0.4 million, or 2%, to $20.1 million for the year ended January 31, 2015 from $19.7 million for the year ended January 31, 2014, primarily due to an increase of $0.4 million from cost reduction initiatives within our sales force, an increase of $0.3 million in certain marketing programs and $0.3 million in consultants and employee-related costs. These were offset by decreases of $0.6 million in bonus and commission expenses. We expect sales and marketing expenses for the year ended January 31, 2016 to decrease compared to the year ended January 31, 2015 as we continue to monitor our sales and marketing expenses to ensure they align with our overall corporate strategy and implement cost reduction initiatives where appropriate.

General and Administrative Expenses

General and administrative expenses slightly increased by $0.4 million, or 3%, to $12.0 million for the year ended January 31, 2015 from $11.6 million for the year ended January 31, 2014, primarily due to increases resulting from the securities class action litigation settlement and related legal fees of $1.9 million and increases of depreciation and amortization expense of $0.2 million, offset by decreases in bonus and commission expense of $0.4 million, stock-based compensation of $0.4 million and consulting and employee-related costs of $0.9 million. We expect our general and administrative expenses for the year ended January 31, 2016 to decrease compared to the year ended January 31, 2015 as we continue to monitor our general and administrative expenses to ensure they align with our overall corporate strategy, and implement cost reduction initiatives where appropriate.

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Interest Income, net

Interest income, net, decreased by $42,000, or 98%, to $1,000 for the year ended January 31, 2015 from $43,000 for the year ended January 31, 2014. The decrease was primarily due to the maturity of our short-term investments during the 2014 fiscal year. We did not re-invest the proceeds we received from the maturity of these investments.

Other Expense, net

Other expense, net, increased by $83,000, or 692%, to $95,000 for the year ended January 31, 2015 from $12,000 for the year ended January 31, 2014. This change was primarily due to a change in our foreign currency gain or loss from a gain of $8,000 during the year ended January 31, 2014 to a loss of $85,000 during the year ended January 31, 2015.

Fiscal Year Ended January 31, 2014 Compared to the Fiscal Year Ended January 31, 2013

The following table presents our historical operating results and the changes in these results in dollars (in thousands) and as a percentage for the periods presented:

	Year Ended January 31,		**$ Change**	**% Change**
	2014	2013		
Revenue:				
Product	$ 34,488	$ 32,022	2,466	8%
Professional services and support	8,716	7,077	1,639	23
Total revenue	43,204	39,099	4,105	10
Cost of revenue:				
Product	12,342	13,510	(1,168)	(9)
Professional services and support	2,268	1,483	785	53
Total cost of revenue	14,610	14,993	(383)	(3)
Gross profit	28,594	24,106	4,488	19
Gross profit %	66%	62%		4
Operating expenses:				
Research and development	9,141	7,589	1,552	20
Sales and marketing	19,726	21,359	(1,633)	(8)
General and administrative	11,595	11,730	(135)	(1)
Total operating expenses	40,462	40,678	(216)	(1)
Loss from operations	(11,868)	(16,572)	4,704	(28)
Interest income, net	43	84	(41)	(49)
Other expense, net	(12)	(72)	60	(83)
Loss before provision for income taxes	(11,837)	(16,560)	4,723	(29)

Income tax provision	351	375	(24)	(6)
Net loss	$ (12,188)	$ (16,935)	4,747	(28)

Revenue

Our total revenue increased by $4.1 million, or 10%, to $43.2 million for the year ended January 31, 2014 from $39.1 million for the year ended January 31, 2013, due to an increase in $2.5 million in product revenue and an increase of $1.6 million in our professional services and support revenue. The increase of product revenue was primarily due to increased sales volume in North America, and was driven by large orders from our existing tier 1 service providers. We also attribute this increase to improvements in overall sales execution, growing market acceptance of software-based solutions for multiscreen video processing, and an increase in market demand compared to the prior year. Our professional services and support revenue increased primarily due to an increase in our install base as well as the completion of more customer projects compared to the prior year.

Cost of Revenue and Gross Profit

Our gross margin percentage increased from 62% during the year ended January 31, 2013 to 66% during the year ended January 31, 2014. Our product gross margin percentage increased from 58% to 64%, which was primarily due to more sales of our higher margin software-only products during the year ended January 31, 2014. This was offset by a decrease in gross margin on professional services and support from 79% to 74%, which was due to an increase in headcount and consultants within our professional services organization.

Operating Expenses

Our operating expenses decreased by $0.2 million, or 1%, to $40.5 million for the year ended January 31, 2014 from $40.7 million for the year ended January 31, 2013.

Research and Development Expenses

Research and development expenses increased by $1.6 million, or 20%, to $9.1 million for the year ended January 31, 2014 from $7.6 million for the year ended January 31, 2013. Research and development expenses increased primarily due to an increase of $2.1 million in personnel-related expenses for additional engineering headcount, including contractors to supplement and support existing personnel for certain research and development activities. These costs were mainly offset by an increase in non-refundable French research grants of $0.7 million.

Sales and Marketing Expenses

Sales and marketing expenses decreased by $1.6 million, or 8%, to $19.7 million for the year ended January 31, 2014 from $21.4 million for the year ended January 31, 2013, primarily due to a decrease of $0.7 million from a strategic reorganization of our sales force, $0.5 million less in sales commissions to third parties, a decrease in certain marketing programs of $0.4 million and a reduction in consultants and employee-related costs of $0.3 million in our Asia Pacific region. These were offset by increases of $0.7 million relating to expansion of our professional services organization.

General and Administrative Expenses

General and administrative expenses slightly decreased by $0.1 million, or 1%, to $11.6 million for the year ended January 31, 2014 from $11.7 million for the year ended January 31, 2013, primarily due to a $0.3 million reduction in stock-based compensation, $0.1 million decrease in consulting and professional fees and a $0.4 million decrease in travel and other expense, largely offset by a $0.4 million increase in bonus expense, a $0.2 million increase in insurance expense and $0.2 million increased in bad debt expense.

Interest Income, net

Interest income, net, decreased by $41,000, or 49%, from $84,000 in the 2013 fiscal year to $43,000 in the 2014 fiscal year. The decrease was primarily due to lower interest income generated from our short-term investment account for the year ended January 31, 2014 as the remaining portion of our portfolio matured and was retired during the period, while proceeds were not reinvested.

Other Expense, net

Other expense, net, decreased by $60,000, or 83%, from $72,000 in the 2013 fiscal year to $12,000 in the 2014 fiscal year. This change was primarily due to a change in our foreign currency gain or loss from a loss of $46,000 during the year ended January 31, 2013 to a gain of $8,000 during the year ended January 31, 2014.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements

As of January 31, 2015, our cash, cash equivalents totaled $37.8 million. Our revolving credit facility for up to $10.0 million subject to a borrowing base expired in July 2014 and was not renewed. We had not drawn on our revolving credit facility or maintained an outstanding balance for the year ended January 31, 2015. We intend to renew the revolving credit facility during the next fiscal year. We believe that our existing cash and cash equivalents as of January 31, 2015 will be sufficient to fund our operations and capital expenditures for at least the next 12 months. However, management may in the future elect to finance operations by utilizing our credit facilities or selling equity securities. However, management may in the future seek to finance operations by obtaining additional external financing, however, financing may not be available at commercially acceptable terms.

Financial Condition (Sources and Uses of Cash)

Our cash flows for fiscal 2015, fiscal 2014 and fiscal 2013 are summarized as follows:

	Year Ended January 31,		
	2015	**2014**	**2013**
		(in thousands)	
Net cash used in operating activities	$ (7,492)	$ (4,942)	$ (17,370)
Net cash provided by (used in) investing activities	1,990	1,703	(7,664)
Net cash provided by (used in) financing activities	(481)	(147)	49,016

Cash Flows from Operating Activities

Our primary uses of cash in operating activities have been for personnel costs, purchases of inventory and costs related to our facilities. We have experienced negative cash flows from operating activities primarily due to continued cash used in operations on lower revenues. Our cash flows from operating activities will continue to be affected principally by our working capital requirements and the extent to which we spend on personnel and sales and marketing activities as our business requires.

Cash used in operating activities of $7.5 million during the year ended January 31, 2015 reflected a net loss of $15.6 million, partially offset by a decrease in net operating assets of $3.2 million, non-cash charges of $2.5 million for depreciation and amortization, $1.9 million for stock-based compensation and $0.5 million in bad debt expense. The decrease in net operating assets was primarily due to decreases of $1.5 million in accounts receivable and $0.6 million in prepaid expenses and other current assets, and an increase of $1.2 million in accounts payable, accrued liabilities and accrued compensation, partially offset by a decrease of $0.2 million in deferred rent. The decrease in accounts receivable was primarily due to strong collections with our tier 1 U.S. customers. The increase of $1.2 million in accounts payable, accrued liabilities and accrued compensation was driven by higher sales commission, variable compensation and more payments due to our third-party contract manufacturer on higher revenue.

Cash used in operating activities of $4.9 million during the year ended January 31, 2014 reflected a net loss of $12.2 million, a decrease of net operating assets of $1.0 million, non-cash charges of $2.9 million for depreciation and amortization, $2.3 million for stock-based compensation, $0.2 million for the provision for excess inventory and $0.8 million in bad debt expense. The decrease in net operating assets was primarily due to an increase of $2.8 million in accounts payable, accrued liabilities and accrued compensation, an increase of $2.1 million in deferred revenue, a decrease of $0.4 million in inventory, offset by an increase of $3.2 million in accounts receivable and an increase of $1.4 million in prepaid expenses and other current assets. The decrease in operating cash was primarily due to an increase in accounts receivable which was driven by a higher concentration of sales with large customers where customary payment terms are often longer, along with more sales in the final month of the quarter. The increase in operating cash was primarily due to higher accounts payable, accrued liabilities and accrued compensation, which was driven by higher sales commission, variable compensation and payments due to our third-party contract manufacturer on higher revenue. Deferred revenue increased for the year ended January 31, 2014 primarily due to an increase in projects subject to revenue deferral as well as more support contracts entered into during the current period.

Cash used in operating activities of $17.4 million during the year ended January 31, 2013 reflected a net loss of $16.9 million, an increase of net operating assets of $6.8 million, non-cash charges of $2.6 million for depreciation and amortization, $2.8 million for stock-based compensation and $0.7 million in bad debt expense. The change in net operating assets primarily consisted of cash uses of $0.6 million in accounts receivable, $0.6 million in inventory, $3.0 million in accounts payable and accrued liabilities and $4.0 million in deferred revenue. The decrease in operating cash relating to accounts receivable was primarily due to a higher concentration of sales in regions where customary payment terms are often longer such as East Asia, India and the Middle East, and a corresponding increase in our allowance for doubtful accounts. The decrease in operating cash relating to accounts payable and accrued liabilities primarily resulted from lower revenue and thus, less amounts due to our third-party contract manufacturer, while the decrease in operating cash relating to inventory resulted from equipment purchases for future sales transactions, and consists primarily of components and finished goods used in our industry-standard server platforms. Cash sources from changes in net operating liabilities primarily consisted of $1.4 million in both other non-current liabilities and deferred rent relating to our new research and development facility in Rennes and $1.3 million in deferred inventory costs. Operating cash relating to deferred revenue decreased while deferred inventory costs increased during the year ended January 31, 2013 primarily due to timing of revenue recognition as we had fewer transactions subject to deferral as a result of the new revenue recognition rules adopted for the year ended January 31, 2012.

Cash Flows from Investing Activities

In the year ended January 31, 2015, our investing activities consisted of capital expenditures amounting to $2.0 million, primarily for the purchase of equipment. We expect to pay approximately $1.0 million for capital improvements associated with the relocation of our headquarters to San Francisco during the first quarter of fiscal year 2016.

In the year ended January 31, 2014, our investing activities consisted of a net $3.5 million investment in corporate bonds in accordance with guidelines set forth in our investment policy, $0.2 million from the sale of demo equipment and $0.2 million in capital expenditures, primarily for the purchase of equipment.

In the year ended January 31, 2013, our investing activities consisted of a net $3.6 million investment in corporate bonds in accordance with guidelines set forth in our investment policy and capital expenditures amounting to $4.1 million, primarily for the purchase of equipment.

Cash Flows from Financing Activities

In the year ended January 31, 2015, cash used in financing activities was $481,000, primarily due to repayments of French governmental research grants of $322,000 and establishment of a $329,000 letter of credit related to the new San Francisco office lease, both as more fully described in Note 4, offset by $170,000 in cash proceeds from the exercise of stock options.

In the year ended January 31, 2014, cash used in financing activities was $147,000, due to repayments of French governmental research grants of $197,000, as more fully described in Note 4, offset by $50,000 in cash proceeds from the exercise of stock options.

In the year ended January 31, 2013, cash provided by financing activities was $49.0 million, primarily as a result of cash proceeds of $49.8 million from the initial public offering of common stock in April 2012, net of offering costs paid and a repayment of $1.0 million on our credit facility.

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OFF-BALANCE SHEET ARRANGEMENTS

As of January 31, 2015, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following summarizes our contractual obligations as of January 31, 2015:

	Payments Due by Period				
Contractual Obligations:	**2/1/2015-1/31/2016**	**2/1/2016-1/31/2017**	**2/1/2017-1/31/2020**	**Thereafter**	**Total**
			(in thousands)		
Operating lease obligations	$ 1,051	$ 1,011	$ 2,729	$ 1,895	$ 6,686
French governmental research grant repayments	125				125
Total	$ 1,176	$ 1,011	$ 2,729	$ 1,895	$ 6,811

We outsource the manufacturing, assembly and testing of our encoding products to FutureQuest Incorporated (FQ). We generally do not use custom materials in our products and therefore, our obligation to FQ is limited to purchase orders. To the extent that we cancel a purchase order, we are only liable to the extent that FQ cannot otherwise utilize those components. To date, we have never been required to purchase any such components. Our outstanding purchase orders are not material as of January 31, 2015.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

FOREIGN CURRENCY RISK

Most of our sales are denominated in U.S. dollars, and therefore, our revenues are not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro relative to the U.S. dollar. We have a large research and development facility in France and pay our employees located in France in Euros. To date, we have not entered into any hedging contracts. For the year ended January 31, 2015, a 10% appreciation or depreciation in the value of the U.S. dollar relative to the other currencies in which our expenses are denominated would have had an estimated impact of approximately $2.2 million on our results of operations.

INTEREST RATE SENSITIVITY

We had cash and cash equivalents of $37.8 million as of January 31, 2015. Our cash and cash equivalents are held primarily in cash deposits and money market funds. We hold our cash and cash equivalents for working capital purposes. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income. For the year ended January 31, 2015, a 10% appreciation or depreciation in overall interest rates would not have had a material impact on our interest income.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Envivio, Inc. and Subsidiaries

San Francisco, California

We have audited the accompanying consolidated balance sheets of Envivio, Inc. and Subsidiaries as of January 31, 2015 and 2014 and the related consolidated statements of operations, comprehensive loss, stockholders equity (deficit) and cash flows for each of the three years in the period ended January 31, 2015. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Envivio, Inc. and Subsidiaries at January 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

San Jose, California

April 23, 2015

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Envivio, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except for share amounts)

	January 31, 2015	January 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 37,790	$ 47,873
Accounts receivable, net of allowance for doubtful accounts of $2,039 and $1,545	8,780	10,766
Inventory	171	75
Prepaid expenses and other assets	3,655	4,257
Deferred inventory costs, current	86	177
Total current assets	50,482	63,148
Property and equipment, net	3,590	3,924
Restricted cash	329	
Other non-current assets	202	207
Total assets	$ 54,603	$ 67,279
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 5,480	$ 5,772
Accrued compensation	5,070	5,308
Accrued liabilities	3,296	1,682
Deferred revenue, current	5,999	6,198
Total current liabilities	19,845	18,960
Deferred revenue, net of current portion	711	541
Other non-current liabilities	1,562	1,404
Deferred rent	498	698
Total liabilities	22,616	21,603
Commitments and contingencies (Note 5)		
Stockholders equity:		
Preferred stock, par value $0.001 per share 2,500,000 shares authorized; none issued and outstanding		
Common stock, par value $0.001 per share 100,000,000 shares authorized; 27,714,092 and 27,119,548 shares issued and outstanding	28	28
Additional paid-in capital	156,604	154,562

Accumulated other comprehensive loss		(1,079)		(960)
Accumulated deficit		(123,566)		(107,954)
Total stockholders equity		31,987		45,676
Total liabilities and stockholders equity	$	54,603	$	67,279

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Consolidated Statements of Operations

(in thousands, except for share and per share amounts)

	Year Ended January 31, 2015	2014	2013
Revenue:			
Product	$ 30,254	$ 34,488	$ 32,022
Professional services and support	11,302	8,716	7,077
Total revenue	41,556	43,204	39,099
Cost of revenue:			
Product	12,452	12,342	13,510
Professional services and support	2,725	2,268	1,483
Total cost of revenue	15,177	14,610	14,993
Gross profit	26,379	28,594	24,106
Operating expenses:			
Research and development	9,438	9,141	7,589
Sales and marketing	20,091	19,726	21,359
General and administrative	11,984	11,595	11,730
Total operating expenses	41,513	40,462	40,678
Loss from operations	(15,134)	(11,868)	(16,572)
Interest income, net	1	43	84
Other expense, net	(95)	(12)	(72)
Loss before provision for income taxes	(15,228)	(11,837)	(16,560)
Income tax provision	384	351	375
Net loss	$ (15,612)	$ (12,188)	$ (16,935)
Net loss per share of common stock, basic and diluted	$ (0.57)	$ (0.45)	$ (0.72)
Shares used in computing net loss per share of common stock, basic and diluted	27,500,647	27,102,111	23,577,491

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Loss

(in thousands)

	Year Ended January 31,		
	2015	2014	2013
Net loss	$ (15,612)	$ (12,188)	$ (16,935)
Other comprehensive loss:			
Realized loss on short-term investments		(6)	(1)
Unrealized gain on short-term investments			2
Foreign currency translation adjustment	(119)	(86)	(44)
Other comprehensive loss:	(119)	(92)	(43)
Total comprehensive loss	$ (15,731)	$ (12,280)	$ (16,978)

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended January 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (15,612)	$ (12,188)	$ (16,935)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,540	2,879	2,595
Amortization of short-term investment discounts and premiums		17	47
Stock-based compensation	1,872	2,344	2,833
Provision for excess inventory		248	
Bad debt expense	497	838	738
Fair value remeasurement of warrant liability			(18)
Realized loss on short-term investments		(6)	(1)
Unrealized gain on short-term investments			2
Interest earned but not collected			(33)
Loss (gain) on disposition of fixed assets	10	(2)	160
Changes in operating assets and liabilities:			
Accounts receivable	1,490	(3,228)	(615)
Inventory	(96)	384	(600)
Prepaid expenses and other current assets	602	(1,367)	(402)
Deferred inventory costs	91	141	1,329
Other non-current assets	5	9	(97)
Accounts payable, accrued liabilities and accrued compensation	1,158	2,842	(2,944)
Deferred revenue	(29)	2,081	(3,999)
Other non-current liabilities	180	242	356
Deferred rent	(200)	(176)	214
Net cash used in operating activities	(7,492)	(4,942)	(17,370)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of short-term investments			(20,371)
Maturities of short-term investments		3,500	16,807
Proceeds from equipment sales			9
Capital expenditures	(1,990)	(1,797)	(4,109)
Net cash provided by (used in) investing activities	(1,990)	1,703	(7,664)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from initial public offering, net of offering costs paid			49,786
Repayment of credit facility			(1,000)
Restricted cash related to the lease letter of credit	(329)		

Proceeds from stock options exercised	170	50	89
Preceeds from French governmental research grants			226
Repayment of French governmental research grants	(322)	(197)	(85)
Net cash provided by (used in) financing activities	(481)	(147)	49,016
Effect of exchange rate changes on cash and cash equivalents	(120)	(85)	(43)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,083)	(3,471)	23,939
CASH AND CASH EQUIVALENTS Beginning of period	47,873	51,344	27,405
CASH AND CASH EQUIVALENTS End of period	$ 37,790	$ 47,873	$ 51,344
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 6	$ 5	$ 28
Tax paid	$ 155	$ 90	$ 3
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Non-Cash capital expenditures	$ 226	$	$
Leasehold improvements funded by landlord	$	$	$ 643
Conversion of convertible preferred stock to common stock upon initial public offering	$	$	$ 47,764
Offering costs incurred but not paid during the year	$	$	$ 1,329
Reclassification of warrant liability to stockholders equity	$	$	$ 84
Accretion of redeemable, convertible preferred stock	$	$	$ 8

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity (Deficit)

(in thousands, except for share amounts)

	Convertible Preferred Stock		Common Stock		Additional	Accumulated Other		Total Stockholders
	Shares	Amount	Shares	Amount	Paid-in Capital	Comprehensive Loss	Accumulated Deficit	Equity (Deficit)
Balance as of January 31, 2012	6,988,120	47,764	13,169,608	13	52,955	(825)	(78,831)	(26,688)
Accretion of redeemable convertible preferred stock		8			(8)			(8)
Series I redeemable, convertible preferred stock issuance costs		(3)						
Conversion of preferred stock to common stock	(6,988,120)	(47,769)	6,988,120	7	47,762			47,769
Stock-based compensation					2,833			2,833
Initial public offering of common stock, net of issuance costs			6,500,000	7	48,453			48,460
Issuance of common stock from exercise of options and vesting of RSUs			283,948		89			89
Reclassification of warrant liability upon initial public offering					84			84
Foreign currency translation adjustment						(44)		(44)
Realized loss on investments						(1)		(1)
Unrealized gain on investments						2		2
Net loss							(16,935)	(16,935)

Balance as of January 31, 2013	26,941,676	27	152,168	(868)	(95,766)	55,561
Stock-based compensation			2,344			2,344
Issuance of common stock from exercise of options and vesting of RSUs	177,872	1	50			51
Foreign currency translation adjustment				(86)		(86)
Realized loss on investments				(6)		(6)
Net loss					(12,188)	(12,188)
Balance as of January 31, 2014	27,119,548	28	154,562	(960)	(107,954)	45,676
Stock-based compensation			1,872			1,872
Issuance of common stock from exercise of options and vesting of RSUs	594,544		170			170
Foreign currency translation adjustment				(119)		(119)
Net loss					(15,612)	(15,612)
Balance as of January 31, 2015	27,714,092	28	156,604	(1,079)	(123,566)	31,987

See notes to consolidated financial statements.

Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies

Envivio, Inc. (the Company) was incorporated in the state of Delaware on January 5, 2000. The Company is a leading provider of IP video processing and distribution solutions to mobile and broadband service providers, cable multiple system operators, direct broadcast satellite service providers and content providers, which includes broadcasters and content publishers, owners, aggregators and licensees. The Company is headquartered in San Francisco, California and maintains operations in North America, Europe (including research and development operations in France) and the Asia Pacific region.

Basis of Presentation

The Company s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, allowances for doubtful accounts, valuation of deferred inventory costs, useful lives of property and equipment, valuation of deferred tax assets and stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments of the carrying values of assets and liabilities. Actual results could differ materially from these estimates.

Risks and Uncertainties

The Company is subject to a number of risks similar to other comparable companies in the video processing and distribution industry. These risks include, but are not limited to, the level of capital spending by telecommunications, cable and satellite service provider, as well as, more recently, the emerging broadcast, media and Internet content providers, its reliance on channel partners, a lengthy sales cycle, dependence on the development of new products and services, unfavorable economic and market conditions, competition from larger and more established companies, limited management resources, dependence on a single contract manufacturer and a limited number of suppliers, and the rapidly changing nature of the video processing and distribution industry. Failure by the Company to anticipate or to respond adequately to technological developments in its industry, changes in customer or supplier requirements, changes in regulatory requirements or industry standards, or any significant delays in the development or introduction of products could have a material adverse effect on the Company s operating results, financial condition and cash flows.

Cash and Cash Equivalents

The Company considers all highly liquid marketable securities purchased with an original maturity of 90 days or less at the time of purchase to be cash equivalents. Cash and cash equivalents is comprised of demand deposits and money market funds and is stated at amounts that approximate fair value.

On July 31, 2012, the Company amended its revolving line of credit agreement with a commercial lender to increase the amount available from $5.0 million to $10.0 million for general corporate purposes and to extend the

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maturity date to July 2014. Under the terms of this amendment, interest accrued at a floating per annum rate equal to the greater of either (x) the prime rate plus 0.75% or (y) 4.00% and the Company was required to pay commitment fees of $25,000 per year. The Company was subject to financial covenants requiring the Company to maintain a ratio of unrestricted cash, cash equivalents and eligible accounts receivable to current liabilities less deferred revenue of at least 1.50 to 1.00. The line of credit expired on July 31, 2014 and the Company did not renew the line of credit. The Company does not have an outstanding balance and has not drawn down any outstanding amount on this line of credit as of January 31, 2015.

In October 2014, the Company entered into an irrevocable standby letter of credit relating to the new San Francisco office lease. The standby letter of credit protects the lessor by ensuring the full and faithful performance by the Company of all its obligations and for all losses and damages the lessor may suffer as a result of any breach or default by the Company under the lease. The letter of credit is for $329,000, payable in the City of San Francisco, California and provides for a right to transfer the letter of credit to another party, person or entity and requires the Company to replenish any amounts drawn down by the lessor pursuant to its rights under the lease agreement.

Accounts Receivable and Allowances for Doubtful Accounts

Trade accounts receivable are recorded at invoiced amounts and do not bear interest. The Company does not require collateral and performs ongoing credit evaluations of its customers and provides an allowance for expected losses. The Company maintains an allowance for doubtful accounts based upon the age of its accounts receivable, current economic trends, credit-worthiness of the customers and customer payment history. The Company writes off accounts receivable against the allowance when it determines a balance is uncollectible and no longer actively pursues collection of the receivable. The following table presents the changes in the allowance for doubtful accounts (in thousands):

	January 31, 2015	January 31, 2014	January 31, 2013
Allowance-beginning of period	$ 1,545	$ 792	$ 133
Bad debt expense	497	838	738
Write-offs, net of recoveries and other adjustments	(3)	(85)	(79)
Allowance-end of period	$ 2,039	$ 1,545	$ 792

Concentration of Risks

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Cash and cash equivalents consist of money market funds and demand deposits with financial institutions which may exceed Federal Deposit Insurance Corporation (FDIC) limits. The Company has not experienced any losses related to its cash and cash equivalents. One customer accounted for 19% of accounts receivable as of January 31, 2015 and two customers accounted for 11% and 10% of accounts receivable as of January 31, 2014.

Customers representing 10% or greater of total revenue for the periods presented were as follows (in percentages):

	Year Ended January 31,		
	2015	2014	2013
Promexar, S.A. de C.V.	15%	*	*
Comcast Cable	12%	18%	*

* less than 10%

Certain of the components and subassemblies included in the Company s products are obtained from a single source or a limited group of suppliers as well as licenses for the Company s monitoring system. In addition, the Company relies on a single third party to manufacture its products. Although the Company seeks to reduce dependence on those sole source and limited source suppliers and its manufacturer, the partial or complete loss of certain of these sources could have a material adverse effect on the Company s operating results, financial condition and cash flows, and damage its customer relationships.

Inventories

Inventories are valued at the lower of average cost or market value. Inventories are comprised of hardware and related component parts of its finished goods. The Company establishes provisions for excess and obsolete inventories after evaluating historical sales, future demand, market conditions, expected product lifecycles and current inventory levels to reduce such inventories to their estimated net realizable value.

Deferred Inventory Costs

Deferred inventory costs represent the costs of products that have been delivered to the customer for which product revenue associated with the arrangement has been deferred as a result of not meeting the revenue recognition criteria. The deferred inventory costs are recognized as costs of revenue when the related revenue is recognized.

Property and Equipment, net

Property and equipment, net, is stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to five years. Leasehold improvements are recorded at cost with any reimbursement from the landlord being accounted for as deferred rent, which is amortized using the straight-line method over the lease term. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the lease term. Costs of demo inventory held by the Company s customers are also included within property and equipment. Demo inventory is depreciated over an estimated useful life of two years. Expenditures for maintenance and repairs are expensed as incurred.

Impairment of Long-lived Assets

The Company evaluates its long-lived assets for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment exists if the carrying amounts of such assets exceed the estimates of future net undiscounted cash flows expected to be generated by such assets. Should an impairment exist, the impairment loss would be measured based on the excess of the carrying value of the asset over the estimated fair value of the asset. As of January 31, 2015 and 2014, the Company has not written down any of its long-lived assets as a result of an impairment.

Revenue Recognition

The Company derives revenue from the sale of its IP video processing and distribution solutions which consist of hardware and integrated software, that is essential to the functionality of the hardware the Company sells, and stand-alone software. The Company also derives revenue from related professional services and support and maintenance agreements.

The Company recognizes revenue only when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is deemed probable. The Company evaluates each of these criteria as follows:

Evidences of an arrangement Contracts or customer purchase orders are used to determine the existence of an arrangement.

Delivery Delivery is considered to occur when title has been transferred, except in instances when final acceptance of the product, system or solution is specified by the customer. In these instances, revenue is deferred until acceptance criteria have been met. In the case of electronic delivery of the licensed software, title transfers when the customer is given access to download the software.

Fixed or determinable fee The Company assesses whether fees are fixed or determinable at the time of sale. The Company only considers the fee to be fixed or determinable if the fee is not subject to refund or adjustment. The Company s payment terms may vary based on the country in which the agreement is executed and the credit standing of the individual customer, among other factors. If the arrangement fee is not fixed or determinable, revenue is recognized as amounts become due and payable.

Collection is deemed probable Collection is deemed probable if the Company expects that the customer will be able to pay amounts under the arrangement as payments become due. If the Company determines that collection is not probable, revenue is deferred until cash collection.

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for revenue recognition to remove from the scope of industry-specific software revenue recognition guidance, any tangible products containing software components and non-software components that operate together to deliver the product s essential functionality. In addition, the FASB amended the accounting standards for certain multiple element revenue arrangements to:

Provide updated guidance on whether multiple elements exist, how the elements in an arrangement should be separated, and how the arrangement consideration should be allocated to the separate elements;

Provide for price hierarchy, where the selling price for an element is based on vendor specific objective evidence (VSOE), if available; third-party evidence (TPE), if available and VSOE is not available; or the best estimate of selling price (BESP), if neither VSOE nor TPE is available;

Eliminate the use of the residual method and require an entity to allocate arrangement consideration using the selling price hierarchy.

The new accounting guidance was adopted by the Company on a prospective basis at the beginning of the fiscal year ending January 31, 2012 for all transactions, except for stand-alone sales of software, entered into or materially modified on or after February 1, 2011.

The Company enters into multiple element revenue arrangements in which a customer may purchase a combination of hardware, software, hardware and software maintenance, professional services and training. The Company accounts for multiple agreements with a single customer as one arrangement if the contractual terms or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single arrangement.

For stand-alone software arrangements, the Company allocates revenue for arrangements with multiple deliverables, such as sales of our solution with software that include support or other professional services, to the delivered elements of the arrangement using the residual value method based on VSOE of fair value of the undelivered items. VSOE of fair value for undelivered elements is determined based upon prices paid by the customers for the separate renewal or sales of such services.

For transactions, other than stand-alone sales of software, entered into on or subsequent to February 1, 2011, the Company allocates the arrangement fee to each element based upon the relative selling price of such element and, if software and software-related elements, such as maintenance for the software elements, are also included in the arrangement, the Company allocates the arrangement fee to each of those software and software-related elements as a group based on its BESP for those elements. When applying the relative selling price method, the

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Company determines the selling price for each element using VSOE of selling price, if it exists, or TPE of selling price, if it exists and VSOE does not exist. If neither VSOE nor TPE of selling price exist for an element, the Company uses its BESP for that element. The revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for that element. The manner in which the Company accounts for multiple element arrangements that contain only software and software-related elements remains unchanged.

Consistent with the Company s methodology under previous accounting guidance, it determines VSOE for each element based on historical stand-alone sales to third parties. For hardware and software maintenance and professional services, the Company determines the VSOE of fair value based on the Company s history of stand-alone sales demonstrating that a substantial majority of transactions fall within a narrow range for each service offering.

The Company is presently not able to determine TPE for its products, maintenance or professional services. TPE is determined based on competitor prices for similar elements when sold separately. The Company s offerings contain a significant level of differentiation such that comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company s go-to-market strategy differs from that of its peers and it is unable to reliably determine what similar competitor products selling prices are on a stand-alone basis.

When the Company is unable to establish the selling price of an element using VSOE or TPE, it uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company determines BESP for a product or service by considering multiple factors including, but not limited to, historical pricing practices by geography, customer class and distribution channel and gross margin objectives.

The Company regularly reviews VSOE and BESP data provided by actual transactions to update these estimates and the relative selling prices allocated to each element.

Revenue from support and maintenance agreements is recognized ratably over the term of the maintenance agreement, which is typically one year, and the Company defers the unrecognized revenue portion of the maintenance agreements. The Company recognizes revenue from professional services upon performance of the services and recognizes costs associated with services as incurred.

Shipping and Handling Costs

Shipping and handling costs incurred for inventory purchases and product shipments are recorded in cost of revenue in the Company s consolidated statements of operations.

Deferred Revenue

A portion of the Company s deferred revenue represents customer payments made in advance for support and maintenance contracts because the Company typically bills support contracts on an annual basis in advance and recognizes the associated revenue ratably over the support period, which can range from one to four years.

Deferred revenue also includes arrangements where final acceptance of the product, system or solution is specified by the customer, and the recognition of revenue for these arrangements is deferred until all acceptance criteria are met.

Deferred Rent

The Company recognizes rental expense on a straight-line basis over the lease term, and records the difference between rent expense and the amounts currently paid and payable as deferred rent. The cost of leasehold improvements paid by the Company s landlord and repayable to the landlord are also included in deferred rent.

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Capitalized Software Development Costs

The Company charges product development costs to expense as incurred until technological feasibility is attained and all other research and development activities for the hardware components of the product have been completed. Technological feasibility is attained when the planning, design and testing phases related to the development of the Company s software have been completed and the software has been determined viable for its intended use. The time between the attainment of technological feasibility and the completion of software development has historically been relatively short with immaterial amounts of development costs incurred during this period. Accordingly, the Company has not capitalized any software development costs.

Foreign Currency Translation

For each of the Company s foreign subsidiaries, the functional currency is its local currency. Assets and liabilities of foreign operations are translated into U.S. dollars using period-end exchange rates, and revenues and expenses are translated into U.S. dollars using average exchange rates in effect during each period. The effects of foreign currency translation adjustments are included in accumulated other comprehensive loss, a separate component of stockholders equity. Also recorded as foreign currency translation adjustments are transaction gains and losses on long-term intercompany balances for which settlement is not planned or anticipated in the foreseeable future.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax expense or benefit is the result of changes in the deferred tax assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets where, based upon the available evidence, management concludes that it is more likely than not that the deferred tax assets will not be realized.

The Company follows the accounting guidance for accounting for uncertainty in income taxes. The accounting guidance requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Company records a liability for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on the Company s tax return. To the extent that the assessment of such tax positions change, the change in estimate is recorded in the period in which the determination is made. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when the Company believes that certain positions might be challenged despite the Company s belief that the tax return positions are fully supportable. The reserves are adjusted in light of changing facts and circumstances, such as the outcome of a tax audit. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

The Company recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes in the accompanying consolidated statements of operations. Accrued interest and penalties are included within other non-current liabilities in the consolidated balance sheets.

Warranty

The Company provides a warranty for its products, software and services. The initial warranty period for all products commences on the date of purchase and continues in effect for the following consecutive 12 months for hardware and 90 days for software. The warranty period can be extended if the customer has purchased a support agreement. The warranty period continues for the duration of a valid support agreement between the Company

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and the customer under which the payment of support and maintenance fees is current. To date, the Company s warranty expense has not been significant. Therefore, the Company did not provide for a warranty accrual as of January 31, 2015 and 2014.

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based payment awards made to employees and directors based on the estimated fair value of the awards on the date of grant. The Company determines the grant date fair value of the awards using the Black-Scholes option-pricing model and recognizes the related stock-based compensation generally on a straight-line basis over the vesting period of the awards. The Company uses a modified binary option pricing model (European, call option) to establish the expected value of restricted stock awards with market and performance vesting conditions. Stock-based compensation expense is based on the value of the portion of the stock-based payment awards that are ultimately expected to vest. As such, the Company s stock-based compensation expense is reduced for the estimated forfeitures and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive loss. For the Company, other comprehensive loss includes foreign currency translation adjustments and unrealized gains and losses on investments. The changes in the components of accumulated comprehensive loss have been disclosed in the consolidated statements of stockholders equity (deficit) and comprehensive loss.

Fair Value Measurements

The Company measures and reports its cash equivalents, short-term investments and preferred stock warrant liabilities at fair value. The accounting guidance for fair value measurements provides a framework for measuring fair value and expanding related disclosures. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The guidance also establishes a hierarchy which requires an entity to maximize the use of observable inputs, when available. The guidance requires that each fair value measurement be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs (other than Level 1 prices) such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

Level 3: Unobservable inputs that involve management judgment and are supported by little or no market activity.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company s Level 1 assets consist of its money market accounts. The Company does not have level 2 and level 3 categories.

Foreign Tax Credits

The Company s foreign tax credit asset consists primarily of amounts due from the Government of France for research and development incentives provided to the Company s French subsidiary. The French research tax credit is general and does not target any specific sector or type of company. Eligible expenditures include human and material resources allocated to research and development, subcontracted research and development costs, technological costs and patent protection. The amounts due from the Government of France are determined on a cost reimbursement basis. The French research tax credit is deducted from the French tax to be paid, or in the event taxes are not due is refunded. As the French research tax credit is related to the Company s research and development expenditures and is refundable regardless of whether any French tax is owed, the credits earned of $2.8 million, $2.7 million and $1.6 million during the years ended January 31, 2015, 2014 and 2013, respectively, were recorded as a reduction of research and development expenses.

Common Stock

The Company is authorized to issue 100,000,000 shares of common stock as a result of the Company s initial public offering in April 2012. All previously outstanding classes of common stock and all outstanding classes of preferred stock were converted on a one to one basis to shares of common stock.

Net Income (Loss) per Share of Common Stock

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Net income (loss) attributable to common stockholders is calculated using the two class method, by subtracting from net income (loss) the noncumulative dividends on all outstanding shares of convertible preferred stock and the accretion of the redeemable convertible preferred stock to its redemption amount, to reflect the rights of the preferred stockholders to receive dividends in preference to common stock.

The diluted net income (loss) per share attributable to common stockholders is computed by giving effect to all potential common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, convertible preferred stock, stock options to purchase common stock, stock purchase rights and warrants to purchase convertible preferred stock and common stock are considered to be common stock equivalents but have been excluded from the calculation of diluted net income (loss) per share attributable to common stockholders as their effect is not dilutive.

Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity . This guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance is effective for the Company beginning in the first quarter of the fiscal year ended January 31, 2016. The Company does not expect the adoption of ASU 2014-08 to have a material impact on its financial position, results of operations or cash flows.

In May 2014, he FASB issued ASU 2014-09 regarding the Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers. This ASU provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU will be effective for the Company s fiscal year beginning February 1, 2017. Early adoption is not permitted. The Company is currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In November 2014, the FASB issued ASU No. 2014-16 (ASU 2014-16), Derivatives and Hedging (Topic 815) Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity . ASU 2014-16 was issued to clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risk of a host contract in a hybrid financial instrument that is issued in the form of a share. In addition, ASU 2014-16 was issued to clarify that in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (that is, the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. ASU 2014-16 is effective with fiscal years beginning after December 15, 2015. Early adoption in an interim period is permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-16 on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) Amendments to the Consolidation Analysis , intended to improve targeted areas of consolidation guidance for all entities. ASU 2015-02 is effective with fiscal years beginning after December 15, 2015. Early adoption in an interim period is permitted. The Company is currently evaluating the impact of the adoption of ASU 2015-02 on its consolidated financial statements.

2. Balance Sheet Items

Short-term investments, classified as available-for-sale securities had matured or been sold as of January 31, 2014. We do not have short-term investments as of January 31, 2015. The Company has classified all available-for-sale securities with readily available markets as short-term, regardless of whether the stated maturity is greater than one year from the current balance sheet date, because of the Company s intent to sell those securities as necessary. Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive loss in stockholders equity. For the periods presented, realized and unrealized gains and losses on investments were not material. Amounts reclassified out of accumulated other comprehensive loss due to sales or maturities of investments are reflected in interest income (expense), net, in the statements of operations and were not material. An impairment charge is recorded in the consolidated statements of operations for declines in fair value below the cost of an individual investment that are deemed to be other than temporary. The Company assesses whether a decline in value is temporary based on the length of time that the fair market value has been below cost, the severity of the decline, as well as the Company s intent and ability to hold, or plans to sell, the investment.

Accounts receivable, net of allowance for doubtful accounts, consists of the following (in thousands):

	January 31, 2015	January 31, 2014
Account receivable		
Accounts receivable, gross	$ 10,819	$ 12,311
Allowance for doubtful accounts	(2,039)	(1,545)
Account receivable, net	$ 8,780	$ 10,766

Prepaid expenses and other current assets are comprised of the following (in thousands):

	January 31, 2015	January 31, 2014
Foreign tax credits refundable	$ 2,190	$ 2,499
Prepaid expenses	1,465	1,758
Prepaid expenses and other current assets	$ 3,655	$ 4,257

Property and equipment, net, consist of the following (in thousands):

	January 31, 2015	January 31, 2014
Computer and equipment	$ 10,452	$ 9,954
Software	1,435	1,340
Furniture and fixtures	1,881	2,032
Leasehold improvements	263	130
Less: accumulated depreciation and amortization	(10,441)	(9,532)
Property and equipment, net	$ 3,590	$ 3,924

Total depreciation and amortization expense was $2.5 million and $2.9 million for the year ended January 31, 2015 and January 31, 2014, respectively.

Accrued legal and litigation expenses, included in accrued liabilities, were $1.4 million and $0.2 million as of January 31, 2015 and January 31, 2014, respectively.

3. Fair Value of Financial Instruments

The fair value of the Company s financial assets and liabilities measured on a recurring basis is as follows (in thousands):

	January 31, 2015				January 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:								
Money market funds (included in cash and cash equivalents)	$ 34,152	$	$	$ 34,152	$ 43,846	$	$	$ 43,846

4. Line of Credit and Other Non-Current Liabilities

The Company did not have any debt outstanding as of January 31, 2015 and January 31, 2014.

Line of Credit

In November 2010, the Company entered into a revolving line of credit with a commercial lender that allowed for draws of up to $5.0 million for general corporate purposes. Amounts borrowed were to be repaid prior to the maturity date in November 2012. Interest accrued at a floating per annum rate equal to either the (i) greater of (x) the prime rate plus 2.75% or (y) 6.75% if the liquidity ratio for the immediately preceding month did not meet a minimum threshold or (ii) greater of (x) the prime rate plus 1.75% or (y) 5.75% in all other instances. The Company paid commitment fees in the amount of $106,000 and a good faith deposit of $25,000 to facilitate the agreement. The lender for this line of credit had a first priority perfected security interest in all of the Company s assets. The credit facility contained financial covenants which effectively required the Company to maintain no less than $1.0 million in outstanding borrowings throughout the term of the arrangement as well as maintain a ratio of unrestricted cash and eligible accounts receivable to current liabilities of at least 1.50 to 1.00.

On July 31, 2012, the Company amended its revolving line of credit agreement with a commercial lender to increase the amount available from up to $5.0 million to $10.0 million for general corporate purposes and extend the maturity date to July 2014. Under the terms of this amendment, interest accrues at a floating per annum rate equal to the greater of either (x) the prime rate plus 0.75% or (y) 4.00% and the Company is required to pay commitment fees of $25,000 per year. The line of credit expired in July 2014.

The Company does not have an outstanding balance and did not draw down any outstanding amount on this line of credit during the year ended January 31, 2015. The line of credit expired in July 2014 and the Company did not renew it.

In October 2014, the Company entered into an irrevocable standby letter of credit relating to the new San Francisco office lease. The standby letter of credit protects the lessor by ensuring the full and faithful performance by the Company of all its obligations and for all losses and damages the lessor may suffer as a result of any breach or default by the Company under the lease. The letter of credit is for $329,000, payable in the City of San Francisco, California and provides for a right to transfer the letter of credit to another party, person or entity as well as requires the Company to replenish any amounts drawn down by the lessor pursuant to its rights under the lease agreement. The letter of credit is secured by a $329,000 deposit, which is classified as restricted cash on the balance sheet as of January 31, 2015.

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Other Non-current Liabilities

The Company receives repayable research grants from regional French governmental agencies to fund research and development activities. The French governmental research grants payable were $125,000, included in accrued liabilities as of January 31, 2015 and $447,000, included in both accrued liabilities and other non-current liabilities as of January 31, 2014. Long-term tax liabilities, included in other non-current liabilities, were $1.5 million and $1.3 million as of January 31, 2015 and January 31, 2014, respectively.

5. Commitments and Contingencies

Expense Reduction Initiative

During the fourth quarter of the year ended January 31, 2015, the Company initiated cost-saving measures to reduce operating expenses throughout the Company. These measures included a reduction in the Company s workforce of 15 individuals, consisting of 12 employees from sales and marketing, one employee from general and administrative and two employees from research and development. In connection with the reduction in workforce, $0.5 million of severance expense was incurred during the year ended January 31, 2015. This expense is included in general and administrative expense.

The following table presents a summary of the Company s expense reduction initiatives during the fiscal year 2015 (in thousands):

	Year ended January 31, 2015	
Cash compensation paid	$	461
Costs to terminate office lease		23
Outplacement training		14
Compensation accrued as of January 31, 2015		220
Total restructuring expense	$	718

Operating Leases

The Company leases facilities under operating leases expiring at various dates through 2023. As of January 31, 2015, future minimum payments under the Company s non-cancellable leases are as follows (in thousands):

Year ending January 31,	Future Lease payments	
2016	$	1,051
2017		1,011
2018		964
2019		910
2020		855
Thereafter		1,895

Total	$	6,686

In October 2014, the Company entered into a ninety-seven month operating lease agreement on approximately 4,600 square feet for a new office in San Francisco, California. The lease commencement date was March 23, 2015 and the average monthly rent is $27,000. The total future minimum payments of $2.6 million under this operating lease agreement are included in the above table.

In addition, the Company exercised its early termination right for its prior office lease in South San Francisco, California. In connection with this early termination exercise, the Company paid a $20,000 early termination fee during the three months ended October 31, 2014 and also paid two times the monthly rent of $20,000 each month from January 2015 to March 2015 for the continued occupancy of the old office in South San Francisco.

Rental expense totaled $1.2 million, $1.1 million and $1.2 million for the years ended January 31, 2015, 2014 and 2013, respectively.

Litigation Matters

On October 5, 2012 a complaint captioned Wiley v. Envivio, Inc., et al. CIV-517185 was filed in the Superior Court of California, County of San Mateo, naming as defendants the Company, each of its directors, its chief executive officer, its chief financial officer, and certain underwriters of its IPO. The lawsuit purports to be a class action on behalf of purchasers of shares issued in the IPO and generally alleges that the registration statement for the IPO contained materially false or misleading statements. The complaint purports to assert claims under the Securities Act of 1933, as amended, and seeks unspecified damages and other relief. On October 19, 2012 a similar complaint captioned Toth v. Envivio, Inc. et al. CIV-517481 was filed in the same court. On November 2, 2012 defendants removed the cases to the United States District Court for the Northern District of California where they were assigned case numbers 12-cv-05637-CRB and 12-cv- 05636-CW. A similar complaint was filed in the United States District Court for the Northern District of California on December 20, 2012 entitled Thomas v. Envivio, Inc., et al. C 12-06464. The Wiley and Toth actions were subsequently remanded to the San Mateo Superior Court, where they are now pending, and the Thomas case was voluntarily dismissed without prejudice. On February 28, 2014, a complaint was filed in the United States District Court for the Northern District of California entitled Gary Silverberg v. Envivio, Inc. et al., Civil No. 14-cv-00933-PJH. The complaint purports to be on behalf of a class of purchasers of the Company s securities between April 25, 2012 and September 7, 2012. It names as defendants the Company and the Company s chief executive officer and chief financial officer, and seeks unspecified damages and other relief for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. On June 25, 2014, the Silverberg case was voluntarily dismissed without prejudice. In November 2014, the Company and the named defendants reached an agreement in principle to settle the above-described actions without any admission of any wrongdoing by the Company or any of the named defendants. The parties subsequently entered into a formal settlement agreement, which must be approved by the court before becoming final. The agreement requires the Company to contribute approximately $1.0 million toward the settlement. On March 16, 2015, the Company funded into an escrow account its portion of the settlement of approximately $1.0 million, and the remaining settlement payment will be covered by the Company s director and officer insurance providers. The settlement payment will be released from escrow subject to and upon final court approval of the settlement.

The Company is subject to claims and assessments from time to time in the ordinary course of business. The Company is not currently a party to any other litigation matters that, individually or in the aggregate, are expected to have a material adverse effect on the Company s business, financial condition or results of operations.

Indemnification

The Company may in the ordinary course of business agree to defend and indemnify some customers against legal claims that the Company s products infringe on certain U.S. patents or copyrights. To date, the Company has not been required to make any payments resulting from any such infringement, and no amounts have been accrued for such matters. Certain of the Company s employment agreements with its officers, arrangements with members of the board of directors and the Company s Restated Certificate of Incorporation and Bylaws, also include indemnification provisions. As a result, the Company intends to indemnify its directors and officers in connection with being named as defendants in the purported class action IPO-related litigation and other related lawsuits. In addition, pursuant to the terms of the Company s underwriting agreement with the representatives of the several underwriters of the Company s initial public offering, the Company may be required to indemnify the underwriters for certain matters, subject to the terms and conditions contained in the underwriting agreement and applicable law. As a result, the Company is indemnifying the underwriters for their expenses incurred in connection with being named as defendants in the purported class action IPO-related litigation. The Company expenses such costs in the period in which such costs are incurred. The terms of the Company s indemnification obligations may vary.

6. Stockholders Equity

Common Stock

At January 31, 2012, the designations and rights of the Series 1 and Series 2 common stock were identical except for their respective voting rights as the Series 1 shares did not have the right to vote, except as required by law, and the Series 2 shares were allowed one vote on all matters subject to a vote of the stockholders. The holders of common stock, including shares legally outstanding from stock purchase rights that were exercised with notes, were also entitled to receive non-cumulative dividends whenever funds were legally available and if declared by the board of directors, subject to the rights of all classes of stock outstanding.

Immediately prior to the closing of the initial public offering (IPO) in April 2012, all outstanding shares of convertible preferred stock converted into common stock on a one-for-one basis. In addition, the Series 1 common stock and Series 2 common stock converted into one class of common stock. As of January 31, 2015, the Company was authorized to issue 100,000,000 shares of common stock, $0.001 par value per share and 2,500,000 shares of preferred stock, $0.001 par value per share. On April 24, 2012, the Company sold 6,500,000 shares of common stock at a price to the public of $9.00 per share in an IPO. The shares began trading on the NASDAQ Global Market on April 25, 2012. The $54.4 million in proceeds from the IPO, net of underwriters discounts and commissions, but before deducting offering-related expenses payable by the Company of $5.8 million, were received on April 30, 2012, which was the closing date of the IPO. The Company has blank check preferred stock authorized. The convertible preferred stock converted into 6,988,120 shares of common stock and 1,006,206 shares of Series 1 common stock and 12,909,470 shares of Series 2 common stock converted into one class of common stock. In addition to the 6,500,000 shares of common stock sold in the IPO, certain selling stockholders of the Company also sold 1,255,000 shares of common stock in the IPO. The shares sold by the selling stockholders consisted of 503,496 shares of convertible preferred stock and 751,504 shares of Series 1 and Series 2 common stock, which were converted to common stock immediately prior to the closing of the IPO.

Shares of common stock authorized, issued and outstanding, as of January 31, 2015 and 2014 consist of the following:

	January 31, 2015		January 31, 2014	
	Authorized	Issued and Outstanding	Authorized	Issued and Outstanding
Common stock	100,000,000	27,714,092	100,000,000	27,119,548

Shares of common stock reserved for issuance on an as-if converted basis is as follows as of January 31, 2015 and 2014:

	January 31, 2015	January 31, 2014

Exercise and vesting of stock-based awards	3,929,199	3,844,374
Available for option grants	1,409,021	1,003,608
Exercise of common stock warrants	36,000	36,000
	5,374,220	4,883,982

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Common Stock Warrants

Immediately prior to the closing of the IPO on April 30, 2012, an outstanding warrant to purchase 36,000 shares of convertible preferred stock was converted into a warrant to purchase 36,000 shares of common stock on a one-to-one basis. Upon the conversion of the underlying convertible preferred stock, the Company remeasured the related warrant liability to fair value and reclassified to additional paid-in capital.

7. Stock Option Plan

Stock Option Plans

The Company adopted its stock option plan in 2000 (the 2000 Plan). Under the 2000 Plan, as amended, the Company was able to grant options to purchase up to 1,181,689 shares of common stock to certain employees, directors and consultants. Under the terms of the 2000 Plan, the Company may grant incentive stock options (ISO), nonstatutory stock options (NSO), common stock purchase agreements (CSPA) and stock purchase rights (SPR). Such awards are exercisable at prices generally equal to the fair value of the Company s common stock at the date of grant, as determined by the board of directors. Awards granted under the 2000 Plan generally vest over four years with a six-month cliff period and may be exercised for a period of up to ten years. Vested options generally expire 30 days after termination of employment. In December 2010, the board of directors approved a decrease in the number of shares of common stock reserved for issuance under the 2000 Plan to 644,366 shares. No shares were available for future grant under the 2000 Plan as of January 31, 2015 and 2014, due to the adoption of the stock incentive plan described below.

The Company adopted the 2010 stock incentive plan (the 2010 Plan) in June 2010. The 2010 Plan provides that only employees are eligible for the grant of ISOs and that employees, consultants and outside directors are eligible for the grant of NSOs. The 2010 Plan also allows for the grant of SPRs and restricted stock units (RSU). Awards granted under the 2010 Plan also generally vest over four years with a six-month cliff period and may be exercised for a period of up to ten years. Vested options generally expire three months after termination of employment. No shares were available for future grant under the 2010 Plan as of January 31, 2015 and 2014 due to the adoption of a new stock incentive plan as more fully described below.

The Company adopted the 2012 stock incentive plan (the 2012 Plan) in June 2011, as amended in April 2012. The 2012 Plan provides that only employees are eligible for the grant of ISOs and that employees, consultants and outside directors are eligible for the grant of NSOs. The 2012 Plan also allows for the grant of SPRs, RSUs and other types of equity awards. Awards granted under the 2012 Plan also generally vest over four years with a twelve-month cliff period and may be exercised for a period of up to ten years. In general, the vesting of awards granted under the 2012 Plan accelerates as to 25% of the then remaining unvested portion of the awards upon a change in control of the Company. Vested options generally expire three months after termination of employment. Shares of common stock reserved for issuance under the 2012 Plan consist of 1,409,021 and 1,003,608 shares as of January 31, 2015 and 2014, respectively. In addition, up to 1,773,879 shares subject to outstanding awards under the 2000 Plan or 2010 Plan that are subsequently forfeited or terminated for any reason before being exercised will be made available for issuance under the 2012 Plan. The number of shares that have been authorized for issuance under the 2012 Plan will be automatically increased on the first day of each fiscal year beginning in fiscal 2014 and ending in fiscal 2023, in an amount equal to the lesser of (i) 2,000,000 shares, (ii) 4% of the outstanding shares of the Company s common stock on the last day of the immediately preceding fiscal year, or (iii) another amount determined by the Company s board of directors.

At the beginning of fiscal 2016, the board of directors ratified an increase in the number of shares authorized for issuance under the 2012 Plan based on 4% of the outstanding shares of the Company s common stock on the last day of fiscal year 2015, or 1,190,311 shares. These shares will be registered under the Securities Act of 1933 on Securities and Exchange Commission Form S-8 filed in conjunction with this Form 10-K.

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The following table summarizes the stock-based award activity for the 2000 Plan, 2010 Plan and the 2012 Plan for the years ended January 31, 2013, 2014 and 2015:

	Shares Available For Grant	Stock Options and SPRs Outstanding	Weighted-Average Exercise Price	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
January 31, 2012	924,163	2,845,204	1.15	8.5	$ 14,269
Additional options authorized	200,000				
Options granted	(796,968)	796,968	2.86		
SPRs and CSPAs granted	(5,500)	5,500	8.06		
RSUs granted	(77,250)				
Options expired and forfeited	242,573	(242,573)	3.70		
SPRs and CSPAs expired and forfeited	1,125	(1,125)	1.46		
RSUs expired	65,942				
Plan shares expired	(1,000)				
Exercised		(270,948)	0.33		
January 31, 2013	553,085	3,133,026	1.46	7.6	$ 2,782
Additional options authorized	1,077,667				
Options granted	(629,419)	629,419	7.55		
RSUs granted	(121,950)				
Options expired and forfeited	118,725	(118,725)	4.11		
RSUs expired	5,500				
Exercised		(157,372)	0.32		
January 31, 2014	1,003,608	3,486,348	1.65	7.5	$ 8,530
Additional options authorized	1,084,782				
Options granted	(979,867)	979,867	2.32		
RSUs granted	(148,512)				
Options expired and forfeited	410,830	(410,830)	2.58		
RSUs expired	38,180				
Options Exercised		(468,594)	0.36		
January 31, 2015	1,409,021	3,586,791	1.89	7.2	$ 1,565
Vested and expected to vest-January 31, 2015		3,549,520	1.89	7.2	$ 1,565
Vested-January 31, 2015		2,095,922	1.48	5.9	$ 1,565

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Additional information regarding the Company s stock options outstanding and vested and exercisable as of January 31, 2015 is summarized below:

Exercise Prices			Options Outstanding Stock Options Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price per Share		Options Vested Stock Options Outstanding	Weighted-Average Exercise Price per Share	
		$0.30	1,423,042	5.7	$	0.30	1,423,042	$	0.30
$1.51	to	$1.91	150,442	7.9	$	1.64	50,129	$	1.61
		$2.00	698,200	8.8	$	2.00	58,200	$	2.00
$2.06	to	$2.15	473,472	8.0	$	2.11	227,003	$	2.12
$2.16	to	$3.30	575,043	8.8	$	3.24	119,004	$	3.26
$3.55	to	$3.90	42,637	8.4	$	3.67	12,724	$	3.70
$4.20	to	$5.10	32,541	0.9	$	4.14	31,881	$	4.33
		$7.90	132,000	6.3	$	7.90	122,080	$	7.90
		$8.06	12,000	7.1	$	8.06	9,696	$	8.06
		$8.84	47,400	7.3	$	8.84	42,149	$	8.84
		$250.00	14		$	250.00	14	$	250.00
			3,586,791	7.2	$	1.89	2,095,922	$	1.48

All of the Company s outstanding stock-based awards are exercisable at any time without regard to vesting. Accordingly shares exercised prior to vesting are included within the outstanding stock options as of each year end.

Stock Purchase Rights and Common Stock Purchase Agreements

The Company grants SPRs to its French employees and in limited past instances, CSPAs to service providers in the U.S. The SPRs and CSPAs provide the holder with a note equal to the aggregate exercise price of the related options, therefore, allowing the holder to legally exercise the related options at the time of issuance in consideration of the notes. Generally, the SPRs and CSPAs are subject to a vesting period of four years with the Company retaining the right to repurchase unvested shares at the aggregate exercise price of the underlying options. In the event that a holder s status as an employee ceases for any reason, the notes and the related options are cancelled. As of January 31, 2015 and January 31, 2014, 392,479 shares were subject to repurchase under the provisions of the SPRs and 97,464 shares were subject to repurchase under the provisions of the CSPAs.

The notes receivable issued to employees in conjunction with the SPRs and CSPAs are secured by the underlying shares and carry interest rates ranging from 2.1% to 5.9%. While the note terms indicate that they are full recourse, the Company has not pursued recourse in instances when a note receivable balance exceeds the fair value of the shares at the date of repurchase, and accordingly, the exercises of the SPRs and CSPAs has been considered to be non-substantive. Notes receivable relating to the SPRs and CSPAs are not recorded on the consolidated balance sheet due to the non-substantive exercise consideration. Accordingly, the SPRs and CSPAs have been accounted for as stock options and are included within the outstanding stock options as of each year end.

Restricted Stock Units

The Company grants RSUs to employees, executives and directors of the Company. As of January 31, 2015 the Company had 342,408 RSUs outstanding.

Of the total RSUs outstanding, 190,896 are subject to service, market and performance-based vesting terms that include the requirement that the Company s stock price exceed specified milestones relative to the

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Company s stock price following the initial public offering and, in some cases, are subject to acceleration under certain circumstances, including a change in control. The Company uses a modified binary option pricing model (European call option) to establish the expected value of these RSUs.

During the year ended January 31, 2015, the Company recorded $80,000 of stock-based compensation related to RSUs with service, market and performance-based vesting. During the year ended January 31, 2015, the Company recorded $313,000 of stock-based compensation related to RSUs with only service-based vesting.

A summary of the Company s restricted stock unit activity for the years ended January 31, 2013, 2014 and 2015 is presented below:

	RSUs Outstanding	Weighted Average Grant Date Fair Value
January 31, 2012	263,768	$ 7.90
Granted	77,250	6.47
Released	(13,000)	7.90
Cancelled and forfeited	(65,942)	5.51
January 31, 2013	262,076	$ 8.08
Granted	121,950	2.46
Released	(20,500)	2.02
Cancelled and forfeited	(5,500)	8.84
January 31, 2014	358,026	$ 6.50
Granted	148,512	2.02
Released	(125,950)	2.24
Cancelled and forfeited	(38,180)	7.87
January 31, 2015	342,408	$ 5.97

Stock-based Compensation

Total stock-based compensation expense for the years ended January 31, 2015, 2014 and 2013 is recognized in the consolidated statements of operations as follows (in thousands):

	Year Ended January 31,		
	2015	2014	2013
Cost of revenue	$ 34	$ 3	$ 5
Research and development	95	122	129
Sales and marketing	262	372	583
General and administrative	1,481	1,847	2,116

Total stock-based compensation	$ 1,872	$ 2,344	$ 2,833

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the Company s stock options on each grant date. The Black-Scholes option-pricing model takes into account inputs such as the exercise price, the fair value of the underlying common stock at the grant date, expected term, expected volatility, risk-free interest rate and expected dividend.

Expected term The expected term represents the period that the stock-based awards are expected to be outstanding. For option grants that are considered to be plain vanilla, the Company used the simplified method to determine the expected term as provided by the Securities and Exchange Commission. The simplified method calculates the expected term as the average of the time-to-vesting and the contractual life of the options. For option grants that are not considered plain vanilla, the expected term is based on historical option exercise behavior and post-vesting cancellations of options by employees.

Expected volatility The expected volatility is a weighted average based on the stock price volatility of a basket of similar companies and the historical volatility of the Company s share price measured from the date of the Company s initial public offering.

Risk-free interest rate The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected term of the awards.

Expected dividend The expected dividend is assumed to be zero as the Company has never paid dividends and has no current plans to do so.

The weighted average assumptions used to estimate the fair value of the Company s employee stock options at the grant dates for the years ended January 31, 2015, 2014 and 2013 were as follows:

	Year Ended January 31,		
	2015	**2014**	**2013**
Expected term (in years)	6.25	6.25	6.25
Volatility	65%	57%	57%
Risk-free interest rate	1.97%	1.68%	1.20%
Expected dividend	0%	0%	0%

As of January 31, 2015, total compensation cost not yet recognized for unvested stock option grants and unvested stock awards were $1.9 million and $168,000 respectively, which are expected to be recognized over the following 3.1 years and 1.0 years based on the weighted average vesting term, respectively.

In addition to the assumptions used in the Black-Scholes option-pricing model, the Company must also estimate a forfeiture rate to calculate the stock-based compensation for the awards. The forfeiture rate is based on an analysis of actual forfeitures and the Company will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover and other factors. The rate was 1.6% during the year ended January 31, 2015.

The Company is also required to estimate the fair value of the common stock underlying the stock-based awards when performing the fair value calculations with the Black-Scholes option-pricing model. The fair value of the common stock underlying the stock- based awards for the common stock after the Company was public was determined by the Company s board of directors using the closing price of our common stock as reported on the Nasdaq Global Market on the date of grant. The fair value of the common stock underlying the stock-based awards for the common stock before the Company was public was estimated on each grant date by the board of directors, with input from management. The board of directors is comprised of a majority of non-employee directors with significant experience in the digital media and communications software industries. Given the then absence of a public trading market of the Company s common stock, and in accordance with the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, the board of directors exercised reasonable judgment and considered numerous objective and subjective factors to determine the best estimate of the fair value of the common stock, including among other things, the rights, preferences and privileges of the convertible preferred stock, business performance, present value of expected future cash flows, likelihood of achieving a liquidity event, illiquidity of the Company s capital stock, management experience, stage of development, industry information and macroeconomic conditions. In addition, the Company s board of directors utilized independent valuations performed by an unrelated third-party specialist to assist with the valuation of the common stock; however, the Company and the board of directors have assumed full responsibility for the estimates. These third-party specialist valuations were performed as of January 31, 2010, April 6, 2011, May 15, 2011, November 30, 2011 and February 29, 2012. The board utilized the fair values of the common stock derived in the third-party valuations to set the exercise price for options granted during the years ended January 31, 2011 and 2012, and also for options granted prior to the IPO in the Company s 2013 fiscal year. Although the board of directors

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continued to believe the original value of the Company s common stock determined was appropriate based on the facts known at that time, the fair value of the underlying common stock for options granted during the years ended January 31, 2011 and 2012 was subsequently revisited by the board of directors for financial reporting purposes and reassessed on a retrospective basis so that the fair value of the underlying common stock used to calculate the related stock-based compensation expense was increased accordingly.

The total estimated fair value of employee options and stock purchase rights granted during the years ended January 31, 2015, 2014 and 2013 was $1.3 million, $1.7 million and $2.3 million, respectively. The weighted average estimated fair value of those options granted during the years ended January 31, 2015, 2014 and 2013 was determined to be $1.38, $2.72 and $2.90 per share. The intrinsic value of options exercised during the years ended January 31, 2015, 2014 and 2013 was $1.2 million, $249,000 and $2.3 million, respectively.

The total estimated fair value of employee restricted stock awards granted during the years ended January 31, 2015, 2014 and 2013 was $300,000, $300,000 and $499,000, respectively. The weighted average estimated fair value of those awards granted during the years ended January 31, 2015, 2014 and 2013 was determined to be $2.02, $2.46 and $6.47 per share, respectively.

Options Granted to Non-Employee

During the year ended January 31, 2015, the Company granted options to purchase 26,575 shares of common stock to a non-employee at an exercise price of $3.55 per share. The Company records stock-based compensation equal to the fair value of the awards in the period they vest. In connection with option granted to the non-employee, the company recognized stock-based compensation expense of $16,000 in the year ended January 31, 2015.

8. Net Loss per Share Attributable to Common Stockholders

The following table sets forth the computation of the Company s basic and diluted net loss per share attributable to common stockholders for the years ended January 31, 2015, 2014 and 2013 (in thousands, except for share and per share amounts):

	Year ended Janaury 31,		
	2015	**2014**	**2013**
Net loss attributable to common stockholders	$ (15,612)	$ (12,188)	$ (16,935)
Shares used in computing net loss per share attributable to common stockholders, basic and diluted	27,500,647	27,102,111	23,577,491
Net loss per share attributable to common stockholders, basic and diluted	$ (0.57)	$ (0.45)	$ (0.72)

The following outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been anti-dilutive:

Year ended January 31,

	2015	**2014**	**2013**
Stock options to purchase common stock	3,096,848	2,996,405	2,643,083
Shares purchased with notes (SPRs and CSPAs)	489,943	489,943	489,943
Common stock warrants	36,000	36,000	36,000
Restricted stock units	342,408	358,026	262,076

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9. Income Taxes

The provision for income taxes in the consolidated statements of operations consists mainly of state and foreign taxes incurred by foreign subsidiaries. The Company s net income (loss) before provision for income taxes during the years ended January 31, 2015, 2014 and 2013 is as follows (in thousands):

	Year ended January 31,		
	2015	2014	2013
Domestic	$ (17,817)	$ (14,642)	$ (18,836)
International	2,589	2,805	2,276
Income (loss) before provision for income taxes	$ (15,228)	$ (11,837)	$ (16,560)

The components of the provision for income taxes during the years ended January 31, 2015, 2014 and 2013 are as follows (in thousands):

	Year ended January 31,		
	2015	2014	2013
Current:			
Federal		50	
State	2	2	(87)
Foreign	323	185	283
Total Current	325	237	196
Deferred			
Foreign	59	114	179
Total deferred	59	114	179
Total provision for income taxes	$ 384	$ 351	$ 375

Significant components of deferred tax assets as of January 31, 2015 and 2014 are as follows (in thousands):

	January 31, 2015	January 31, 2014
Current deferred tax assets:		
Reserves and accruals	4,345	5,158
Deferred revenue, net	274	461
Other	7	7
	4,626	5,626

Valuation allowance	(4,626)	(5,626)
Net current deferred tax asset (liability)	$	$
Non-current deferred tax assets:		
Net operating loss carry forwards	33,863	26,858
Stock-based compensation	1,332	1,617
Tax credits	277	255
Fixed assets	281	
Other	850	666
	36,603	29,396
Valuation allowance	(36,603)	(29,354)
Non-current deferred tax assets:		42
Current deferred tax liability:		
Fixed assets		(42)
Non-current deferred tax liabilities		(42)
Net non-current deferred tax assets (liabilities)	$	$

Reconciliations of the statutory federal income tax to the Company s effective income tax rate during the years ended January 31, 2015, 2014 and 2013 are as follows:

	Year ended January 31,		
	2015	**2014**	**2013**
Statutory federal rate	34.0%	34.0%	34.0%
State tax net of federal benefit	17.8	5.9	(4.8)
French research tax credit	6.2	7.6	3.2
Changes in reserves for uncertain tax positions	(1.8)	(1.0)	(1.2)
Stock-based compensation	(0.7)	(1.0)	(1.3)
Other	(7.9)	(0.8)	(4.8)
Change in valuation allowance	(50.1)	(47.7)	(27.4)
Provision for income taxes	(2.5)%	(3.0)%	(2.3)%

The Company provided a full valuation allowance for net operating losses, credits and other deferred tax assets for the state of California and U.S. Foreign deferred tax assets are immaterial. A valuation allowance is provided when based upon the available evidence, management concludes that it is more likely than not that some portion of the deferred tax assets will not be realized. The Company maintained a full valuation allowance as of January 31, 2013, 2014 and 2015 due to the uncertainty of realizing future tax benefits from its net operating loss carry-forwards and other deferred tax assets. The increases in the valuation allowance during the years ended January 31, 2015, 2014 and 2013 were $6.2 million, $5.5 million and $4.1 million, respectively.

As of January 31, 2015, the Company had federal net operating loss carry-forwards of $85.8 million, and California net operating loss carry-forwards of $80.6 million. The Company s federal and state net operating loss carry-forwards begin to expire in 2021 and 2015, respectively.

As of January 31, 2015, the Company had federal foreign tax credit carry-forwards in the amount of $222,000, available to offset U.S. federal income taxes. Unutilized foreign tax credits are allowed as a business deduction upon expiration. The Company also has state research tax credit carry-forwards in the amount of $84,000 as of January 31, 2015. This credit has no expiration period and is carried forward indefinitely until utilized.

Utilization of U.S. net operating losses and tax credit carryforwards may be limited by ownership change rules, as defined in Section 382 of the Internal Revenue Code. Similar rules may apply under state tax laws. The Company has completed a 382 study through the year ended January 31, 2012 and accordingly has reduced its net operating loss carry-forwards for federal and state purposes by $8.6 million and $3.4 million. In addition, the Company has reduced federal research tax credit carry-forwards by $173,000. The Company has not completed a formal Section 382 study since January 2012 but has continued to monitor activities since then. In the event the Company determines that an ownership change has occurred since January 2012, the Company previously experienced an ownership change, or should experience an ownership change in the future, the amount of net operating losses and research and development credit carryovers available in any taxable year could be limited and may expire unutilized.

The table of deferred tax assets shown above does not include certain deferred tax assets at January 31, 2015 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for book purposes. Additional paid in capital will be increased by approximately $0 if and when such deferred tax assets are ultimately realized.

Uncertain Tax Positions

The Company remains open for audit by the United States Internal Revenue Service and state tax authorities since inception. The Company remains open for audit by the French tax authorities for the years 2009 through 2014. Most other foreign jurisdictions have statute of limitations that range from three to six years. The Company is not currently under examination by income tax authorities in federal, state or other foreign jurisdictions.

A reconciliation of the beginning and ending balances of the gross unrecognized tax benefits during the years ended January 31, 2015, 2014 and 2013 is as follows (in thousands):

	Year ended January 31,		
	2015	2014	2013
Unrecognized benefit-beginning of period	$ 1,436	$ 1,314	$ 1,277
Gross increases-current period tax adjustments	429	342	65
Gross decreases-prior period tax adjustments	(167)	(220)	(28)
Unrecognized benefit-end of period	$ 1,698	$ 1,436	$ 1,314

As of January 31, 2015, the total amount of gross unrecognized tax benefits was $1.7 million of which $153,000 offsets tax attributes. Unrecognized tax benefits of $1.5 million, if recognized, would affect the effective income tax rate in the period or periods recognized. The net unrecognized tax benefits were included in other non-current liabilities in the consolidated balance sheet as of January 31, 2015 and 2014.

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense. The Company accrued net interest and penalties of $18,000, $15,000 and $15,000 during the years ended January 31, 2015, 2014 and 2013. In addition, the Company recorded liabilities for accrued interest and penalties of $67,000 and $50,000 as of January 31, 2015 and 2014.

The Company does not believe there will be an increase or decrease of unrecognized tax benefits that may occur within the next 12 months. To the extent there is an increase or decrease, the Company believes any impact to the effective tax rate would be immaterial.

10. 401(k) Defined Contribution Plan

The Company established a defined contribution plan that meets the requirements of Section 401(k) of the Internal Revenue Code (the 401(k) Plan) and covers substantially all eligible employees. Employees may elect to have a percentage of their compensation contributed to the 401(k) Plan, subject to certain guidelines issued by the Internal Revenue Service. The Company may contribute to the 401(k) Plan at the discretion of the Board of Directors. To date, the Company has made no contributions to the 401(k) Plan.

11. Segment Information

The Company s solutions enable customers to deliver video services over broadcast, cable, internet, mobile and satellite networks. Operating segments are defined as components of an enterprise that engage in business activities for which separate financial information is available and evaluated by the chief operating decision maker in deciding how to allocate resources and assessing performance. The Company s chief operating decision maker is its chief executive officer. The chief executive officer reviews financial information presented on a consolidated basis, for purposes of allocating resources and evaluating financial performance. The Company has one business activity and there are no segment managers who are held accountable for operations, operating results beyond revenue goals or gross margins, or plans for levels or components below the consolidated unit level. Accordingly, the Company has a single reporting segment.

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The Company s revenue by geographic region, based on the location at which each sale originates, is summarized as follows (in thousands):

	Year Ended January 31,		
	2015	2014	2013
Americas	$ 18,494	$ 17,446	$ 8,250
Asia Pacific	9,231	10,201	10,908
EMEA	13,831	15,557	19,941
Total	$ 41,556	$ 43,204	$ 39,099

Included within the Americas total in the above table is revenue from sales originating in the U.S. of $10.5 million, $15.3 million and $5.2 million for the years ended January 31, 2015, 2014 and 2013, respectively. Also included within the Americas total in the above table is revenue from sales originating in Mexico of $6.1 million, $0.4 million and $2.5 million for the years ended January 31, 2015, 2014 and 2013, respectively.

The Company s property and equipment, net, by geographic region is summarized as follows (in thousands) as of:

	January 31, 2015	January 31, 2014
U.S.A.	$ 2,021	$ 1,692
France	1,557	2,228
U.K.	4	
Asia Pacific	8	4
Total	$ 3,590	$ 3,924

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 13d-15(e)) that are designed with the objective of providing reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of January 31, 2015, at the reasonable assurance level.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2015 using the criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the COSO framework, management has concluded that our internal control over financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm on our internal control over financial reporting due to an exemption established by the JOBS Act for emerging growth companies.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for our 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2015.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for our 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2015.

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

The information required by this item is incorporated by reference to our Proxy Statement for our 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2015.

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

The information required by this item is incorporated by reference to our Proxy Statement for our 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2015.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement for our 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2015.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

The financial statements are set forth in Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedule

All schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or Notes to Consolidated Financial Statements under Item 8.

3. Exhibits

See exhibit index for a list of exhibits.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENVIVIO, INC.

By: /s/ Erik E. Miller
Erik E. Miller
Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: April 23, 2015

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Julien Signès and Erik E. Miller, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Julien Signès Julien Signès	President, Chief Executive Officer and Director (Principal Executive Officer)	April 23, 2015
/s/ Erik E. Miller Erik E. Miller	Chief Financial Officer (Principal Financial and Accounting Officer)	April 23, 2015
/s/ Terry Kramer Terry Kramer	Chairman of the Board	April 23, 2015
/s/ Michael L. LaJoie Michael L. LaJoie	Director	April 23, 2015

/s/ Marcel Gani Marcel Gani	Director	April 23, 2015
/s/ Edward Gilhuly Edward Gilhuly	Director	April 23, 2015
/s/ Corentin du Roy de Blicquy Corentin du Roy de Blicquy	Director	April 23, 2015
/s/ R. David Spreng R. David Spreng	Director	April 23, 2015

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Exhibit Index

Exhibit Number	Description	Incorporated by reference from form	Incorporated by reference from exhibit number	Date Filed
3.1(a)	Restated Certificate of Incorporation of the Registrant	S-1	3.1(b)	6/22/2011
3.1(b)	Amended and Restated Bylaws of the Registrant	S-1	3.2(b)	6/3/2011
4.1	Form of Common Stock Certificate	S-1	4.1	6/22/2011
4.2	Amended and Restated Investors Rights Agreement between the Registrant and certain investors, as amended	S-1	4.2	4/5/2012
10.1	Form of Indemnification Agreement between the Registrant and its officers and directors	S-1	10.1	6/14/2011
10.2#	2000 Stock Option Plan and form of agreements thereunder	S-1	10.2	4/15/2011
10.3#	Amended and Restated 2010 Stock Incentive Plan and form of agreements thereunder	S-1	10.3	5/17/2011
10.4#	Amended and Restated 2012 Stock Incentive Plan and form of agreements thereunder	S-1	10.4	4/24/2012
10.5	Lease between the Registrant and Kashiwa Fudosan America, Inc., as amended	S-1	10.5	4/15/2011
10.6#	Executive Employment Agreement between the Registrant and Julien Signès	S-1	10.6	5/17/2011
10.7#	Offer Letter between the Registrant and Erik E. Miller	S-1	10.7	5/17/2011
10.8#	Offer Letter between the Registrant and Anne M. Lynch	S-1	10.9	5/17/2011
10.9#	Change of Control Severance Agreement between the Registrant and Julien Signès	S-1	10.10	5/17/2011
10.10#	Change of Control Severance Agreement between the Registrant and Erik E. Miller	S-1	10.12	5/17/2011
10.11#	Change of Control Severance Agreement between the Registrant and Anne M. Lynch	S-1	10.14	5/17/2011
10.12#		S-1	10.15	5/17/2011

	Amendment of Executive Employment Agreement for Compliance with Section 409A between the Registrant and Julien Signès			
10.13#	Amendment of Offer Letter for Compliance with Section 409A between the Registrant and Erik E. Miller	S-1	10.16	5/17/2011
10.14#	Amendment of Offer Letter for Compliance with Section 409A between the Registrant and Anne M. Lynch	S-1	10.18	5/17/2011
10.15#	Restricted Stock Unit Agreement between the Registrant and Anne M. Lynch, dated April 13, 2011	S-1	10.23	6/3/2011
10.16	Standard Manufacturing Agreement between the Registrant and FutureQuest Incorporated	S-1	10.24	6/3/2011
10.17#	Restricted Stock Unit Agreement between the Registrant and Julien Signès, dated January 1, 2012	S-1	10.26	4/5/2012

Exhibit Number	Description	Incorporated by reference from form	Incorporated by reference from exhibit number	Date Filed
10.18#	Restricted Stock Unit Agreement between the Registrant and Erik E. Miller, dated January 1, 2012	S-1	10.26	4/5/2012
10.19	Warrants to Purchase Shares of Preferred Stock dated May 30, 2008 between the Registrant and entities affiliated with Venture Lending & Leasing	S-1	10.29	4/24/2012
10.20	San Francisco office lease agreement between BXP MISSION 535 LLC and Envivio, Inc.	10-Q	10.1	12/10/2014
10.21	Irrevocable standby letter of credit between BXP MISSION 535 LLC and Envivio, Inc.	10-Q	10.2	12/10/2014
10.22#	Offer Letter between Michael LaJoie and Envivio, Inc., dated February 24, 2015.	8-K	10.1	2/26/2015
21.1	List of Subsidiaries	S-1	21.1	4/15/2011
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm			
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
32.1++	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Extension Schema Document			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			

++ The certifications attached as Exhibit 32.1 accompany this Annual Report on Form 10-K pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

# Denotes management contract or compensatory arrangement.

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