ENVIVIO INC
Form 10-Q
September 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended July 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, CA 94105

(415) 510-3400

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

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 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

The number of shares of the registrant s Common Stock, $.001 par value, outstanding on September 9, 2015 was 27,857,201.

TABLE OF CONTENTS

Table of Contents

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENVIVIO, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(UNAUDITED)

	July 31, 2015	January 31, 2015
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 34,534	$ 37,790
Accounts receivable, net of allowance for doubtful accounts	11,536	8,780
Inventory	155	171
Prepaid expenses and other assets	2,349	3,655
Deferred inventory costs	491	86
Total current assets	49,065	50,482
Property and equipment, net	4,363	3,590
Restricted cash	329	329
Other non-current assets	164	202
Total assets	$ 53,921	$ 54,603
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 6,113	$ 5,480
Accrued compensation	4,558	5,070
Accrued liabilities	2,249	3,296
Deferred revenue, current	7,097	5,999
Total current liabilities	20,017	19,845
Deferred revenue, net of current portion	866	711
Other non-current liabilities	1,289	1,562
Deferred rent	733	498
Total liabilities	22,905	22,616

Stockholders equity:

Preferred stock		
Common stock	28	28
Additional paid-in capital	157,128	156,604
Accumulated other comprehensive loss	(1,154)	(1,079)
Accumulated deficit	(124,986)	(123,566)
Total stockholders equity	31,016	31,987
Total liabilities and stockholders equity	$ 53,921	$ 54,603

See notes to condensed consolidated financial statements.

3

Table of Contents

ENVIVIO, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(UNAUDITED)

	Three Months Ended July 31,		Six Months Ended July 31,	
	(in thousands, except for per share amounts)			
	2015	2014	2015	2014
Revenue:				
Product	$ 8,933	$ 8,852	$ 15,652	$ 14,963
Professional services and support	2,752	2,600	5,546	4,903
Total revenue	11,685	11,452	21,198	19,866
Cost of revenue:				
Product	2,784	4,077	4,477	6,128
Professional services and support	693	704	1,272	1,348
Total cost of revenue	3,477	4,781	5,749	7,476
Gross profit	8,208	6,671	15,449	12,390
Operating expenses:				
Research and development	2,017	2,257	3,920	4,757
Sales and marketing	4,441	5,374	8,379	10,442
General and administrative	2,240	2,989	4,486	5,669
Total operating expenses	8,698	10,620	16,785	20,868
Loss from operations	(490)	(3,949)	(1,336)	(8,478)
Interest income, net	21	1	27	4
Other income (expense), net	48	(55)	(31)	(88)
Loss before provision for income taxes	(421)	(4,003)	(1,340)	(8,562)
Income tax provision	200	82	80	53
Net loss	$ (621)	$ (4,085)	$ (1,420)	$ (8,615)
Net loss per share of common stock, basic and diluted	$ (0.02)	$ (0.15)	$ (0.05)	$ (0.32)
Shares used in computing net loss per share of common stock, basic and diluted	27,725,755	27,496,793	27,721,425	27,322,736

See notes to condensed consolidated financial statements.

Table of Contents

ENVIVIO, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss

(UNAUDITED)

	Three Months Ended July 31,		Six Months Ended July 31,	
	(in thousands)			
	2015	2014	2015	2014
Net loss	$ (621)	$ (4,085)	$ (1,420)	$ (8,615)
Other comprehensive loss:				
Foreign currency translation	(21)	(12)	(75)	(76)
Other comprehensive loss:	(21)	(12)	(75)	(76)
Total comprehensive loss	$ (642)	$ (4,097)	$ (1,495)	$ (8,691)

See notes to condensed consolidated financial statements.

Table of Contents

ENVIVIO, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(UNAUDITED)

	Six Months Ended July 31, 2015	2014
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ -1,420	$ -8,615
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,105	1,358
Stock-based compensation	507	1,237
Bad debt expense	117	281
Loss on disposal of fixed assets	21	10
Changes in operating assets and liabilities:		
Accounts receivable	-2,874	-244
Inventory	16	-151
Prepaid expenses and other current assets	1,306	807
Deferred inventory costs	-405	-297
Other non-current assets	38	17
Accounts payable, accrued liabilities and accrued compensation	-1,624	2,015
Deferred revenue	1,255	52
Other non-current liabilities and deferred rent	25	-64
Net cash used in operating activities	-1,933	-3,594
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	-1,201	-1,868
Net cash used in investing activities	-1,201	-1,868
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock options exercised	17	170
Repayment of French governmental research grant	-64	-373
Net cash used in financing activities	-47	-203
Effect of exchange rate changes on cash and cash equivalents	-75	-76
NET DECREASE IN CASH AND CASH EQUIVALENTS	-3,256	-5,741

CASH AND CASH EQUIVALENTS - Beginning of period		37,790		47,873
CASH AND CASH EQUIVALENTS - End of period	$	34,534	$	42,132
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Interest paid	$	1	$	0
Taxes paid	$	13	$	10
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Non-cash capital expenditures	$	698	$	0

See notes to condensed consolidated financial statements.

Table of Contents

ENVIVIO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in financial statements in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The January 31, 2015 condensed consolidated balance sheet was derived from audited financial statements. This Quarterly Report on Form 10-Q should be read in conjunction with the Company s audited consolidated financial statements and notes thereto contained in the Company s annual report on Form 10-K which was filed with the Securities and Exchange Commission on April 23, 2015 (2015 Form 10-K). The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending January 31, 2016, or any other future period.

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, revenues 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, valuation of equity and liability instruments, the French government research tax credit 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.

Significant Accounting Policies

The Company s significant accounting policies are described in Note 1 of its audited consolidated financial statements included in its 2015 Form 10-K. There have been no material changes to these significant accounting policies during the three and six months ended July 31, 2015.

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 became effective for the Company beginning in the first quarter of the fiscal year ended January 31, 2016. The adoption of ASU 2014-08 did not have a material impact on the Company s financial position, results of operations or cash flows.

In May 2014, the 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. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 by one year, with early adoption as of the original effective date permitted. The Company has not yet selected a transition method and it is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

Table of Contents

In November 2014, the FASB issued 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 for fiscal years beginning after December 15, 2015. Early adoption in an interim period is permitted. The Company does not expect the adoption of ASU 2014-16 to have a material impact on its financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 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.

In April, 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40) - Customer s Accounting for Fees Paid in a Cloud Computing Arrangement . ASU 2015-05 amends ASC 350-40 to provide customers with guidance on whether a cloud computing arrangement contains a software license to be accounted for as internal-use software. ASU 2015-05 is effective in the fiscal year beginning after December 15, 2015. Early adoption in an interim period is permitted. The Company does not expect the adoption of ASU 2015-05 to have a material impact on its financial position, results of operations or cash flows.

In June, 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements which amended, corrected and improved several Topics in the Codification. The FASB s intention was to clarify, correct or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Some amendments in the ASU do not require transition guidance. Those changes that do require guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2015-10 to have a material impact on its financial position, results of operations or cash flows.

In July, 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory . ASU 2015-11 amends Topic 330, replacing the floor and ceiling method to define market value with a net realizable value approach. This method more closely aligns the measurement of inventory with the method utilized in International Financial Reporting Standards (IFRS). This ASU will be effective for the Company s fiscal year beginning February 1, 2017. The Company does not expect the adoption of ASU 2015-10 to have a material impact on its financial position, results of operations or cash flows.

2. Balance Sheet Items

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

	July 31, 2015	January 31, 2015
Accounts receivable		
Accounts receivable, gross	$ 13,411	$ 10,819

Allowance for doubtful accounts		(1,875)		(2,039)
Accounts receivable, net	$	11,536	$	8,780

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

		July 31, 2015		January 31, 2015
Foreign tax credits refundable	$	801	$	2,190
Prepaid expenses		1,548		1,465
Prepaid expenses and other current assets	$	2,349	$	3,655

8

Table of Contents

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

	July 31, 2015	January 31, 2015
Computer and equipment	$ 9,961	$ 10,452
Software	1,272	1,435
Furniture and fixtures	1,847	1,881
Leasehold improvements	995	263
	14,075	14,031
Less: accumulated depreciation and amortization	(9,712)	(10,441)
Property and equipment, net	$ 4,363	$ 3,590

Total depreciation and amortization expense was $531,000 and $1,105,000 during the three and six months ended July 31, 2015 and $702,000 and $1,358,000 during the three and six months ended July 31, 2014, respectively. In addition, during the three months ended April 30, 2015, in connection with the relocation of our corporate headquarters, we disposed of fully depreciated assets with an original cost of $1.5 million.

3. Fair Value of Financial Instruments

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

	July 31, 2015				January 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (included in cash and cash equivalents)	$ 28,265	$	$	$ 28,265	$ 34,152	$	$	$ 34,152

4. Line of Credit and Other Non-Current Liabilities

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

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.

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 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 is required to pay commitment fees of $25,000 per year. The Company did not draw down any outstanding amount on this line of credit and the line of credit expired in July 2014 and has not been renewed.

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 July 31, 2015 and January 31, 2015.

Accrued Liabilities and 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 included in accrued liabilities were $60,000 and $125,000 as of July 31, 2015 and January 31, 2015, respectively. Long-term tax liabilities, included in other non-current liabilities, were $1.3 million and $1.5 million as of July 31, 2015 and January 31, 2015.

Table of Contents

5. Commitments and Contingencies

Operating Leases

The Company leases facilities under operating leases expiring at various dates through 2023. As of July 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 (remaining six months)	$	661
2017		974
2018		936
2019		893
2020		849
Thereafter		1,606
Total	$	5,919

In October 2014, the Company entered into a ninety-seven month operating lease agreement for our new headquarters in San Francisco, California, composed of approximately 4,600 square feet. 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 $225,000 and $440,000 during the three and six months ended July 31, 2015, 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 our directors, our chief executive officer, chief financial officer, and certain underwriters of our IPO. The lawsuit purported to be a class action on behalf of purchasers of shares issued in the IPO and generally alleged that the registration statement for the IPO contained materially false or misleading statements. The complaint purported to assert claims under the Securities Act of 1933, as amended, and sought 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, 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 purported to be on behalf of a class of purchasers of our securities between April 25, 2012 and September 7, 2012. It named as defendants the Company and our chief executive officer and chief financial officer, and sought 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 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 received final court approval on June 22, 2015. The agreement required the Company to contribute approximately $1.0 million toward the settlement, and such amount has been paid. On June 22, 2015, the court entered a final judgment and order granting approval of the class action settlement, releasing all claims against the defendants, and barring class members from asserting released claims. Without affecting the finality of the judgment the court retained continuing jurisdiction for the purpose of construing, enforcing and administering 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.

Table of Contents

6. Stockholders Equity

Common Stock

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

	July 31, 2015		January 31, 2015	
	Authorized	Issued and Outstanding	Authorized	Issued and Outstanding
Common stock	100,000,000	27,732,941	100,000,000	27,714,092

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

	July 31, 2015	January 31, 2015
Exercise and vesting of stock-based awards	4,211,318	3,929,199
Available for option grants	2,298,364	1,409,021
Exercise of common stock warrants		36,000
Total shares of common stock reserved for issuance	6,509,682	5,374,220

Common Stock Warrants

Immediately prior to the closing of the IPO on April 24, 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 with the remaining amounts being reclassified to additional paid-in capital. Common stock warrants had an exercise price of $12.50 per share and expired unexercised in June 2015.

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), non-statutory 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 due to the adoption of the 2010 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 due to the adoption of the 2012 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 2,298,364 and 1,409,021 shares as of July 31, 2015 and January 31, 2015, respectively. In addition, up to 1,696,075 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.

Table of Contents

At the beginning of fiscal 2016, the board of directors ratified an automatic annual 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 were registered under the Securities Act of 1933 on Securities and Exchange Commission Form S-8 filed on April 23, 2015.

The following table summarizes the stock-based award activity for the 2000 Plan, 2010 Plan and the 2012 Plan during the six months ended July 31, 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, 2015	1,409,021	3,586,791	$ 1.89	7.2	$ 1,565
Additional options authorized	1,190,311	0	$		$
Options granted	(434,457)	434,457	$ 1.62		$
Options expired and forfeited	70,056	(70,056)	$ 3.27		$
RSUs expired	63,433	0	$		$
Exercised	0	(16,849)	$ 1.02		$
July 31, 2015	2,298,364	3,934,343	$ 1.84	7.1	$ 2,260
Vested and expected to vest - July 31, 2015		3,775,313	$ 1.83	7.0	$ 2,249
Vested-July 31, 2015		2,277,612	$ 1.59	5.7	$ 2,166

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 July 31, 2015, 388,474 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 0.65% 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 have been considered 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 July 31, 2015 the Company had 276,975 RSUs outstanding.

Of the total RSUs outstanding, 152,715 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 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.

Table of Contents

During the three and six months ended July 31, 2015, the Company recorded $6,000 and $14,000 of stock-based compensation expense related to RSUs with service, market and performance-based vesting, respectively. During the three and six months ended July 31, 2015, the Company recorded $113,000 and $152,000 of stock-based compensation related to RSUs with only service-based vesting, respectively.

A summary of the Company s RSU activity for the three months ended July 31, 2015 is presented below:

	RSUs Outstanding	Weighted Average Grant Date Fair Value
January 31, 2015	342,408	$ 5.97
Released	(2,000)	1.58
Forfeited	(63,433)	5.59
July 31, 2015	276,975	$ 6.74

Stock-based Compensation

Total stock-based compensation expense during the three and six months ended July 31, 2015 and 2014 are recognized in the consolidated statements of operations as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	**2014**	**2015**	**2014**
Cost of revenue	$ 11	$ 7	$ 21	$ 14
Research and development	14	35	24	70
Sales and marketing	52	78	101	160
General and administrative	151	504	361	993
Total stock-based compensation	$ 228	$ 624	$ 507	$ 1,237

The weighted average assumptions used to estimate the fair value of the Company s employee stock options at the grant dates during the three and six months ended July 31, 2015 and 2014 were as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	**2014**	**2015**	**2014**
Expected term (in years)	6.25	6.25	6.25	6.25
Volatility	77%	70%	75%	70%
Risk-free interest rate	1.91%	1.93%	1.83%	2.00%
Expected dividend	0%	0%	0%	0%

As of July 31, 2015, total compensation costs not yet recognized for unvested stock option grants and unvested stock awards were $1.7 million and $2,000 respectively, which are expected to be recognized over the following 2.9 years and 1.1 years based on the weighted average vesting term, respectively.

Table of Contents

8. Net Loss per Share

The following table sets forth the computation of the Company s basic and diluted net loss per share during the three and six months ended July 31, 2015 and 2014 (in thousands, except for share and per share amounts):

	Three Months ended July 31,		Six Months ended July 31,	
	2015	2014	2015	2014
Net loss to common stockholders	$ (621)	$ (4,085)	$ (1,420)	$ (8,615)
Shares used in computing net loss per share attributable to common stockholders, basic and diluted	27,725,755	27,496,793	27,721,425	27,322,736
Net loss per share to common stockholders, basic and diluted	$ (0.02)	$ (0.15)	$ (0.05)	$ (0.32)

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

	The Period Ended July 31,	
	2015	2014
Stock options to purchase common stock	3,448,405	2,666,203
Shares purchased with notes (SPRs and CSPAs)	485,938	489,943
Common stock warrants		36,000
Restricted stock units	276,975	234,076
	4,211,318	3,426,222

9. Income Taxes

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company records liabilities for income tax contingencies based on management s best estimate of the underlying exposures. The Company remains open for audit by the United States Internal Revenue Service and state tax authorities for all tax years since inception. The Company remains open for audit by the French tax authorities for the years 2007 through 2009 and 2013 through 2015. 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 any federal, state or foreign jurisdictions.

The Company s effective tax rate is a blended rate resulting from the composition of taxable income in the various global jurisdictions in which it conducts business. The Company records a full valuation allowance against its deferred tax assets in the jurisdictions where there is insufficient certainty surrounding the realization of deferred tax assets through future taxable income.

For the three and six months ended July 31, 2015, the Company recognized an income tax expense of $200,000 and $80,000, respectively. For the three and six months ended July 31, 2014, the Company recorded an income tax expense of $82,000 and $53,000, respectively. The income tax expense for the three and six months ended July 31, 2015 was comprised of various foreign and state and local income taxes, partially offset by the release during the first quarter of fiscal 2016 of a $277,000 reserve for an uncertain tax position related to the Company s France entity due to the lapse in the statute of limitations for the tax year 2012.

In compliance with applicable guidance for accounting for uncertainty in income taxes, the Company had gross unrecognized tax benefits, which included provisions for estimated interest and penalties, of approximately $1.5 million as of July 31, 2015, and approximately $1.4 million as of July 31, 2014. If all of the July 31, 2015 unrecognized tax benefits were recognized, $1.4 million would impact the provision for income taxes, with the remainder resulting in adjustments to other tax accounts, primarily deferred taxes. The Company believes that it is reasonably possible that approximately $336,000 of its currently remaining unrecognized tax benefits may be recognized within the 12 months beginning July 31, 2015, as a result of a lapse of the statute of limitations.

Table of Contents

The Company recognizes interest and possible penalties related to uncertain tax positions in income tax expense.

10. 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.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
Americas	$ 6,095	$ 4,909	$ 11,840	$ 7,875
Asia Pacific	2,758	2,291	4,654	4,706
EMEA	2,832	4,252	4,704	7,285
Total	$ 11,685	$ 11,452	$ 21,198	$ 19,866

Included within the Americas total in the above table is revenue from sales originating in the U.S. of $5.2 million and $10.8 million during the three and six months ended July 31, 2015, respectively, and $0.9 million and $3.5 million during the three and six months ended July 31, 2014, respectively. Also included within the Americas total in the above table is revenue from sales originating in Mexico of $3.5 million and $3.6 million during the three and six months ended July 31, 2014. Included within the Asia Pacific total in the above table is revenue from sales originating in Australia of $1.5 million, which accounted for 13% of the Companys revenue for the quarter ended July 31, 2015. No other country accounted for more than 10% of the Company s total revenue in the three and six months ended July 31, 2015.

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

	July 31, 2015	January 31, 2015
Americas	$ 2,842	$ 2,021
France	1,507	1,557
United Kingdom	3	4
Asia Pacific	11	8
Total	$ 4,363	$ 3,590

All assets included within the Americas region in the above table are in the United States.

Table of Contents

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

	Three Months Ended July 31		Six Months Ended July 31	
	2015	2014	2015	2014
Cox Communications	23%	*	14%	*
Comcast Cable	12%	*	25%	16%
Fetch TV	11%	*	*	*
Promexar, S.A de C.V.	*	31%	*	18%

* Less than 10%

Customers representing 10% or greater of total accounts receivable, gross for the periods presented were as follows (in percent):

	July 31, 2015	January 31, 2015
Cox Communications	22%	*
DU	11%	*
Fetch TV	10%	*
Comcast Cable	*	19%

* Less than 10%

11. Subsequent Event

Proposed Merger with Ericsson

Agreement and Plan of Merger

On September 10, 2015, the Company, Ericsson Inc., a Delaware corporation (Parent) and Cindy Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Parent (Purchaser) entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provides that, subject to the terms of the Merger Agreement, Purchaser will commence a tender offer (the Offer) to purchase all of the outstanding shares (the Shares) of Company common stock, $.001 par value, at a price of $4.10 per share, without interest and subject to any required withholding taxes.

Consummation of the Offer is subject to various conditions set forth in the Merger Agreement, including, but not limited to (i) at least one Share more than 50 percent of the Shares then outstanding (calculated on a fully diluted basis) being tendered into the Offer, (ii) the receipt of required approvals, waivers and consents, and (iii) other conditions set forth in Annex I to the Merger Agreement.

Following consummation of the Offer, Purchaser will merge with and into the Company with the Company surviving as a wholly-owned subsidiary of Parent (the Merger). In the Merger, each outstanding Share that is not tendered and accepted pursuant to the Offer (other than the Shares held in the treasury of the Company, Shares held directly or indirectly by Parent or its subsidiaries, and Shares as to which appraisal rights have been perfected in accordance with applicable law) will be cancelled and converted into the right to receive the Offer Price, without interest and subject to any required withholding taxes, on the terms and conditions set forth in the Merger Agreement.

Table of Contents

The Merger Agreement contains termination rights for each of Purchaser, Parent and the Company, and further provides that upon termination of the Merger Agreement under specified circumstances the Company may be required to pay Purchaser a termination fee of $4.75 million and reimburse the reasonable expenses of Purchaser up to $750,000.

Table of Contents

ITEM 2. 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 Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q, 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 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™, a fully virtualized cloud-based software-as-a-service (SAAS) video solution. Envivio Nuage is designed to manage content for video service and content providers from content acquisition to the consumer on any screen. Envivio Nuage 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.

Table of Contents

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 consumers. 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 or software only solutions. 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 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.

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

There have been no material changes to our critical accounting policies, judgments and estimates during the three and six months ended July 31, 2015 from those disclosed in our fiscal year 2015 Form 10-K.

Table of Contents

Three and Six Months Ended July 31, 2015 Compared to the Three and Six Months Ended July 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:

	Three Months Ended July 31, 2015	Three Months Ended July 31, 2014	$ Change	% Change	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014	$ Change	% Change
Revenue:								
Product	$ 8,933	$ 8,852	81	1%	$ 15,652	$ 14,963	689	5%
Professional services and support	2,752	2,600	152	6%	5,546	4,903	643	13%
Total revenue	11,685	11,452	233	2%	21,198	19,866	1,332	7%
Cost of revenue:								
Product	2,784	4,077	(1,293)	-32%	4,477	6,128	(1,651)	-27%
Professional services and support	693	704	(11)	-2%	1,272	1,348	(76)	-6%
Total cost of revenue	3,477	4,781	(1,304)	-27%	5,749	7,476	(1,727)	-23%
Gross profit	8,208	6,671	1,537	23%	15,449	12,390	3,059	25%
Gross profit%	70%	58%		12%	73%	62%		11%
Operating expenses:								
Research and development	2,017	2,257	(240)	-11%	3,920	4,757	(837)	-18%
Sales and marketing	4,441	5,374	(933)	-17%	8,379	10,442	(2,063)	-20%
General and administrative	2,240	2,989	(749)	-25%	4,486	5,669	(1,183)	-21%
Total operating expenses	8,698	10,620	(1,922)	-18%	16,785	20,868	(4,083)	-20%
Loss from operations	(490)	(3,949)	3,459	-88%	(1,336)	(8,478)	7,142	-84%
Interest income, net	21	1	20	2000%	27	4	23	575%
Other income (expense), net	48	(55)	103	-187%	(31)	(88)	57	-65%
Loss before benefit for income taxes	(421)	(4,003)	3,582	-89%	(1,340)	(8,562)	7,222	-84%
Income tax expense	200	82	118	144%	80	53	27	51%
Net loss	(621)	$ (4,085)	3,464	-85%	(1,420)	$ (8,615)	7,195	-84%

Revenue

Our total revenue increased by $0.2 million, or 2%, to $11.7 million during the three months ended July 31, 2015 from $11.5 million during the three months ended July 31, 2014. Product revenue increased slightly by $0.1 million. Both quarters showed stronger performance in the Americas, driven by large orders from our existing Tier 1 service providers, partially offset by decreased sales in our other regions. We attribute the strengthing sales to improvements in sales execution in the Americas as well as growing domestic market acceptance and demand for software-based solutions for multiscreen video processing. Our professional services and support revenue increased $0.2 million primarily due to a larger installed customer base.

Our total revenue increased by $1.3 million, or 7%, to $21.2 million during the six months ended July 31, 2015 from $19.9 million during the six months ended July 31, 2014. Product revenue increased by $0.7 million, or 5%, due to large sales to our existing Tier 1 service provider customers in North America, partially offset by lower sales in EMEA. We also attribute the increase to the adoption of our new technology offerings in other sectors of the North American market compared to the same prior year period. Our professional services and support revenue increased by $0.6 million, or 13%, primarily due to increased demand for professional services and support related to a larger installed base compared to the same prior year period.

Table of Contents

Cost of Revenue and Gross Profit

Our gross margin percentage increased from 58% during the three months ended July 31, 2014 to 70% during the three months ended July 31, 2015. Our product gross margin percentage increased from 54% to 69%, which was primarily due to more sales of our higher margin software-only products during the three months ended July 31, 2015. Our gross margin on professional services and support increased from 73% to 75% primarily due to stronger sales of professional services and support and completion of more professional service projects, while professional services and support cost of revenue decreased due to cost reductions relating to cost containment efforts we initiated in the fourth quarter of last year.

Our gross margin percentage increased from 62% during the six months ended July 31, 2014 to 73% during the six months ended July 31, 2015. Our product gross margin percentage increased from 59% to 71%, which was primarily due to a more favorable product sales mix and larger sales to our existing North American Tier 1 customers during the six months ended July 31, 2015. We also experienced an improvement in gross margin on professional services and support from 73% to 77%, which was due to increased sales of professional services and an increased demand for support due to a larger installed base of our products.

Operating Expenses

Our operating expenses decreased by $1.9 million, or 18%, to $8.7 million during the three months ended July 31, 2015 from $10.6 million during the three months ended July 31, 2014.

Research and Development Expenses

Research and development expenses decreased $0.2 million, or 11%, to $2.0 million during the three months ended July 31, 2015 from $2.3 million during the three months ended July 31, 2014, primarily due to decreases in salaries, employee related costs and consultants relating to headcount reductions in France, as well as a more favorable foreign exchange rate against the Euro during the current period compared to the same period last year.

Research and development expenses decreased $0.8 million, or 18%, to $3.9 million during the six months ended July 31, 2015 from $4.8 million during the six months ended July 31, 2014, primarily due to decreases in consulting expense and employee-related costs due to our efforts to control costs, as well as a more favorable foreign exchange rate against the Euro during the current period compared to the same period last year. This was partially offset by a decrease in the French governmental research tax credit during the current period. 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.

Sales and Marketing Expenses

Sales and marketing expenses decreased $0.9 million, or 17%, to $4.4 million during the three months ended July 31, 2015 from $5.4 million during the three months ended July 31, 2014. This was primarily due to cost reductions in the EMEA and APAC regions relating to reduced headcount, as well as a more favorable foreign exchange rates during the current period.

Sales and marketing expenses decreased by $2.1 million, or 20% to $8.4 million during the six months ended July 31, 2015 from $10.4 million in the six months ended July 31, 2014. The decrease was primarily due to decreases in commissions to third-party sales agents, decreases in employee related costs and consulting expenses, and a decrease in marketing programs expense as we realigned our spending to support our corporate sales strategy. This was partially offset by an increase in commission expense due to improved sales. 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 decreased by $0.7 million, or 25%, to $2.2 million during the three months ended July 31, 2015 from $3.0 million during the three months ended July 31, 2014, primarily due to decreases in stock-based compensation expense, bad debt expense and legal fees, partially offset by increased compensation expense related to an incentive compensation accrual.

General and administrative expenses decreased by $1.2 million, or 21%, to $4.5 million during the three months ended July 31, 2015 from $5.7 million during the three months ended July 31, 2014. The decrease was primarily due to decreases in stock-based compensation expense, legal fees and bad debt expense.

Table of Contents

Interest Income, net

Interest income, net, increased to $21,000 for the three months ended July 31, 2015, from $1,000 for the three months ended July 31, 2014. The increase was primarily due to an increase in interest income relating to equipment lease sales.

Interest income, net, increased to $27,000 for the six months ended July 31, 2015, from $4,000 for the six months ended July 31, 2014. The increase was primarily due to an increase in interest income relating to equipment lease sales.

Other Income (Expense), net

Other income (expense), net, went from a net expense of $55,000 in the three months ended July 31, 2014 to net income of $48,000 during the three months ended July 31, 2015. This change was primarily due to foreign currency gains during the three months ended July 31, 2015 compared to the three months ended July 31, 2014.

Other income (expense), net, decreased from $88,000 net expense during the three months ended July 31, 2014 to $31,000 net expense during the six months ended July 31, 2015. This change was primarily due to smaller foreign currency losses incurred during the six months ended July 31, 2015 compared to the six months ended July 31, 2014.

Liquidity and Capital Resources

Cash Requirements

As of July 31, 2015, our cash and cash equivalents totaled $34.5 million. Our revolving credit facility for up to $10.0 million subject to a borrowing base expired in July 2014 with no outstanding balance and has not yet been renewed. We may enter into a new revolving credit facility in the future. We believe that our existing cash and cash equivalents as of July 31, 2015, will be sufficient to fund our operations and capital expenditures for at least the next 12 months. Over the longer term, management may seek to finance operations by obtaining additional external debt or equity financing, however, there can be no assurance that this financing will be available at commercially acceptable terms.

Financial Condition (Sources and Uses of Cash)

Our cash flows during the six months ended July 31, 2015 and 2014, are summarized as follows:

	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014
	(in thousands)	
Net cash used in operating activities	$ (1,933)	$ (3,594)
Net cash used in investing activities	(1,201)	(1,868)
Net cash used in financing activities	(47)	(203)

Cash Flows from Operating Activities

Our primary uses of cash from 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 as we expanded our business and generated operating losses. Our cash flows from operating activities will continue to be affected principally by our working capital requirements and our net operating results.

Cash used in operating activities of $1.9 million during the six months ended July 31, 2015 reflected a net loss of $1.4 million, and a use of cash for working capital of $2.3 million, partially offset by non-cash charges of $1.8 million for depreciation and amortization, stock-based compensation and bad debt expense. The use of cash for working capital was primarily due to an increase in accounts receivable driven by the timing of revenue during the quarter, and a decrease in accounts payable. The decrease in accounts payable was primarily due to more higher-margin software-only sales, which led to reduced hardware purchases, during the six months ended July 31, 2015, lower overall operating expenses and the funding, in the first quarter, of an escrow account for the settlement of outstanding litigation These were partially offset by a decrease in prepaid expenses and other current assets and an increase in deferred revenues due to increased sales. The reduction in prepaid expenses and other current assets was primarily due to receipt of an R&D tax credit from the French government.

Cash used in operating activities of $3.6 million during the six months ended July 31, 2014 reflected a net loss of $8.6 million, partially offset by a decrease in net operating assets of $2.1 million and non-cash charges of $2.9 million for depreciation and amortization, stock-based compensation, and bad debt expense. The decrease in working capital was primarily due to an increase of $2.0 million in accounts payable The increase in accounts payable, accrued liabilities and accrued compensation primarily resulted from higher operating expenses relative to the fourth quarter of the prior year.

Cash Flows from Investing Activities

During the six months ended July 31, 2015, our investing activities consisted of capital expenditures amounting to $1.2 million, primarily for the purchase of leasehold improvements and furniture and fixtures related to our new headquarters in San Francisco, networking equipment and development tools and demo equipment

During the six months ended July 31, 2014, cash used from investing activities consisted of $1.9 million in capital expenditures, primarily for the purchase of equipment.

Cash Flows from Financing Activities

During the six months ended July 31, 2015, cash used in financing activities was $47,000, due to repayments of French governmental research grants of $64,000 offset by $17,000 in cash proceeds from the exercise of stock options.

During the six months ended July 31, 2014, cash used in financing activities was $203,000, primarily due to repayments of French governmental research grants of $373,000 offset by $170,000 in cash proceeds from the exercise of stock options.

Off-Balance Sheet Arrangements

As of July 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 July 31, 2015:

	Payments Due by Period				
	Less Than 1 Year	**1-3 Years**	**3-5 Years**	**More Than 5 Years**	**Total**
			(in thousands)		
Contractual Obligations:					
Operating Lease obligations	$ 661	$ 1,910	$ 1,742	$ 1,606	$ 5,919
French Governmental research grant repayments	60				60
Total	$ 721	$ 1,910	$ 1,742	$ 1,606	$ 5,979

We outsource the manufacturing, assembly and testing of our encoding products to a Contract Manufacturer in Fremont, California (our CM). We generally do not use custom materials in our products and therefore, our obligation to our CM is limited to purchase orders. To the extent that we cancel a purchase order, we are only liable to the extent that the CM 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 July 31, 2015.

ITEM 3. 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. During the six months ended July 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 $0.9 million on our financial position and results of operations.

Table of Contents

Interest Rate Sensitivity

We had cash and cash equivalents of $34.5 million as of July 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. During the three months ended July 31, 2015, a 10% appreciation or depreciation in overall interest rates would not have had a material impact on our interest income.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our 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 Quarterly Report. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of July 31, 2015, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the three and six months ended July 31, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, 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. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II

OTHER INFORMATION

ITEM 1. 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, chief financial officer, and certain underwriters of our IPO. The lawsuit purported to be a class action on behalf of purchasers of shares issued in the IPO and generally alleged that the registration statement for the IPO contained materially false or misleading statements. The complaint purported to assert claims under the Securities Act of 1933, as amended, and sought 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, 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 purported to be on behalf of a class of purchasers of our securities between April 25, 2012 and September 7, 2012. It named as defendants the Company and our chief executive officer and chief financial officer, and sought 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 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 received final court approval on June 22, 2015. The agreement required the Company to contribute approximately $1.0 million toward the settlement, and such amount has been paid. On June 22, 2015, the court entered a final judgment and order granting approval of the class action settlement, releasing all claims against the defendants, and barring class members from asserting released claims. Without affecting the finality of the judgment the court retained continuing jurisdiction for the purpose of construing, enforcing and administering the settlement.

Table of Contents

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-Q, 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.

Risks Related to our Pending Merger with Ericsson

Our proposed merger with Ericsson Inc. is subject to a number of conditions beyond our control. Failure to complete the merger within the expected timeframe or at all could materially and adversely affect our future business, results of operations, financial condition and stock price.

On September 10, 2015, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Ericsson Inc., a Delaware corporation (Parent) and Cindy Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Parent (Purchaser). The Merger Agreement provides that, subject to the terms of the Merger Agreement, Purchaser will commence a tender offer (the Offer) to purchase all of the outstanding shares (the Shares) of Company common stock, $.001 par value, at a price of $4.10 per share, without interest and subject to any required withholding taxes. Following consummation of the Offer, Purchaser will merge with and into us and we will survive as a wholly-owned subsidiary of Parent (the Merger).

Consummation of the Offer is subject to various conditions set forth in the Merger Agreement, including, but not limited to (i) at least one Share more than 50 percent of the Shares then outstanding (calculated on a fully diluted basis) being tendered into the Offer, (ii) the receipt of required approvals, waivers and consents, and (iii) other conditions set forth in the Merger Agreement.

We cannot predict whether and when these conditions will be satisfied. If one or more of these conditions is not satisfied, and as a result, we do not complete the Merger, or in the event the proposed Merger is not completed or is delayed for any other reason, our business, results of operations, financial condition and stock price may be harmed because:

- management s and our employees attention may be diverted from our day-to-day operations as they focus on matters related to preparing for integration of our operations with those of Ericsson;

- we could potentially lose customers or vendors, new customer or vendor contracts could be delayed or decreased and we may have difficulty hiring and retaining new employees;

- we could potentially lose key employees if such employees experience uncertainty about their future roles with us and decide to pursue other opportunities in light of the proposed Merger;

we have agreed to restrictions in the Merger Agreement that limit how we conduct our business prior to the consummation of the Merger, including, among other things, restrictions on our ability to make certain capital expenditures, investments and acquisitions, sell, transfer or dispose of our assets, amend our organizational documents and incur indebtedness. These restrictions may not be in our best interests as an independent company, and may disrupt or otherwise adversely affect our business and our relationships with our customers, prevent us from pursuing otherwise attractive business opportunities, limit our ability to respond effectively to competitive pressures, industry developments and future opportunities, and otherwise harm our business, financial results and operations;

we have incurred and expect to continue to incur expenses related to the Merger, such as legal, financial advisory and accounting fees, and other expenses that are payable by us whether or not the proposed Merger is completed;

we may be required to pay a termination fee to Parent and reimburse their reasonable expenses up to a specified amount if the Merger Agreement is terminated under certain circumstances, which would negatively affect our financial results and liquidity;

activities related to the Merger and related uncertainties may lead to a loss of revenue and market position that we may not be able to regain if the proposed Merger does not occur; and

the failure to, or delays in, consummating the Merger may result in a negative impression of us with customers, potential customers or the investment community.

The occurrence of these or other events individually or in combination could have a material adverse effect on our business, results of operations, financial condition and stock price.

In addition, our stock price may fluctuate significantly based on announcements by us, Ericsson or other third parties regarding the proposed Merger.

The Merger Agreement contains provisions that could discourage a potential competing acquiror.

The Merger Agreement contains no solicitation provisions that, subject to exceptions, restrict our ability to solicit, initiate, or knowingly encourage, facilitate or induce third party proposals for the acquisition of our common stock. In addition, Parent has an opportunity to modify the terms of the Merger in response to any competing acquisition proposals before our Board of Directors may withdraw or change its recommendation with respect to the Merger. Upon the termination of the Merger Agreement, including in connection with a superior proposal , we may be required to pay $4.75 million as a termination fee and reimburse Parent s reasonable expenses up to $750,000.

These provisions could discourage a potential third party acquiror from considering or proposing an acquisition transaction, even if it were prepared to pay a higher per Share price than what would be received in the Merger. These provisions might also result in a potential third party acquiror proposing to pay a lower price per Share to our stockholders than it might otherwise have proposed to pay because of the added expense of the $4.75 million termination fee and reimbursed expenses that may become payable.

If the Merger Agreement is terminated and we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the Merger

Our executive officers and directors have interests in the Merger that may be different from, or in addition to, the interests of our stockholders generally.

Our executive officers and members of our Board of Directors may be deemed to have interests in the Merger that may be different from or in addition to those of our stockholders, generally. These interests may create potential conflicts of interest. Our Board of Directors was aware of these potentially differing interests and considered them, among other matters, in evaluating and negotiating the Merger Agreement and in reaching its decision to approve the Merger Agreement and the transactions thereunder. These interests relate to or arise from, among other things:

- the consideration to be received in respect of options to purchase Shares and restricted stock unit awards held by our executive officers and members of our Board of Directors;

- the receipt of certain payments and benefits to which certain executive officers may become entitled pursuant to such executive officers respective employment agreements and in connection with the completion of the Offer and the Merger; and

- the right to continued indemnification and insurance coverage for our directors and executive officers following the completion of the Merger.

We may be subject to class action lawsuits relating to the Merger, which could materially adversely affect our business, financial condition and operating results.

We, our directors and officers, and Ericsson may be subject to class action lawsuits relating to the Merger and other additional lawsuits that may be filed. Such litigation is very common in connection with acquisitions of public companies, regardless of any merits related to the underlying acquisition. While we will evaluate and defend against any actions vigorously, the costs of the defense of such lawsuits and other effects of such litigation could have an adverse effect on our business, financial condition and operating results.

One of the conditions to consummating the Merger is that no injunction or other order prohibiting or otherwise preventing the consummation of the Merger shall have been issued by any governmental entity of competent jurisdiction in the United States. Consequently, if any of the plaintiffs in these lawsuits or in any other subsequently filed similar lawsuit is successful in obtaining an injunction preventing the parties from consummating the Merger, such injunction may prevent the Merger from being completed in the expected timeframe, or at all.

We have obligations under certain circumstances to hold harmless and indemnify our directors and officers against judgments, fines, settlements and expenses related to claims against such directors and officers and otherwise to the fullest extent permitted under Delaware law and our bylaws and certificate of incorporation. Such obligations may apply to any potential litigation. However, an unfavorable outcome in any lawsuit related to the Merger could prevent or delay the consummation of the Merger and result in substantial costs to us.

We will incur significant costs in connection with the Merger, whether or not it is consummated.

We will incur substantial expenses related to the Merger, whether or not it is completed. Payment of these expenses by us as a standalone entity would adversely affect our operating results and financial condition and would likely adversely affect our stock price.

Table of Contents

Risks Related to our Business

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;
- 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; 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 during six months ended July 31, 2015 together accounted for approximately 66% of our total revenue. Sales to our ten largest customers during the six months ended July 31, 2014 together accounted for approximately 62% of our total revenue. During the six months ended July 31, 2015, sales to two customers accounted for 25% and 14% of our total revenue, respectively. During the three months ended July 31, 2015, sales to three customers accounted for 23%, 12%, and 11% of our total revenue, respectively. We expect to see continuing industry consolidation and customer concentration such as the recently announced merger between AT&T and Direct TV. It is unclear how industry consolidation would impact our business, but it could have a negative impact on our sales as we depend on many large customers in our industry. 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 $0.6 million and $4.1 million during the three months ended July 31, 2015 and 2014, respectively. As of July 31, 2015, we had an accumulated deficit of $125.0 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 July 31, 2015 was $11.7 million compared to $9.5 million for the quarter ended April 30, 2015 due to typical seasonal increases in our business and capital spending by our Tier 1 customers.

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.

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 $4.5 million and $9.7 million during the six months ended July 31, 2015, and 2014, 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

Table of Contents

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
- 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.

Table of Contents

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, 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.

Table of Contents

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.

Table of Contents

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 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 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.

Table of Contents

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 that our internal control over financial reporting was effective as of April 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 Pay-TV opportunities, and expand our relationships with our channel partners in order to increase our revenue. We must 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 the six months ended July 31, 2015 and 2014 represented 49% and 82% 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;

Table of Contents

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.

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.

Table of Contents

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 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;

Table of Contents

- 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.

Table of Contents

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;
- 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.

Table of Contents

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.

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.

Table of Contents

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 was approved by the court on June 22, 2015 and is now final. The agreement required 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 has been released from escrow due to the court s final approval of the settlement. As of July 31, 2015, we expect to incur incidental fees ancillary activities regarding 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;
- 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Index
2.1	Agreement and Plan of Merger by and between Envivio, Inc., and Ericsson Inc. and Cindy Acquisition Corp. dated September 10, 2015. Incorporated by reference to Exhibit 2.1 of Envivio s Current Report on Form 8-K filed with the SEC on September 10, 2015.
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 Quarterly Report on Form 10-Q 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.

Table of Contents

SIGNATURES

Pursuant to the requirements 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: September 11, 2015

52