ENVIVIO INC
Form 10-K
April 25, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended January 31, 2013

¨ **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 incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

400 Oyster Point Boulevard, Suite 325

South San Francisco, California 94080

(650) 243-2700

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Based on the closing sale price of the Common Stock on the NASDAQ Global Market on July 31, 2012, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately $98,877,433.

The number of shares of the registrant s Common Stock, $.001 par value, outstanding on April 15, 2013 was 27,100,124.

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Cautionary Statement Regarding Forward-Looking Statements

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

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

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

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PART I

ITEM 1. BUSINESS

OVERVIEW

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

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

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

Envivio was incorporated in Delaware on January 5, 2000. Our company is based in South San Francisco, California, with our research and development center located in the metropolitan area of Rennes, France, and we have a presence in Australia, Austria, Brazil, China, England, India, Japan, Singapore and the United Arab Emirates. We have sold our solution to over 300 end-customers to date in more than 50 countries. Our customers include the top global service providers: nine of the top ten global broadband service providers, which includes three of the top four U.S. cable service providers, and eight of the top ten global mobile service providers.

INDUSTRY BACKGROUND

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

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

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

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

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

- Demand for advanced video services in the home   Video consumption growth is also occurring in the home. The rise in IPTV set top boxes and OTT set top boxes is expected to continue to drive demand.

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

KEY VIDEO MARKET SEGMENTS

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

Managed Subscription Video and IPTV (Digital Pay-TV)   Digital Pay-TV is operated over a managed network and is characterized by having a high quality of consumer experience and a high standard of security, interactivity and reliability. As traditional telecommunications service providers have sought growth in average revenue per user and as they attempt to defend against voice, data and video service bundles offered by MSOs, traditional telecommunications service providers have broadened their suite of services to include Digital Pay-TV.

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

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

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SERVICE PROVIDER AND CONTENT PROVIDER TRENDS

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

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

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

LIMITATIONS OF EXISTING TECHNOLOGIES

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

Traditionally, service and content providers deployed point solutions to distribute video to each class of device. As these delivery models converge to meet evolving consumer demands for TV without Boundaries and operators need to significantly scale their services, this silo approach to video delivery presents inherent limitations and increased costs for service and content providers. Traditional video delivery systems for service providers have focused on quality of experience without the need to address a wide array of network technologies

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or growing number of devices and operating systems. Current video delivery systems designed to address mobile and OTT video services have focused on addressing multiple network technologies and different devices and operating systems, without supporting traditional TV delivery or addressing the consumer demand for quality of experience. As these services converge and service providers and content providers attempt to address the needs of their end users in a single solution, the delivery of video increasingly requires new architectures that can accommodate delivery of high-quality video across multiple networks to multiple devices with the flexibility to adapt to a rapidly evolving market. In addition, solutions focused exclusively on OTT video delivery typically handle multiple devices but often lack the quality, scalability and reliability that a service provider offering a subscription or ad-based premium video service requires.

THE ENVIVIO SOLUTION

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

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

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

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

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

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

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

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

OUR TECHNOLOGY AND PRODUCTS

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

CORE TECHNOLOGIES

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

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

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

PRODUCTS

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

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

Envivio Muse Muse is our multi-screen software architecture designed for live or file-based video transcoding and distribution to multiple devices. It is designed to significantly improve efficiency and operations compared to architectures that require separate broadcast and multi-screen headend equipment. Muse is available on industry-standard blade servers or our 4Caster appliances and enables service providers running large-scale operations to leverage their existing datacenter infrastructure to deliver enhanced video services.

Envivio Halo Our Halo Network Media Processor performs final content processing and adaptation for consumer devices, including protected adaptive bitrate streams compatible with Apple iOS, Android 3.0 and Microsoft Smooth Streaming enabled consumer devices. We introduced Halo to our customers in November 2010. Halo also enables advanced functionality such as ad insertion and content protection for mobile devices that facilitates service monetization and enables immersive end user experiences. Halo Network Media Processors can be added by network operators as needed, locally or distributed, to support new devices without impacting the headend. When launching a multi-screen service, Halo allows our customers to significantly reduce bandwidth usage on the network infrastructure.

Envivio 4Caster Our 4Caster standards-based appliance delivers video to mobile, PC and TV from a single platform. We have designed 4Caster to optimize live and on-demand workflows for video delivery commensurate with the characteristics of both legacy and current network infrastructures by encoding video input in multiple codecs, resolutions, bit rates and formats. 4Caster utilizes pre-processing techniques to clean and optimize video sources before encoding. 4Caster is designed to perform high-quality compression and content encryption to secure high-value content from the headend to the edge device that meets the requirements of content owners for quality, content protection and digital rights management. Our 4Caster product is available in various models to fit the specific requirements of our customers.

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

We target three primary applications with our products, consisting of multi-screen, IPTV and mobile applications. In fiscal 2012, we derived 80%, 10% and 10% of our total revenue from sales of our products targeting multi-screen, IPTV and mobile applications, respectively. In fiscal 2013, we derived 62%, 21% and 17% of our total revenue from sales of our products targeting multi-screen, IPTV and mobile applications, respectively.

SERVICES

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

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

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

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

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

RESEARCH AND DEVELOPMENT

Our investment in research and development is critical to our business as we seek to develop new video processing and delivery solutions and support emerging technology. Our research and development lab is located in the metropolitan area of Rennes, France, where we believe we have ample access to talented video engineers and can benefit from a cost-effective, stable workforce. We have assembled a team of 60 engineers, substantially all of whom are software engineers, as of January 31, 2013, with expertise in various fields, including video compression, IP video protocols and user interface. Our success in developing new products and solutions depends on a variety of factors, including market demand for new products, product performance, adequate manufacturing processes and effective sales and marketing efforts. Research and development expenses totaled $5.2 million, $6.7 million and $7.6 million for fiscal 2011, 2012 and 2013, respectively.

SALES AND MARKETING

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

Channel sales As part of our sales efforts, we have developed relationships with channel partners, primarily with large Tier-1 systems integrators, including telecommunications equipment manufacturers. As of January 31, 2013, we had over 20 active channel partnerships, including relationships with large telecommunications equipment providers throughout the world. We utilize our channel partners to assist with our sales into new Tier-1 customers and to manage our sales into Tier-2 and Tier-3 customers. These channel partners often act as a general contractor for network deployments and will use our products to fulfill the video infrastructure elements of a deployment. We may seek to selectively add distribution partners, particularly in additional regions outside North America, to complement or expand our business.

Direct sales Our direct sales team sells our products and solutions to service providers and content providers globally. As of January 31, 2013, we had a sales force consisting of 44 employees worldwide. Our direct sales force has historically been focused on cultivating and selling into large service providers in major international markets. Even when we are partnering with a systems integrator or other channel partner, our internal sales force directly markets to prospective end-customers and carefully articulates our product benefits as a key component of an end-to-end solution. We maintain meaningful relationships with large service providers and intend to grow our direct sales efforts to become a larger portion of our total sales in the future.

Our marketing efforts are focused on building our brand awareness and qualifying sales leads for new and existing customers. We employ a team of marketing professionals and utilize our network of channel partners for additional marketing efforts. As of January 31, 2013, we had 15 marketing professionals globally. Our marketing team is responsible for branding, product marketing and managing our channel marketing programs. Our marketing team actively contributes to industry-related standards organizations, markets the Envivio brand at industry conferences and contributes to publications and other services to continuously promote our brand and products.

CUSTOMERS AND CHANNEL PARTNERS

We sell our video processing and delivery solution directly and indirectly through our channel partners to end-customers that include wireline and mobile telecommunications service providers, MSOs, DBSs,

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broadcasters and other content providers. An end-customer deployment of our solution can involve a varying amount of hardware and software depending on the size and requirements of the network. As of January 31, 2013, we had more than 300 end-customers in over 50 countries. Our customers include the top global service providers, including nine of the top ten global broadband service providers, which include three of the top four U.S. cable service providers, and eight of the top ten global mobile service providers.

In fiscal 2013, none of our customers accounted for more than 10% of our total revenue. In fiscal 2012, one of our customers directly accounted for 18% of our total revenue. In fiscal 2011, three of our customers, who are our channel partners, directly accounted for 11%, 12% and 12%, respectively, of our total revenue.

We derived 23%, 29% and 13% of our revenue from sales to customers located in the United States in fiscal years 2011, 2012 and 2013, respectively, and 77%, 71% and 87% of our revenue from international sales in fiscal years 2011, 2012 and 2013, respectively. We derived 24%, 21% and 28% of our revenue from sales to customers located in the Asia Pacific region in fiscal years 2011, 2012 and 2013, respectively. We derived 44%, 40% and 51% of our revenue from sales to customers located in EMEA in fiscal years 2011, 2012 and 2013, respectively.

MANUFACTURING, PRODUCTION AND SUPPLIERS

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

We source the components included in our products from various suppliers. We have not historically had any material issues procuring desired quantities of components necessary for production as a majority are standard off-the-shelf components and are, therefore, typically neither susceptible to supply shortages nor material lead times. However, any unpredicted shortages to the availability of components may require us to decrease our manufacturing output for a temporary period.

COMPETITION

The market for our solution is highly competitive and fragmented. With the rapid adoption of video-enabled mobile devices, ubiquitous broadband connectivity and the growing consumer demand for TV without Boundaries, the market for our products is attracting competition. As a result, we expect competition in our markets to intensify in the future as existing and new competitors introduce products to meet this demand. We believe the principal competitive factors in our market include the following:

- Technological leadership;
- Maintaining a high quality of video across a wide array of networks and devices including mobile, OTT and IPTV;
- Product performance, price, reliability and total cost of ownership;
- Domain expertise in video and communications, as well as close relationships with service providers;
- Interoperability with existing headend products and network infrastructure;

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Advanced management systems for video delivery solution reliability and manageability; and

Comprehensive customer support.

Currently, we compete with companies focused on more traditional broadcast delivery, including Harmonic Inc. We also compete with companies focused on multi-screen encoding, including Cisco Systems, Inc. (through its acquisition of Inlet Technologies LLC), Elemental Technologies and RGB Networks, Inc. (through its acquisition of RipCode, Inc.). Due to the evolving competitive landscape and growing market opportunity, we expect to encounter direct competition in the future from one or more larger traditional network infrastructure providers that may currently be one of our systems integrators, such as Google Inc. (through its acquisition of Motorola Mobility) and Ericsson AB. These network equipment companies may provide, as a package, encoding solutions in combination with other equipment that they traditionally sell to service providers.

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

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

INTELLECTUAL PROPERTY

Our intellectual property is a key element of the success of our business. We rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary confidentiality and other contractual protections. As of January 31, 2013, we had eight issued U.S. patents and five issued European patents. Our patents will expire on various dates from 2022 to 2028. In particular, we have patented key technologies related to the implementation of our 4Caster product. The key patents that protect the optimal implementation of the MPEG-4 algorithms on a generic multi-core computer platform include the following patents that were all issued in the United States: (i) our patent covering image coding or decoding device and method involving multithreading of processing operations over a plurality of processors, and corresponding computer program and synchronization signal, which expires in 2024; (ii) our patent covering image encoding or decoding method and device, with parallelization of processing over several processors and coprocessors, and corresponding computer-readable storage medium, which expires in 2028; (iii) our patent covering multiple-reference motion estimation method and device, coding method and device, computer program products and corresponding storage means, which expires in 2025; and (iv) our patent covering method and device for detecting transitions in a video sequence, method and device for coding, computer program products and corresponding storage means, which expires in 2025. In addition, we have four patent applications pending in the United States and one patent application pending in Europe. We have rights to 12 patents licensed to us by France Telecom. We own the registered trademark for Envivio in the United States, Hong Kong and the European Community and have protection for the Envivio trademark through the Madrid Protocol in China, France, Japan and South Korea. We also have one trademark application pending with the U.S. Patent and Trademark office.

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

EMPLOYEES

As of January 31, 2013, our total headcount was 158 full-time employees. We had 60 research and development employees, 74 sales and marketing employees and 24 employees in general administrative and human resources. As of January 31, 2013, our headcount was 42 employees in the United States, 94 in France, 11 in China and 11 throughout several other countries around the world.

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

FACILITIES

Our corporate headquarters is located at 400 Oyster Point Boulevard, Suite 325, South San Francisco, California in an office consisting of approximately 10,329 square feet. The lease for this office expires in December 2015. In addition to our headquarters, we have a facility in the metropolitan area of Rennes, France consisting of approximately 33,160 square meters used primarily for research and development, sales and support. This lease expires August 31, 2021. We also have a representative office in Beijing, China. Additional sales and support functions are located in regional offices in Tokyo, Japan and Singapore. We believe that our current facilities are suitable and adequate to meet our current needs. We plan to add new facilities or expand our existing facilities as necessary. We do not foresee any issues finding available space to accommodate our future expansion plans.

INSURANCE

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

LEGAL PROCEEDINGS

On October 5, 2012 a complaint captioned Wiley v. Envivio, Inc., et al. CIV-517185 was filed in the Superior Court of California, County of San Mateo naming as defendants the Company, each of our directors, our chief executive officer, our chief financial officer, and certain underwriters of our IPO. The lawsuit purports to be a class action on behalf of purchasers of shares issued in the IPO and generally alleges that the registration statement for the IPO contained materially false or misleading statements. The complaint purports to assert claims under the Securities Act of 1933, as amended, and seeks unspecified damages and other relief. On October 19, 2012 a similar complaint captioned Toth v. Envivio, Inc. et al. CIV-517481 was filed in the same court. On November 2, 2012 defendants removed the cases to the United States District Court for the Northern District of California where they were assigned case numbers 12-cv-05637-CRB and 12-cv-05636-CW. A similar complaint was filed in the United States District Court for the Northern District of California on December 20, 2012 entitled Thomas v. Envivio, Inc., et al. C 12-06464.

The actions described above have only recently been filed and there has been no discovery or other proceedings. Accordingly, we are not in a position to assess whether any loss or adverse effect on our financial condition is probable or remote or to estimate the range of potential loss, if any.

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

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ITEM 1A. RISK FACTORS

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

We depend on the capital spending of telecommunications, cable and satellite service providers, as well as broadcast, media and Internet content providers for a substantial majority of our revenue. Any material decrease or delay in capital spending in these industries 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

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collection of accounts receivable, slower adoption of new technologies and increased price competition in the affected countries. Further, if the U.S. dollar were to weaken against many major currencies, there can be no assurance that a 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.

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

Excluding fiscal 2012, when we recorded net income of $138,000, we have incurred significant losses since our inception, including net losses of $2.5 million and $16.9 million during fiscal 2011 and 2013, respectively. As of January 31, 2013, we had an accumulated deficit of $95.8 million. These losses have resulted principally from a reduction in sales, 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. Additionally, now that we are a public company, we expect that our general and administrative expenses will increase due to the additional operational and reporting costs associated with being a public company. 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.

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 $19.2 million, $26.8 million and $26.8 million during fiscal 2011, 2012 and 2013, respectively. We expect that these 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 the 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.

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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 recent decline in general economic conditions, particularly in North America and Western Europe, has resulted in a significant slowdown in spending decisions by our target customers which in turn has significantly lengthened our sales cycle. 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, 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 year ended January 31, 2013 was $39.1 million compared to $50.6 million for the year ended January 31, 2012 due to a general slowdown in spending by our service provider customers, in particular in North America and Western Europe, as well as challenges in our sales execution in North America.

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

- the level and timing of capital spending of our customers, both in the United States and in foreign markets, due in part to 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;
- the timing and amount of orders, especially from significant customers;
- increases and decreases in the number and size of relatively larger 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 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;

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 often 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.

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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 MPEG-4 AVC/H.264, 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.

The average sales prices of our products may decrease.

The average sales prices for our products may decline for a variety of reasons, including competitive pricing pressures, a change in our mix of products, 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. Furthermore, average sales prices for our products may decrease over product life cycles. A decline in our average sales prices in excess of our expectations may harm our operating results, financial condition and cash flows.

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

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

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

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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 in fiscal 2013 together accounted for approximately 47% of our total revenue. Sales to our ten largest customers in fiscal 2012 together accounted for approximately 58% of our total revenue. In fiscal 2012, sales to Time Warner Cable accounted for 18% of our total revenue. In fiscal 2011, sales to Huawei Technologies, Birtel Network Technologies and Ericsson, each a channel partner, accounted for 12%, 12% and 11%, respectively, of our total revenue. We expect to see continuing industry consolidation and customer concentration. At the same time, we are currently targeting large customer accounts, which if successful, could increase our concentration risk on an even smaller group of customers. This customer concentration increases our susceptibility to a slowdown in spending patterns and decreases in capital spending of our large target customers. As a slowdown in spending by our large target customers occurs, our operating results can experience a significant decline. Even if we are successful in selling a large volume of products to these large potential customers, 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.

Additionally, we do not enter into long-term contracts or purchase commitments with our customers, and we have no contractual arrangements for 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.

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

We outsource the manufacturing of our products to a single manufacturer, FutureQuest Incorporated, and are, therefore, subject to the risk that our third-party manufacturer does not provide our customers with the quality and performance that they expect from our products. Our manufacturer may not view fulfilling our orders 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 in writing at least 90 days prior to the end of the term not to renew the agreement. 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.

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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;

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

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

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

We depend on our ability to protect our proprietary technology. We protect our proprietary information and technology through licensing agreements, nondisclosure agreements and other contractual provisions, as well as through patent, trademark, copyright and trade secret laws in the United States and 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.

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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 you 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 will 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. 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.

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

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

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

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

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

We are an emerging growth company, and intend to comply with reduced public company reporting requirements applicable to emerging growth 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 could be an emerging growth company for up to five years, although, if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any July 31 before the end of that five-year period, we would cease to be an emerging growth company as of the following January 31. We cannot predict if investors will find our common stock less attractive if we choose 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.

Under the Jumpstart Our Business Startups Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We will not be required to comply with certain provisions of the Sarbanes-Oxley Act for as long as we remain an emerging growth company.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth company. At such time an attestation is required by our independent registered public accounting firm, they may issue a report that is adverse in the event they are not satisfied with the level at which our controls are documented, designed or operating. We will remain an emerging growth company for up to five years, although if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any June 30 before that time, we would cease to be an emerging growth company as of the following December 31, or if we issue more than $1 billion in non-convertible debt in a three-year period, we would cease to be an emerging growth company immediately.

However, even as an emerging growth company we will be required to comply with certain of the SEC rules that implement Section 404 of the Sarbanes-Oxley Act as we will be required to disclose changes made in our internal control procedures on a quarterly basis and to make our first annual assessment of our internal control over financial reporting pursuant to Section 404 in the year following our first annual report required to be filed with the SEC.

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

As a public company and particularly after we cease to be an emerging growth company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. 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 will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal, accounting and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

In addition, the Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. Our compliance with Section 404 of the Sarbanes-Oxley Act will require 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. In addition, beginning with our Annual Report on Form 10-K to be filed in 2014, we will be required to furnish a report by management on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We are in the process of designing, implementing, and testing the internal control over financial reporting required to comply with this obligation, which process is time consuming, costly, and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, investors may lose confidence in the accuracy and completeness of our financial reports and the trading price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

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

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

Revenue derived from customers outside of the United States during fiscal 2011, 2012 and 2013 represented 77%, 71% and 87% of our revenue, respectively. We expect that international revenue will continue to represent a similar substantial percentage of our revenue for the foreseeable future. Our international operations and our efforts to maintain and increase revenue in international markets are subject to a number of risks, which are generally greater with respect to emerging market countries, including the impact on our business and operating results of:

- general economic conditions in international economies, which may adversely affect our customers capital spending;
- changes in foreign government regulations and standards;
- import and export license requirements, tariffs, taxes and other trade barriers;
- fluctuations in currency exchange rates;
- a significant reliance on distributors, resellers and other third parties to sell our products and solutions, particularly in emerging market countries;
- difficulty in collecting accounts receivable, especially from smaller customers and resellers, particularly in emerging market countries;

compliance with the United States Foreign Corrupt Practices Act, or FCPA, and the Office of Foreign Asset Control regulations, particularly in emerging market countries;

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

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.

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

We intend to continue to 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 these investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop

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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, and could affect the reporting of transactions completed before the announcement of a change. In addition, the SEC has announced a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by U.S. issuers in their SEC filings. Any such change 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; and
- acquire companies and in-license products or intellectual property.

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 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; and
- the market for such funding requirements and overall economic conditions.

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

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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, or if we are

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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, including developments in the financial markets in the United States and elsewhere in the world, may materially and adversely affect our operating results, financial condition and cash flows.

Financial markets in the United States, Europe and Asia have recently 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 have taken unprecedented actions intended to address extreme market conditions, such as the severe restrictions on credit and declines in real estate values. While currently these conditions have not impaired our ability to access credit markets and finance operations, there can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies. These economic developments affect our business in a number of ways. A tightening of credit in financial markets may adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations, and could result in a decrease in demand for our products and services. Our customers ability to pay for our solution may also be impaired, which may lead to an increase in our allowance for doubtful accounts and write-offs of accounts receivable, reducing our cash flow.

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

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

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

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

changes in accounting principles; or

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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 technologies and on several other broadband 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, 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, for both standard definition and high definition services;

- delivery of high-speed services, such as fiber-to-the-premises, or FTTP, and digital subscriber line, or DSL, networks designed to facilitate the delivery of video services by telecommunications operators;
- higher speed mobile technologies, such as LTE or 3G;
- the further adoption of bandwidth-optimization techniques, such as switched digital video and DOCSIS 3.0; and
- the introduction of new consumer devices, such as advanced set-top boxes, personal video recorders, or PVRs, and a variety of smartphones, such as the iPhone.

If 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 mobile delivery options;
- the increasing availability of traditional broadcast video content on the Internet;
- 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;
- increased consumer interest in 3D 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

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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.

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 RGB Networks, Inc. (through its acquisition of RipCode, Inc.). Due to the evolving competitive landscape and growing market opportunity, we 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 Motorola Mobility and Ericsson AB. These network equipment companies may provide, as a package, encoding solutions in combination with other equipment that they traditionally sell to service providers.

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.

Video delivery markets are characterized by rapid technological change.

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

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

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

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

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

Risks Related to Our Common Stock

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

There may have been potential deficiencies in the process by which we obtained approvals of prior amendments to our certificate of incorporation, and in particular the means by which our certificate of incorporation was approved in connection with our Series D preferred stock financing in 2003, or the Series D charter. Delaware law, which is the state in which we are incorporated, requires a specific ordering of board and stockholder approvals in order for charter amendments to be properly approved. Our records from the Series D financing, which occurred nine 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.

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

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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 $5.70 on August 13, 2012 and $2.48 on August 14, 2012. 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. This litigation, if instituted against us, could result in substantial costs and a diversion of our management s attention and resources.

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We have been named as a defendant in a purported securities class action law suit. 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. This and 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, as expected to be restated immediately prior to the closing of this offering, 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

All of our facilities are leased, including our principal operations and corporate headquarters in South San Francisco, California. We also have research and development centers in the metropolitan area of Rennes, France, several sales offices in the U.S. and sales and support centers in Europe and Asia. Our leases, which expire at various dates through August 2021, are for an aggregate of approximately 43,729 square feet of space. The South San Francisco lease has a term of two years and is for approximately 10,329 square feet of space.

ITEM 3. LEGAL PROCEEDINGS

On October 5, 2012 a complaint captioned Wiley v. Envivio, Inc., et al. CIV-517185 was filed in the Superior Court of California, County of San Mateo naming as defendants the Company, each of our directors, our chief executive officer, our chief financial officer, and certain underwriters of our IPO. The lawsuit purports to be a class action on behalf of purchasers of shares issued in the IPO and generally alleges that the registration statement for the IPO contained materially false or misleading statements. The complaint purports to assert claims under the Securities Act of 1933, as amended, and seeks unspecified damages and other relief. On October 19, 2012 a similar complaint captioned Toth v. Envivio, Inc. et al. CIV-517481 was filed in the same court. On November 2, 2012 defendants removed the cases to the United States District Court for the Northern District of California where they were assigned case numbers 12-cv-05637-CRB and 12-cv-05636-CW. A similar complaint was filed in the United States District Court for the Northern District of California on December 20, 2012 entitled Thomas v. Envivio, Inc., et al. C 12-06464.

The actions described above have only recently been filed and there has been no discovery or other proceedings. Accordingly, we are not in a position to assess whether any loss or adverse effect on our financial condition is probable or remote or to estimate the range of potential loss, if any.

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

ITEM 4. MINE SAFETY DISCLOSURE

None.

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PART II

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

MARKET PRICE OF COMMON STOCK

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

Fiscal Year Ended January 31, 2013	High	Low
Fourth Quarter	$ 2.18	$ 1.42
Third Quarter	$ 6.50	$ 2.11
Second Quarter	$ 9.25	$ 5.53
First Quarter (from April 25, 2012)	$ 9.88	$ 8.10

As of April 15, 2013, there were 147 holders of record of our Common Stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The closing sale price of our Common Stock on April 15, 2013 was $1.59 per share.

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

USE OF PROCEEDS

On April 24, 2012, our registration statement on Form S-1 (File No. 333-173529) was declared effective for our initial public offering pursuant to which we sold 6,500,000 shares of common stock at a public offering price of $9.00 per share for an aggregate offering price of $54.4 million in proceeds, net of underwriters discounts and commissions, but before deducting offering-related expenses. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC on April 25, 2012 pursuant to Rule 424(b).

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STOCK PERFORMANCE GRAPH

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

The following graph shows a comparison from April 25, 2012, through January 31, 2013 of the cumulative total return for our common stock (ENVI), the S&P 500 Index and the NASDAQ Composite Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the S&P 500 Index and the NASDAQ Composite Index assume reinvestment of dividends.

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ITEM 6. SELECTED FINANCIAL DATA

The following summary of historical financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	Year Ended January 31,				
	2009	**2010**	**2011**	**2012(3)**	**2013**
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data					
Revenue	$ 18,664	$ 16,288	$ 30,004	$ 50,646	$ 39,099
Cost of revenue(1)	10,085	7,482	11,504	18,492	14,993
Gross profit	8,579	8,806	18,500	32,154	24,106
Operating expenses:					
Research and development(1)	7,878	4,908	5,152	6,728	7,589
Sales and marketing(1)	9,698	6,980	8,886	16,206	21,359
General and administrative(1)	5,840	5,309	6,449	8,561	11,730
Total operating expenses	23,416	17,197	20,487	31,495	40,678
Income (loss) from operations	(14,837)	(8,391)	(1,987)	659	(16,572)
Interest income (expense), net	(1,557)	(850)	(270)	(134)	84
Other income (expense), net	695	86	(61)	237	(72)
Income (Loss) before provision for income taxes	(15,699)	(9,155)	(2,318)	762	(16,560)
Provision for income taxes	70	22	167	624	375
Net income (loss)	(15,769)	(9,177)	(2,485)	138	(16,935)
Deemed dividend on convertible preferred stock			(2,286)		
Accretion of redeemable convertible preferred stock				(5)	
Noncumulative dividends to convertible preferred stockholders				(133)	
Net income (loss) attributable to common stockholders(2)	$ (15,769)	$ (9,177)	$ (4,771)	$	$ (16,935)
Net income (loss) per share attributable to common stockholders, basic and diluted(2)	$ (34.93)	$ (18.33)	$ (0.58)	$ 0.00	$ (0.72)
Weighted average shares used in computing net income (loss) per share attributable to common stockholders, basic and diluted(2)	451,390	500,550	8,203,001	13,123,524	23,577,491

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

	Year Ended January 31,				
	2009	**2010**	**2011**	**2012**	**2013**
	(in thousands)				
Cost of revenue	$ 2	$ 1	$ 37	$ 3	$ 5
Research and development	7	6	71	89	129
Sales and marketing	15	17	65	279	583
General and administrative	17	21	578	1,279	2,116

Total stock-based compensation	$ 41	$ 45	$ 751	$ 1,650	$ 2,833

(2) Please see Note 9 to our audited consolidated financial statements for an explanation of the calculations of our basic and diluted net income (loss) per share attributable to common stockholders.

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

	As of January 31,				
	2009	2010	2011	2012	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 6,880	$ 4,330	$ 10,017	$ 27,405	$ 51,344
Working capital (deficit)	2,886	(1,796)	2,283	19,179	54,237
Total assets	22,157	15,143	26,751	44,578	72,373
Warrant liability	200	83	196	103	
Total debt	6,345	3,674		1,000	
Convertible preferred stock	60,487	65,465	31,421	47,764	
Total stockholders equity (deficit)	(59,034)	(68,256)	(28,915)	(26,688)	55,561

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

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

OVERVIEW

We are a leading provider of software-based IP video processing and distribution solutions that enable the delivery of high-quality video to consumers. Based on our unique video compression and advanced IP video networking technologies, our solution is 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 solution runs on industry-standard hardware and includes encoders, transcoders, network media processors and video gateways, 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 2003, we deployed a news video contribution system in MPEG-4, which allowed us to address the need to transmit low bitrate video for real-time news gathering. 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. We focused on our expansion into Asia in 2005 by providing the IPTV system for a service provider in China and a mobile digital TV service provider in Japan. In 2007, we developed our first all IP-based headend, an innovative and cost-reducing design for consumer video distribution,

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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 3D TV support with multi-video encoding standard on our C4 encoder, as well as 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 new multi-screen software designed for live or file-based video transcoding and distribution to any device. In September 2012, we introduced the 4Caster G4 encoding appliance for the Muse software-based encoder family which offers more density compared to the previous platform, with the potential for further density improvements.

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, primarily through systems integrators, which serve as our channel partners. 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. To a lesser extent, 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.

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FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Consumer Demand and Infrastructure Capacity

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

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

We believe the combination of 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.

The geographic mix of our revenues during the year ended January 31, 2013 reflects a general slowdown in spending by our service provider customers, particularly in North America, Western Europe and Asia, which we attribute to the current global economic environment. We anticipate that our revenues will continue to be impacted by the economic environment, both globally and regionally, and our ability to improve our sales execution, particularly in North America.

Average Sales Prices

We may experience a decline in average sales prices as new competitive products are introduced into the marketplace. Changes in average sales prices cannot always be predicted with certainty. The average sales prices of our products may decline faster than we expect. Competitors may also anticipate our entry into a market and begin to lower their sales prices even before we introduce our product. Under certain circumstances, lower prices may increase our sales volume and thus our revenue, but a lower average sales price typically reduces our gross margin percentage. We expect to continue to face price pressure on our products as average sales prices may decline over time, and there is no assurance that our gross margins will not decline in the future. As we continue to innovate our software-based solution, we may be able to offset a decline in the average sales prices of the prior generation of our solution.

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.

Components of Revenue, Cost of Revenue and Operating Expenses

Revenue

Our revenue is derived primarily from the sale of our IP video processing and distribution solutions, which consists of both hardware and software. Our proprietary software is an essential component in the products we sell and provides a key differentiator between us and our competitors. Our hardware generally consists of industry-standard components, which are readily available from third-party providers. To a lesser extent, we derive revenue from professional services as well as support and maintenance of our products. Our maintenance contracts may include future software upgrades 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, third-party logistics costs, personnel costs associated with our technical support and professional services teams and write-offs for excess and obsolete inventory. To a lesser extent, our cost of revenue includes personnel costs associated with our operations and logistics.

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. We expect to manage our operating expenses in both the near and long term to ensure that our expenses are in-line with our operating plan. However, our operating expenses may fluctuate as a percentage of revenue.

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 and facilities costs. We continue to closely monitor sales and marketing expenses and augment 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 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 expense related to our line of credit and interest income from our cash, cash equivalent and short term investment balances.

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 and its subsidiaries.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

For transactions, other than stand-alone sales of software, entered into or materially modified on or after February 1, 2011, we allocate the arrangement fee to each element based upon the relative selling price of such element and, if software and software-related elements, such as maintenance for the software elements, are also included in the arrangement, we allocate the arrangement fee to each of those software and software-related elements as a group based on its BESP for those elements. After such allocations are made, the amount of the arrangement fee allocated to the software and software-related elements is accounted for using the residual method. When applying the relative selling price method, we determine the selling price for each element using VSOE of selling price, if it exists, or if not, TPE of selling price, if it exists. If neither VSOE nor TPE of selling

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price exist for an element, we use BESP for that element. The revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for that element. The manner in which we account for multiple element arrangements that contain only software and software-related elements remains unchanged.

Consistent with our methodology under previous accounting guidance, we determine VSOE for each element based on historical stand-alone sales to third parties. For hardware and software maintenance and professional services, we determine VSOE of fair value based on our history of stand-alone sales demonstrating that a substantial majority of transactions fall within a narrow range for each service offering. The Company is presently not able to determine VSOE of fair value for its professional services due to lack of stand-alone sales of such services.

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

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

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

If the transactions entered into or materially modified after February 1, 2011 were subject to previous accounting guidance, our total pro forma revenues would have been $45.1 million during the year ended January 31, 2012. Similarly, our pro forma deferred revenue would have been $14.2 million as of January 31, 2012 if the transactions entered into or materially modified after February 1, 2011 were subject to previous accounting guidance.

The impact of the revised accounting guidance to total revenue for the year ended January 31, 2012 was attributable to our ability to assign BESP to undelivered elements which previously required VSOE, the recognition of hardware revenue associated with maintenance contracts previously accounted for ratably over the contract period, and the reallocation of discounts to revenue deliverables.

Revenue from support and maintenance agreements is recognized ratably over the term of the maintenance agreement, which is typically one year, and we defer the unrecognized revenue portion of the maintenance agreements. We recognize revenue from professional services upon performance of the services and recognize costs associated with services as incurred. For stand-alone sales of software with professional services, we do not recognize revenue until all professional services have been delivered to the customer as we do not have VSOE for these services.

Deferred Revenue

A portion of our deferred revenue represents customer payments made in advance for our support and maintenance contracts because we typically bill our support contracts on an annual basis in advance and recognize the associated revenue ratably over the support period, which typically is a one-year term, but was as long as five years for certain arrangements entered into during fiscal years 2008 and 2009. For transactions entered into before February 1, 2011, and for stand-alone sales of software that are subject to software accounting, when we do not have VSOE for our support services, we recognize revenue from the entire arrangement ratably over the support period.

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For transactions entered into before February 1, 2011 and for stand-alone sales of software, we also record deferred revenue for arrangements that include our professional services because we had not established VSOE for these services. In these arrangements, we deferred the revenue from the entire arrangement until the professional services were delivered, which typically ranges from approximately two weeks to three months after delivery of the products. For transactions, other than stand-alone sales of software, entered into or materially modified on or after February 1, 2011, revenue will only be deferred for the portion of the arrangement relating to undelivered services and support and maintenance.

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

Stock-Based Compensation

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

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

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

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

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

Our stock-based compensation expense for our stock-based awards was \$0.8 million, \$1.7 million and \$2.8 million for the years ended January 31, 2011, 2012 and 2013, respectively.

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See Note 8 of our consolidated financial statements for additional information.

Allowance for Doubtful Accounts

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

Income Taxes

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We make these estimates and judgments about our future taxable income that are based on assumptions that are consistent with our future plans. As of January 31, 2013, we had recorded a full valuation allowance on our net deferred tax assets due to uncertainties related to our ability to utilize our deferred tax assets in the foreseeable future. These deferred tax assets primarily consist of net operating loss carry-forwards. Should the actual amounts differ from our estimates, the amount of our valuation allowance could be materially impacted.

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

As of January 31, 2013, we had federal net operating loss carry-forwards of $67.3 million and state net operating loss carry-forwards of $56.7 million. Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. If not utilized, the federal net operating loss carry-forwards will begin to expire in 2021 and the state net operating loss carry-forwards will begin to expire in 2013. Utilization of these net operating loss carry-forwards may be subject to an annual limitation due to applicable provisions of the Internal Revenue Code, and state and local tax laws if we have experienced an ownership change in the past, or if an ownership change occurs in the future, including, for example, as a result of the shares issued in this offering aggregated with certain other sales of our stock before or after this offering.

We regularly review our tax positions and for benefits to be realized, a tax position must be more likely than not to be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is more likely than not to be realized upon settlement. Our policy is to recognize interest and penalties related to income tax matters as income tax expense. Through January 31, 2013, approximately $35,000 of interest and penalties associated with unrecognized tax benefits has been recognized.

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RESULTS OF OPERATIONS

Fiscal Year Ended January 31, 2013 Compared to the Fiscal Year Ended January 31, 2012

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

	Year Ended January 31, 2012	Year Ended January 31, 2013	$ Change	% Change
	(in thousands, except for percentages)			
Revenue:				
Product	$ 46,113	$ 32,022	$ (14,091)	(31)%
Professional services and support	4,533	7,077	2,544	56
Total revenue	50,646	39,099	(11,547)	(23)
Cost of revenue:				
Product	16,989	13,510	(3,479)	(20)
Professional services and support	1,503	1,483	(20)	0
Total cost of revenue	18,492	14,993	(3,499)	(19)
Gross profit	32,154	24,106	(8,048)	(25)
Gross margin	63%	62%		
Operating expenses:				
Research and development	6,728	7,589	861	13
Sales and marketing	16,206	21,359	5,153	32
General and administrative	8,561	11,730	3,169	37
Total operating expenses	31,495	40,678	9,183	29
Income (loss) from operations	659	(16,572)	(17,231)	(2,615)
Interest income (expense), net	(134)	84	218	(163)
Other income (expense), net	237	(72)	(309)	(130)
Income (loss) before provision for income taxes	762	(16,560)	(17,322)	(2,273)
Provision for income taxes	624	375	(249)	(40)
Net income (loss)	$ 138	$ (16,935)	$ (17,073)	(12,372)%

Revenue

Our total revenue decreased by $11.5 million, or 23%, to $39.1 million for the year ended January 31, 2013 from $50.6 million for the year ended January 31, 2012, primarily due to a decrease of $14.1 million in product revenue, slightly offset by an increase of $2.5 million in our professional services and support revenue. The decrease in product revenue was primarily due to decreased spending from our existing service provider customers for multi-screen video services, with a majority of the decline coming from the Americas and Western Europe. We attribute the slowdown in spending by our service provider customers to the weakening global economic environment for the year ended January 31, 2013, continued lengthening of our sales cycle and the fact that the video industry continues to transition to a multi-screen video delivery model. Because many of our large target service provider customers 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. We believe the weak global environment, particularly in the Americas and Western Europe, where a large portion of our products have historically been sold, has contributed to a lengthening of our sales cycle with these customers, thereby causing a decline in our revenue. Our decline in revenue was also due, in part, to challenges in our sales execution, primarily in North America. To address these challenges, we have restructured our sales force, which includes the appointment of our new senior vice president of global sales and service and vice president of sales for North and Latin America, are focusing resources on the broader Pay TV video processing market and strategically investing in our multi-screen technology for long-term growth. We believe that our future revenue will continue to be impacted by consumer demand for multi-screen video

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services, which in turn impacts the level of capital expenditures by our target end customers looking to upgrade their IP video processing and distribution capabilities to enable the delivery of these video services to consumers. The slight increase in our professional services and support revenue reflects a higher volume of professional services sales, timing of completion of customer projects and an overall increase in our support renewals business.

Cost of Revenue and Gross Profit

Our total cost of revenue overall decreased by $3.5 million, or 19%, to $15.0 million for the year ended January 31, 2013 from $18.5 million for the year ended January 31, 2012, primarily due to the corresponding decline in product revenue. Our total gross margin percentage slightly decreased from 63% during the year ended January 31, 2012 to 62% during the year ended January 31, 2013 primarily due to higher costs from shifts to a slightly lower proportion of software sales and product sales in North America which typically have higher gross margins than product sales in other regions. Cost of revenue for professional services and support, despite the increase in corresponding revenue, remained the same at $1.5 million compared to the same prior year period as headcount remained largely unchanged within our professional services organization.

Operating Expenses

Our operating expenses increased by $9.2 million, or 29%, to $40.7 million for the year ended January 31, 2013 from $31.5 million for the year ended January 31, 2012.

Research and Development Expenses

Research and development expenses increased by $0.9 million, or 13%, to $7.6 million for the year ended January 31, 2013 from $6.7 million for the year ended January 31, 2012. Research and development expenses increased primarily due to an increase of $1.3 million in personnel-related expenses for additional engineering contractors to supplement and support existing headcount for certain research and development activities as well as an increase of $0.3 million in rent and $0.2 million in depreciation relating to our new facility in Rennes, France. These increases were partially offset by a $0.6 million increase in the French government research tax credit. Research and development expenses are presented net of French research tax credits, which amounted to $1.6 million and $1.2 million for the years ended January 31, 2013 and 2012, respectively. 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. We expect research and development expenses for the year ended January 31, 2014 to remain even with the year ended January 31, 2013.

Sales and Marketing Expenses

Sales and marketing expenses increased by $5.2 million, or 32%, to $21.4 million for the year ended January 31, 2013 from $16.2 million for the year ended January 31, 2012, primarily due to increased headcount which led to an increase of $2.2 million in personnel-related expenses, such as payroll, payroll taxes, benefits and commissions. In addition, travel expenses increased by $0.9 million and marketing expenses increased by $0.4 million as we made efforts to increase our brand awareness and global footprint through tradeshows, enhancing our web and social media presence and participating in co-marketing campaigns. Our consulting costs increased by $0.7 million as we added additional sales resources worldwide. Depreciation and amortization increased by $1.0 million due to an increase in demo pool inventory and additional equipment purchased to support increased headcount. We expect an increase in sales and marketing expenses for the year ended January 31, 2014 compared to the year ended January 31, 2013.

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General and Administrative Expenses

General and administrative expenses increased by $3.2 million, or 37%, to $11.7 million for the year ended January 31, 2013 from $8.6 million for the year ended January 31, 2012, primarily due to an increase of $1.3 million in professional services related to our use of outside finance, accounting, investor relations, and legal resources, including consultants, and other costs associated with being a public company, such as additional insurance and maintaining compliance with rules and regulations enacted by the SEC. In addition, bad debt expense increased by $0.5 million as more of our accounts receivable originated from regions with more payment risk such as East Asia, India and the Middle East. Stock-based compensation expense also increased by $0.8 million primarily due to grants to outside directors, executive management and current employees. We expect a decrease in general and administrative expenses for the year ended January 31, 2014 compared to the year ended January 31, 2013.

Interest Income (Expense), net

Interest income (expense), net, changed by $0.2 million, or 163%, from an expense of $0.1 million in fiscal 2012 to income of $0.1 million in fiscal 2013. The change was primarily due to interest income generated from the short-term investment account we established using existing cash and proceeds from our IPO in April 2012 during the year ended January 31, 2013.

Other Income (Expense), net

Other income (expense), net, changed by $0.3 million, or 130%, from an income of $0.2 million in 2012 to an expense of $0.1 million in 2013. This change was primarily due to a change in our foreign currency gain or loss from a gain of $237,000 during the year ended January 31, 2012 to a loss of $72,000 during the year ended January 31, 2013.

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Fiscal Year Ended January 31, 2012 Compared to the Fiscal Year Ended January 31, 2011

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

	Year Ended January 31, 2011	Year Ended January 31, 2012	$ Change	% Change
	(in thousands, except for percentages)			
Revenue:				
Product	$ 27,504	$ 46,113	$ 18,609	68%
Professional services and support	2,500	4,533	2,033	81
Total revenue	30,004	50,646	20,642	69
Cost of revenue:				
Product	10,306	16,989	6,683	65
Professional services and support	1,198	1,503	305	25
Total cost of revenue	11,504	18,492	6,988	61
Gross profit	18,500	32,154	13,654	74
Gross margin	62%	63%		
Operating expenses:				
Research and development	5,152	6,728	1,576	31
Sales and marketing	8,886	16,206	7,320	82
General and administrative	6,449	8,561	2,112	33
Total operating expenses	20,487	31,495	11,008	54
Income (loss) from operations	(1,987)	659	2,646	(133)
Interest expense, net	(270)	(134)	136	(50)
Other income (expense), net	(61)	237	298	(489)
Income (loss) before provision for income taxes	(2,318)	762	3,080	(133)
Provision for income taxes	167	624	457	274
Net income (loss)	$ (2,485)	$ 138	$ 2,623	(106)%

Revenue

Our total revenue increased by $20.6 million, or 69%, to $50.6 million in fiscal 2012 from $30.0 million in fiscal 2011, primarily due to increases of $18.6 million and $2.0 million in product revenue and professional services and support revenue, respectively. The increase in product revenue reflected the significant increase in sales of our IP video processing and distribution solution in the fiscal year ended January 31, 2012, which was primarily the result of increased consumer demand for multi-screen video services, and our continued growth into the North American telecommunications and cable services market. In addition, we prospectively adopted new accounting guidance for multiple element revenue arrangements entered into or materially modified on or subsequent to February 1, 2011, which had a positive impact on our revenue during the period when compared to the fiscal year ended January 31, 2011 as discussed further in Note 1 of our consolidated financial statements. The increase in our professional services and support revenue reflects a higher volume of professional services sales, timing of completion of customer projects and an overall increase in our support renewals business.

Cost of Revenue and Gross Profit

Our total cost of revenue overall increased by $7.0 million, or 61%, to $18.5 million in fiscal 2012 from $11.5 million in fiscal 2011, primarily due to a corresponding increase in product revenue. Our product cost of revenue increased due to larger unit volume during the year ended January 31, 2012 compared to the prior fiscal year in order to meet increasing demand for our solution. Our total gross margin increased from 62% in fiscal 2011 to 63% in fiscal 2012, primarily due to increased unit sales volume while our manufacturing and other fixed costs remained relatively consistent across these periods. In addition, our total gross margin was positively impacted by an increase in higher margin software-only transactions. Cost of revenue for professional services and support increased by $0.3 million compared to the same prior year period as headcount slightly increased within our professional services organization.

Operating Expenses

Our operating expenses increased by $11.0 million, or 54%, to $31.5 million in fiscal 2012 from $20.5 million in fiscal 2011.

Research and Development Expenses

Research and development expenses increased by $1.6 million, or 31%, to $6.7 million in fiscal 2012 from $5.2 million in fiscal 2011. Research and development expenses increased primarily as a result of increases of $1.2 million in personnel-related expenses and $1.1 million in professional services related to our use of consultants for certain research and development activities. Research and development expenses are presented net of French research tax credits, which amounted to $1.2 million for each of the years ended January 31, 2011 and 2012.

Sales and Marketing Expenses

Sales and marketing expenses increased by $7.3 million, or 82%, to $16.2 million in fiscal 2012 from $8.9 million in fiscal 2011, primarily as a result of increases of $3.2 million in personnel-related expenses, $1.9 million in commissions and bonuses associated with increased sales, $1.1 million in travel expenses due to increases in sales and marketing personnel and $0.4 million in marketing expenses to increase our brand and global footprint.

General and Administrative Expenses

General and administrative expenses increased by $2.1 million, or 33%, to $8.6 million in fiscal 2012 from $6.4 million in fiscal 2011, primarily due to increases of $1.7 million in personnel-related expenses and $0.3 million in professional services related to our use of consultants for accounting and other administrative activities.

Interest Expense, net

Interest expense, net, decreased by approximately $0.2 million, or 66%, to $0.1 million in fiscal 2012 from $0.3 million in fiscal 2011. The decrease was primarily a result of a decrease in the average outstanding principal amount of borrowings under our credit facilities in the year ended January 31, 2012 compared to the same prior year period, due to our repayment of outstanding notes payable.

Other Income (Expense), net

Other income (expense), net, changed by $0.3 million in fiscal 2012 from an expense of $0.1 million in fiscal 2011 to income of $0.2 million in fiscal 2012. This change was due primarily to a change in our foreign currency gain or loss from a gain of $103,000 in the year ended January 31, 2012 compared to a gain of $52,000 during the year ended January 31, 2011. The difference is also due to the decrease in the fair value of our convertible preferred stock warrants which resulted in a gain of $0.1 million for the year ended January 31, 2012 compared to a loss of $0.1 million for the year ended January 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

On April 24, 2012, we sold 6,500,000 shares of common stock at a price to the public of $9.00 per share in an initial public offering, or IPO. The shares began trading on the NASDAQ Global Market on April 25, 2012. The $54.4 million in proceeds from the IPO, net of underwriters discounts and commissions, but before

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deducting offering-related expenses payable by us of $5.8 million, were received on April 30, 2012, which was the closing date of the IPO. Immediately prior to the closing of the offering, all outstanding shares of convertible preferred stock converted into common stock on a one-for-one basis and we have blank check preferred stock authorized. The convertible preferred stock converted into 6,988,120 shares of common stock and the 1,006,206 shares of Series 1 common stock and the 12,909,470 shares of Series 2 common stock converted into one class of common stock. In addition to the 6,500,000 shares of common stock sold in the IPO, our existing stockholders sold 1,255,000 shares of common stock in the IPO. The shares sold by the selling stockholders consisted of 503,496 shares of convertible preferred stock and 751,504 shares of Series 1 and Series 2 common stock, which were converted to common stock immediately prior to the closing of the IPO.

Prior to the IPO, we funded our operations primarily with proceeds from issuances of convertible preferred stock and borrowings under our credit facilities. We raised an aggregate of $95.1 million, net of issuance cost, from the sale of our convertible preferred stock, including the conversion of convertible promissory notes. We also funded purchases of equipment and other general corporate services with proceeds from our borrowings under our credit facilities. We believe that our existing cash and cash equivalents as of January 31, 2013 will be sufficient to fund our operations and capital expenditures for at least the next 12 months. However, management may in the future elect to finance operations by utilizing our credit facilities or selling equity securities. If additional funding is required, there can be no assurance that additional funds will be available to us on acceptable terms on a timely basis, if at all, or that we will generate sufficient cash from operations to adequately fund our operating needs or sustain profitability. If we are unable to raise additional capital or generate sufficient cash from operations to adequately fund our operations, we will need to curtail planned activities to reduce costs. Doing so will likely have an unfavorable effect on our ability to execute on our business plan.

Cash Requirements

As of January 31, 2013, our cash, cash equivalents and short term investments totaled $54.9 million. We had not drawn on our revolving credit facility as of January 31, 2013 and the availability under this facility was $10.0 million subject to a borrowing base.

Financial Condition (Sources and Uses of Cash)

Our cash and cash equivalents consisted of cash deposits and money market funds with a total amount of $51.3 million as of January 31, 2013.

Our cash flows for fiscal 2011, fiscal 2012 and fiscal 2013 are summarized as follows:

	Year Ended January 31,		
	2011	**2012**	**2013**
	(in thousands)		
Net cash provided by (used in) operating activities	$ 3,657	$ 2,381	$ (17,370)
Net cash used in investing activities	(1,310)	(2,847)	(7,664)
Net cash provided by financing activities	3,489	17,973	49,016

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. In the past, we 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 the extent to which we spend on personnel and sales and marketing activities as our business requires.

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

Cash provided by operating activities of $2.4 million in the year ended January 31, 2012 reflected net income of $0.1 million, non-cash charges of $1.6 million for depreciation and amortization and $1.7 million for stock-based compensation. Our net operating liabilities, excluding cash and cash equivalents, decreased from $9.1 million as of January 31, 2011 to $8.2 million as of January 31, 2012. The decrease in net operating liabilities was primarily due to a decrease of $3.4 million for deferred revenue and increases of $1.3 million for other assets, partially offset by a decrease of $2.6 million for deferred inventory costs and an increase of $1.4 million for accounts payable and accrued liabilities. Deferred revenue decreased during fiscal 2012 primarily due to the timing of revenue recognition, including continued amortization of pre-existing deferred revenue from prior periods, and fewer transactions subject to deferral as a result of the new revenue recognition rules adopted during fiscal 2012, while the decrease in other assets was primarily due to initial public offering related costs incurred during fiscal 2012. The increases in deferred inventory costs and accounts payable and accrued liabilities were primarily the result of an increases in sales and shipments and the related increase in unit volume to meet increased demand.

Cash provided by operating activities of $3.7 million in the year ended January 31, 2011 reflected a net loss of $2.5 million, partially offset by non-cash charges of $1.0 million for depreciation and amortization and $0.8 million for stock-based compensation. Our net operating liabilities excluding cash and cash equivalents, increased from $4.9 million as of January 31, 2010 to $9.1 million as of January 31, 2011. The increase was primarily a result of increases of $5.2 million for accounts payable and accrued liabilities and $4.3 million for deferred revenue, partially offset by increases of $3.8 million in accounts receivable and $2.0 million in deferred inventory costs. The increases in accounts receivable and deferred revenue during fiscal 2011 were primarily the result of increases in sales and shipments of our IP video processing and distribution solution for multi-screen video services and our growth into the North American telecommunications and cable services markets. Similarly, the increases in accounts payable, accrued liabilities and deferred inventory costs were primarily the result of our increases in sales and shipments and the related increase in unit volume to meet the increased demand.

Cash Flows from Investing Activities

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

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Our investing activities consisted solely of capital expenditures and amounted to $1.3 million and $2.8 million in the year ended January 31, 2011 and 2012, respectively, for purchases of equipment.

Cash Flows from Financing Activities

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

In the year ended January 31, 2012, cash provided by financing activities was $18.0 million, primarily as a result of cash proceeds of $16.3 million received from the issuance of Series I redeemable convertible preferred stock and $1.0 million from our credit facility.

In the year ended January 31, 2011, cash provided by financing activities was $3.5 million, primarily as a result of cash proceeds of $6.2 million received from the issuance of Series H convertible preferred stock, partially offset by cash payments of $2.7 million on our notes payable.

OFF-BALANCE SHEET ARRANGEMENTS

As of January 31, 2013, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following summarizes our contractual obligations as of January 31, 2013:

	Payments Due by Period				
Contractual Obligations:	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**	**Total**
			(in thousands)		
Operating lease obligations	$ 918	$ 1,659	$ 1,182	$ 2,117	$ 5,876
French governmental research grant repayments	396	268			664
Uncertain tax positions	462	526			988
Total	$ 1,776	$ 2,453	$ 1,182	$ 2,117	$ 7,528

We outsource the manufacturing, assembly and testing of our encoding products to FutureQuest Incorporated (FQ). We generally do not use custom materials in our products and therefore, our obligation to FQ is limited to purchase orders. To the extent that we cancel a purchase order, we are only liable to the extent that FQ cannot otherwise utilize those components. To date, we have never been required to purchase any such components. Our outstanding purchase orders are not material as of January 31, 2013.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

FOREIGN CURRENCY RISK

Most of our sales are denominated in U.S. dollars, and therefore, our revenues are not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro relative to the U.S. dollar. We have a large research and development facility in France and pay our employees located in France in Euros. To date, we have not entered into any hedging contracts. For the year ended 2013, 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 $0.4 million on our financial position and results of operations.

INTEREST RATE SENSITIVITY

We had cash and cash equivalents of $51.3 million and short-term investments of $3.5 million as of January 31, 2013. Our cash and cash equivalents are held primarily in cash deposits and money market funds, while our short-term investments consist of commercial paper and corporate bonds. We hold our cash and cash equivalents for working capital purposes. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income. For the year ended 2013, a 10% appreciation or depreciation in overall interest rates would not have had a material impact on our interest income.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Envivio, Inc. and Subsidiaries

South San Francisco, California

We have audited the accompanying consolidated balance sheets of Envivio, Inc. and Subsidiaries as of January 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive loss, cash flows and stockholders equity (deficit) for each of the three years in the period ended January 31, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Envivio, Inc. and Subsidiaries at January 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

San Francisco, California

April 25, 2013

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Envivio, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except for per share amounts)

	January 31, 2012	January 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 27,405	$ 51,344
Short-term investments		3,517
Accounts receivable, net of allowance for doubtful accounts of $133 and $792	8,499	8,376
Inventory	108	708
Prepaid expenses and other assets	2,456	2,891
Deferred inventory costs, current	1,547	318
Total current assets	40,015	67,154
Property and equipment, net	3,016	5,003
Deferred inventory costs, net of current portion	100	
Other assets	1,447	216
Total assets	$ 44,578	$ 72,373
Liabilities, convertible preferred stock and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 7,035	$ 4,953
Accrued compensation	4,615	3,395
Accrued liabilities	911	1,271
Deferred revenue, current	7,257	3,298
Line of credit	1,000	
Total current liabilities	20,818	12,917
Deferred revenue, net of current portion	1,400	1,360
Warrant liability	103	
Other non-current liabilities	1,163	1,661
Deferred rent	18	874
Total liabilities	23,502	16,812
Commitments and Contingencies (Note 5)		
Convertible preferred stock:		
Convertible preferred stock, issuable in Series G and H, par value $0.001 per share 4,536,000 and zero shares authorized; 4,238,120 and zero shares issued and outstanding; liquidation preference of $32,500 as of January 31, 2012	31,421	
Redeemable convertible preferred stock, issuable in Series I, par value $0.001 per share 2,750,000 and zero shares authorized, 2,750,000 and zero issued and outstanding; liquidation preference of $16,500 and $0	16,343	
Preferred stock, par value $0.001 per share zero and 2,500,000 authorized		

Total convertible preferred stock	47,764	
Stockholders equity (deficit):		
Common stock, par value $0.001 per share 102,000,000 and 100,000,000 shares authorized; 13,169,608 and 26,941,676 shares issued and outstanding	13	27
Additional paid-in capital	52,955	152,168
Accumulated other comprehensive loss	(825)	(868)
Accumulated deficit	(78,831)	(95,766)
Total stockholders equity (deficit)	(26,688)	55,561
Total liabilities, convertible preferred stock and stockholders equity (deficit)	$ 44,578	$ 72,373

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Consolidated Statements of Operations

(in thousands, except for per share amounts)

	Year Ended January 31, 2011	2012	2013
Revenue:			
Product	$ 27,504	$ 46,113	$ 32,022
Professional services and support	2,500	4,533	7,077
Total revenue	30,004	50,646	39,099
Cost of revenue:			
Product	10,306	16,989	13,510
Professional services and support	1,198	1,503	1,483
Total cost of revenue	11,504	18,492	14,993
Gross profit	18,500	32,154	24,106
Operating expenses:			
Research and development	5,152	6,728	7,589
Sales and marketing	8,886	16,206	21,359
General and administrative	6,449	8,561	11,730
Total operating expenses	20,487	31,495	40,678
Income (loss) from operations	(1,987)	659	(16,572)
Interest income (expense), net	(270)	(134)	84
Other income (expense), net	(61)	237	(72)
Income (loss) before provision for income taxes	(2,318)	762	(16,560)
Provision for income taxes	167	624	375
Net income (loss)	(2,485)	138	(16,935)
Deemed dividend on convertible preferred stock	(2,286)		
Accretion of redeemable convertible preferred stock		(5)	
Noncumulative dividends to convertible preferred shareholders		(133)	
Net income attributable to common stockholders	$ (4,771)	$	$ (16,935)
Net loss per share of common stock, basic and diluted	$ (0.58)	$ 0.00	$ (0.72)
Shares used in computing net loss per share of common stock, basic and diluted	8,203,001	13,123,524	23,577,491

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Loss

(in thousands)

	Year Ended January 31,		
	2011	2012	2013
Net income (loss)	$ (2,485)	$ 138	$ (16,935)
Other comprehensive loss:			
Unrealized gain (loss) on short-term investments			1
Foreign currency translation adjustment	(192)	(74)	(44)
Cumulative translation adjustment reclassified into earnings		(186)	
Other comprehensive loss	(192)	(260)	(43)
Total comprehensive loss	$ (2,677)	$ (122)	$ (16,978)

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended January 31,		
	2011	2012	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (2,485)	$ 138	$ (16,935)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,048	1,554	2,595
Amortization of short-term investment discounts and premiums	58		47
Stock-based compensation	751	1,650	2,833
Recognition of cumulative translation adjustment		(186)	
Inventory provision	82		
Bad debt expense	35	194	738
Fair value remeasurement of warrant liability	113	(93)	(18)
Forgiveness of note related to common stock purchase awards		69	
Unrealized gain on short-term investments			(1)
Interest earned but not collected			(33)
Loss on abandonment of fixed assets			160
Changes in operating assets and liabilities:			
Accounts receivable	(3,779)	(621)	(615)
Inventory	116	(97)	(600)
Prepaid expenses and other current assets	182	22	(402)
Deferred inventory costs	(2,037)	2,560	1,329
Other assets	(30)	(1,320)	(97)
Accounts payable and accrued liabilities	5,177	1,422	(2,942)
Deferred revenue	4,298	(3,400)	(3,999)
Other non-current liabilities	128	489	356
Deferred rent			214
Net cash provided by (used in) operating activities	3,657	2,381	(17,370)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of short-term investments			(20,371)
Maturities of short-term investments			16,807
Proceeds from equipment sales			9
Capital expenditures	(1,310)	(2,847)	(4,109)
Net cash used in investing activities	(1,310)	(2,847)	(7,664)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from initial public offering, net of offering costs paid			49,786
Repayment of credit facility			(1,000)
Proceeds from stock options exercised			89
Proceeds from notes payable and related warrants		1,000	
Payments on notes payable	(2,727)		
Proceeds from issuance of Series H convertible preferred stock and common stock, net of issuance costs	6,206		
Proceeds from issuance of Series I redeemable convertible preferred stock, net of issuance costs		16,338	
Proceeds from issuance of common stock		635	
Proceeds from exercise of Series E and Series F convertible preferred stock warrants	10		
Proceeds from French governmental research grants			141
Net cash provided by financing activities	3,489	17,973	49,016
Effect of exchange rate changes on cash and cash equivalents	(149)	(119)	(43)

NET INCREASE IN CASH AND CASH EQUIVALENTS	5,687	17,388	23,939
CASH AND CASH EQUIVALENTS Beginning of period	4,330	10,017	27,405
CASH AND CASH EQUIVALENTS End of period	$ 10,017	$ 27,405	$ 51,344
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest Paid	$ 233	$ 79	$ 28
Taxes paid	$ 35	$ 26	$ 3
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Leasehold improvements funded by landlord			643
Conversion of bridge loans to Series H convertible preferred stock and common stock	$ 1,205	$	$
Conversion of convertible preferred stock to common stock upon initial public offering	$	$	$ 47,769
Offering costs incurred but not paid during the year	$		$ 1,329
Reclassification of warrant liability to stockholders equity	$	$	$ 84
Conversion of Series B, C, D, E and F convertible preferred stock to common stock	$ 40,704		$ 8
Deemed dividend on convertible preferred stock	2,286		
Accretion of redeemable convertible preferred stock		5	

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity (Deficit)

(in thousands, except for share amount)

	Convertible Preferred Stock		Common Stock			Accumulated Other		
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Comprehensive Loss	Accumulated Deficit	Total Stockholders Deficit
Balance as of January 31, 2010	4,029,910	65,465	44,438		6,315	(373)	(74,198)	(68,256)
Issuance of Series E and F convertible preferred stock upon exercise of warrants	96,484	10						
Conversion of Series B, C, D, E and F convertible preferred stock to common stock	(2,126,401)	(40,704)	3,407,582	3	40,701			40,704
Issuance of Series H convertible preferred stock and common stock for cash, net of issuance costs	1,938,272	5,645	8,825,837	9	2,640			2,649
Issuance of Series H convertible preferred stock and common stock from conversion of bridge loans	299,855	1,005	668,750	1	199			200
Deemed dividend on convertible preferred stock							(2,286)	(2,286)
Stock-based compensation					751			751
Foreign currency translation adjustment						(192)		(192)
Net loss							(2,485)	(2,485)
Balance as of January 31, 2011	4,238,120	31,421	12,946,607	13	$ 50,606	(565)	(78,969)	(28,915)
Issuance of Series I redeemable convertible preferred stock for cash, net of issuance costs	2,750,000	16,338						
Accretion of redeemable convertible preferred stock		5			(5)			(5)
Issuance of common stock upon exercise of share-based awards			223,001		704			704
Stock-based compensation					1,650			1,650
Foreign currency translation adjustment						(74)		(74)
Cumulative translation adjustment reclassified into earnings						(186)		(186)
Net income							138	138
Balance as of January 31, 2012	6,988,120	$ 47,764	13,169,608	$ 13	$ 52,955	$ (825)	$ (78,831)	$ (26,688)
Accretion of redeemable convertible preferred stock		8			(8)			(8)
Series I redeemable, convertible preferred stock issuance costs		(3)						
Conversion of preferred stock to common stock	(6,988,120)	(47,769)	6,988,120	7	47,762			47,769
Initial public offering of common stock, net of issuance costs			6,500,000	7	48,453			48,460
Reclassification of warrant liability upon initial public offering					84			84
Issuance of common stock from exercise of options and vesting of RSUs			283,948		89			89

Stock-based compensation			2,833			2,833
Foreign currency translation adjustment				(44)		(44)
Unrealized gain on investments				1		1
Net loss					(16,935)	(16,935)
Balance as of January 31, 2013	$ 26,941,676	$ 27	$ 152,168	$ (868)	$ (95,766)	$ 55,561

See notes to consolidated financial statements.

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 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.

Risk and Uncertainties

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

Cash and Cash Equivalents

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

The Company had a compensating balance requirement of $1.0 million under its revolving line of credit. This balance was included in cash and cash equivalents as of January 31, 2012. As of January 31, 2013, the Company did not have a compensating balance requirement.

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Accounts Receivable and Allowances for Doubtful Accounts

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

The following table presents the changes in the allowance for doubtful accounts (in thousands):

	January 31, 2011	January 31, 2012	January 31, 2013
Allowance for doubtful accounts beginning of period	$ 632	$ 655	$ 133
Bad debt expense	35	194	738
Write-offs, net of recoveries and other adjustments	(12)	(716)	(79)
Allowance for doubtful accounts end of period	$ 655	$ 133	$ 792

Concentration of Risks

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Cash and cash equivalents consist of money market funds and demand deposits with financial institutions which may exceed Federal Deposit Insurance Corporation (FDIC) limits. The Company has not experienced any losses related to its cash and cash equivalents. None of the Company s customers accounted for more than 10% of its accounts receivable as of January 31, 2013 and two customers accounted for 25% and 15% of accounts receivable as of January 31, 2012.

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

Inventories

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

Deferred Inventory Costs

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

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Property and Equipment, net

Property and equipment, net, is stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are recorded at cost with any reimbursement from the landlord being accounted for as deferred rent, which is amortized using the straight-line method over the lease term. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the lease term. Costs for demo inventory held by the Company s customers are also included within property and equipment as of January 31, 2012 and 2013. Demo inventory is depreciated over an estimated useful life of two years. Expenditures for maintenance and repairs are expensed as incurred.

Deferred Offering Costs

Deferred offering costs represent specific incremental costs directly attributable to the Company s initial public offering of securities, which were charged against the gross proceeds from the offering once completed. As of January 31, 2012, the Company had deferred offering costs of $1.3 million which are included in other assets. All deferred offering costs had been charged against gross proceeds from the offering as of January 31, 2013.

Impairment of Long-lived Assets

The Company evaluates its long-lived assets for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment exists if the carrying amounts of such assets exceed the estimates of future net undiscounted cash flows expected to be generated by such assets. Should an impairment exist, the impairment loss would be measured based on the excess of the carrying value of the asset over the estimated fair value of the asset. As of January 31, 2013 and 2012, the Company has not written down any of its long-lived assets as a result of an impairment.

Revenue Recognition

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

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

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

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

Fixed or determinable fee The Company assesses whether fees are fixed or determinable at the time of sale. The Company only considers the fee to be fixed or determinable if the fee is not subject to refund or adjustment. The Company s payment terms may vary based on the country in which the

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agreement is executed and the credit standing of the individual customer, among other factors. If the arrangement fee is not fixed or determinable, revenue is recognized as amounts become due and payable.

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

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

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

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

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

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

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

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

For transactions, other than stand-alone sales of software, entered into on or subsequent to February 1, 2011, the Company allocates the arrangement fee to each element based upon the relative selling price of such element and, if software and software-related elements, such as maintenance for the software elements, are also included in the arrangement, the Company allocates the arrangement fee to each of those software and software-related elements as a group based on its BESP for those elements. After such allocations are made, the amount of the arrangement fee allocated to the software and software-related elements is accounted for using the residual method. When applying the relative selling price method, the Company determines the selling price for each element using VSOE of selling price, if it exists, or if not, TPE of selling price, if it exists. If neither VSOE nor

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TPE of selling price exist for an element, the Company uses its BESP for that element. The revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for that element. The manner in which the Company accounts for multiple element arrangements that contain only software and software-related elements remains unchanged.

Consistent with the Company s methodology under previous accounting guidance, it determines VSOE for each element based on historical stand-alone sales to third parties. For hardware and software maintenance and professional services, the Company determines the VSOE of fair value based on the Company s history of stand-alone sales demonstrating that a substantial majority of transactions fall within a narrow range for each service offering. The Company is presently not able to determine VSOE of fair value for its professional services due to lack of stand-alone sales of such services.

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

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

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

If the transactions entered into or materially modified after February 1, 2011 were subject to previous accounting guidance, the Company s total pro forma revenues would have been $45.1 million during the year ended January 31, 2012. Similarly, the Company s pro forma deferred revenue would have been $14.2 million as of January 31, 2012 if the transactions entered into or materially modified after February 1, 2011 were subject to previous accounting guidance.

The impact of the revised accounting guidance to total revenue for the year ended January 31, 2012 was attributable to the Company s ability to assign BESP to undelivered elements which previously required VSOE, the recognition of hardware revenue associated with maintenance contracts previously accounted for ratably over the contract period, and the reallocation of discounts to revenue deliverables.

Revenue from support and maintenance agreements is recognized ratably over the term of the maintenance agreement, which is typically one year, and the Company defers the unrecognized revenue portion of the maintenance agreements. The Company recognizes revenue from professional services upon performance of the services and recognizes costs associated with services as incurred. For stand-alone sales of software with professional services, the Company does not recognize revenue until all professional services have been delivered to the customer as the Company does not have VSOE for these services.

Shipping and Handling Costs

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

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Deferred Revenue

A portion of the Company s deferred revenue represents customer payments made in advance for support and maintenance contracts because the Company typically bills support contracts on an annual basis in advance and recognizes the associated revenue ratably over the support period, which can range from one to five years. Deferred revenue also includes arrangements where, in prior years, the Company did not have VSOE of fair value for support and maintenance services. For transactions entered into or materially modified before February 1, 2011 and for stand-alone sales of software that are subject to software accounting, when the Company does not have VSOE of fair value for the support services, revenue from the entire arrangement is recognized ratably over the support period.

For transactions entered into or materially modified before February 1, 2011 and for stand-alone sales of software, the Company also records deferred revenue for arrangements that include undelivered professional services because the Company has not established VSOE of fair value for these services. In these arrangements, the Company defers the revenue from the entire arrangement until the professional services are delivered, which typically ranges from two weeks to three months after the delivery of the product. For transactions, other than stand-alone sales of software, entered into or materially modified on or after February 1, 2011, revenue will only be deferred for the portion of the arrangement relating to undelivered services and support and maintenance rather than deferring the entire arrangement.

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

Deferred Rent

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

Capitalized Software Development Costs

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

Foreign Currency Translation

For each of the Company s foreign subsidiaries, the functional currency is its local currency. Assets and liabilities of foreign operations are translated into U.S. dollars using period-end exchange rates, and revenues and expenses are translated into U.S. dollars using average exchange rates in effect during each period. The effects of foreign currency translation adjustments are included in accumulated other comprehensive loss, a separate component of stockholders deficit. Also recorded as foreign currency translation adjustments are transaction

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gains and losses on long-term intercompany balances for which settlement is not planned or anticipated in the foreseeable future.

Income Taxes

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

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

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

Warranty

The Company generally provides a warranty for its products, software and services. The initial warranty period for all products commences on the date of purchase and continues in effect for the following consecutive 12 months for hardware and 90 days for software. The warranty period can be extended if the customer has purchased a support agreement. The warranty period continues for the duration of a valid support agreement between the Company and the customer under which the payment of support and maintenance fees is current. To date, the Company s warranty expense has not been significant. Therefore, the Company did not provide for a warranty accrual as of January 31, 2012 and 2013.

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based payment awards made to employees and directors based on the estimated fair value of the awards on the date of grant. The Company determines the grant date fair value of the awards using the Black-Scholes option-pricing model and recognizes the related stock-based compensation generally on a straight-line basis over the vesting period of the awards. The Company uses a modified binary option pricing model (European, call option) to establish the expected value of restricted stock awards with market and performance vesting conditions. Stock-based compensation expense is based on the value of the portion

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of the stock-based payment awards that are ultimately expected to vest. As such, the Company s stock-based compensation is reduced for the estimated forfeitures at the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the event of a modification, the fair value of the awards immediately before and after the modification is determined and the incremental values, if any, are also recognized over the remaining vesting period of the modified awards.

Comprehensive Income (Loss)

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

Fair Value Measurements

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

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

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

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

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company s Level 1 assets consist of its money market accounts. The Company s Level 2 assets consist of its short-term investments. The Company s Level 3 liabilities consist of its convertible preferred stock warrants. The Company did not have any other financial assets or liabilities that are measured and reported at fair value.

As of January 31, 2012, the carrying value of the line of credit approximated fair value principally because of the short-term nature of this liability.

Foreign Tax Credits

The Company s foreign tax credit asset consists primarily of amounts due from the Government of France for research and development incentives provided to the Company s French subsidiary. The French research tax credit is general and does not target any specific sector or type of company. Eligible expenditures include human and material resources allocated to research and development, subcontracted research and development costs, technological costs and patent protection. The amounts due from the Government of France are determined on a cost reimbursement basis. The French research tax credit is deducted from the French tax to be paid, or in the

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event taxes are not due it is refunded. As the French research tax credit is related to the Company s research and development expenditures and is refundable regardless of whether any French tax is owed, the credits earned of $1.2 million, $1.2 million and $1.6 million during the years ended January 31, 2011, 2012 and 2013, respectively, were recorded as a reduction of research and development expenses.

Common Stock

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

Net Income (Loss) per Share Attributable to Common Stockholders

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

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

Recent Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income, which requires an entity to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The guidance must be applied retrospectively, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this guidance during the quarter ended April 30, 2012. The adoption had no impact on the Company s financial position or results of operations. We adopted this standard by including the consolidated statements of comprehensive loss herein.

2. Balance Sheet Items

Short-term investments consist of $3.5 million in corporate bonds and are classified as available-for-sale securities. The Company has classified all available-for-sale securities with readily available markets as short-term, regardless of whether the stated maturity is greater than one year from the current balance sheet date, because of the intent to sell those securities as necessary. Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders equity. For the periods presented, realized and unrealized gains and losses on investments were not material. An impairment charge is recorded in the consolidated statements of operations for declines in fair value below the cost of an individual investment that are deemed to be other than temporary. The Company assesses

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whether a decline in value is temporary based on the length of time that the fair market value has been below cost, the severity of the decline, as well as the intent and ability to hold, or plans to sell, the investment.

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

	January 31, 2012	January 31, 2013
Accounts receivable, gross	$ 8,632	$ 9,168
Allowance for doubtful accounts	(133)	(792)
Accounts receivable, net	$ 8,499	$ 8,376

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

	January 31, 2012	January 31, 2013
Foreign tax credits refundable	$ 1,241	$ 1,683
Prepaid expenses	1,215	1,208
Prepaid expenses and other current assets	$ 2,456	$ 2,891

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

	January 31, 2012	January 31, 2013
Computers and equipment	$ 6,318	$ 8,925
Software	1,177	1,284
Furniture and fixtures	890	1,920
Leasehold improvements	129	129
Total property and equipment	8,514	12,258
Less: accumulated depreciation and amortization	(5,498)	(7,255)
Property and equipment, net	$ 3,016	$ 5,003

3. Fair Value of Financial Instruments

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

	January 31, 2012				January 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								

Money market funds (included in cash and cash equivalents)	$ 25,783	$	$	$ 25,783	$ 48,691	$	$	$ 48,691
Short-term investments						3,517		3,517
Liabilities:								
Warrant liability			103	103				

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The Company s Level 2 assets exclusively include corporate bonds with quoted prices that are traded less frequently than exchange-traded instruments. All of the Company s Level 2 assets values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. The pricing model information is provided by third party entities.

4. Line of Credit and Other Non Current Liabilities

Debt outstanding as of January 31, 2012 and 2013 consisted of the following (in thousands):

	January 31, 2012	January 31, 2013
Line of credit	$ 1,000	$
Less current portion	(1,000)	
Long term portion	$	$

Line of Credit

In November 2010, the Company entered into a revolving line of credit with a commercial lender that allowed for draws of up to $5.0 million for general corporate purposes. Amounts borrowed were to be repaid prior to the maturity date in November 2012. Interest accrued at a floating per annum rate equal to either the (i) greater of (x) the prime rate plus 2.75% or (y) 6.75% if the liquidity ratio for the immediately preceding month did not meet a minimum threshold or (ii) greater of (x) the prime rate plus 1.75% or (y) 5.75% in all other instances. The Company paid commitment fees in the amount of $106,000 and a good faith deposit of $25,000 to facilitate the agreement. The lender for this line of credit had a first priority perfected security interest in all of the Company s assets. The credit facility contained financial covenants which effectively required the Company to maintain no less than $1.0 million in outstanding borrowings throughout the term of the arrangement as well as maintain a ratio of unrestricted cash and eligible accounts receivable to current liabilities of at least 1.50 to 1.00. As of January 31, 2012, the Company was in compliance with the covenants under the line of credit facility.

The Company drew down $1.0 million under this line of credit during the year ended January 31, 2012. During the year ended January 31, 2013, the Company paid all outstanding amounts under this line of credit.

On July 31, 2012, the Company amended its revolving line of credit agreement with a commercial lender to increase the amount available from up to $5.0 million to $10.0 million for general corporate purposes and extend the maturity date to July 2014. Under the terms of this amendment, interest accrues at a floating per annum rate equal to the greater of either (x) the prime rate plus 0.75% or (y) 4.00% and the Company is required to pay commitment fees of $25,000 per year. The Company is no longer subject to financial covenants requiring the Company to maintain no less than $1.0 million in outstanding borrowings throughout the term of the arrangement, but is required to maintain a ratio of unrestricted cash, cash equivalents and eligible accounts receivable to current liabilities less deferred revenue of at least 1.50 to 1.00. As of January 31, 2013, the Company was in compliance with the covenants under the line of credit facility, as amended.

French Governmental Research Grants

The Company receives repayable research grants from regional French governmental agencies to fund research and development activities. The French governmental research grants payable were $520,000 and

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$664,000 as of January 31, 2012 and 2013, respectively, and are included in other noncurrent liabilities. The French governmental research grants do not bear interest and are repayable as follows:

Year ending January 31,	Future repayments	
2014	$	396
2015		268
Total	$	664

5. Commitments and Contingencies

Operating Leases

The Company leases facilities under operating leases expiring at various dates through 2021. As of January 31, 2013, future minimum payments under the Company s noncancellable leases are as follows (in thousands):

Year ending January 31,	Future Lease payments	
2014	$	918
2015		851
2016		808
2017		591
2018		591
Thereafter		2,117
Total	$	5,876

Rental expense totaled $581,000, $769,000 and $1,221,000 for the years ended January 31, 2011, 2012 and 2013, respectively.

Litigation Matters

On October 5, 2012 a complaint captioned Wiley v. Envivio, Inc., et al. CIV-517185 was filed in the Superior Court of California, County of San Mateo naming as defendants the Company, each of our directors, our chief executive officer, our chief financial officer, and certain underwriters of our IPO. The lawsuit purports to be a class action on behalf of purchasers of shares issued in the IPO and generally alleges that the registration statement for the IPO contained materially false or misleading statements. The complaint purports to assert claims under the Securities Act of 1933, as amended, and seeks unspecified damages and other relief. On October 19, 2012 a similar complaint captioned Toth v. Envivio, Inc. et al. CIV-517481 was filed in the same court. On November 2, 2012 defendants removed the cases to the United States District Court for the Northern District of California where they were assigned case numbers 12-cv-05637-CRB and 12-cv-05636-CW. A similar complaint was filed in the United States District Court for the Northern District of California on December 20, 2012 entitled Thomas v. Envivio, Inc., et al. C 12-06464.

The actions described above have only recently been filed and there has been no discovery or other proceedings. Accordingly, the Company is not in a position to assess whether any loss or adverse effect on its financial condition is probable or remote or to estimate the range of potential loss, if any.

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.

Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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. Certain of the Company s employment agreements or arrangements with members of the board of directors also include indemnification provisions. The terms of such obligations may vary. To date, the Company has not been required to make any payments resulting from such infringement or director indemnifications and no amounts have been accrued for such matters.

6. Stockholders Equity (Deficit)

Common Stock

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

Immediately prior to the closing of the IPO in April 2012, all outstanding shares of convertible preferred stock converted into common stock on a one-for-one basis. In addition, the Series 1 common stock and Series 2 common stock converted into one class of common stock. As of January 31, 2013, the Company is authorized to issue 100,000,000 shares of common stock, $0.001 par value per share and 2,500,000 shares of preferred stock, $0.001 par value per share. On April 24, 2012, the Company sold 6,500,000 shares of common stock at a price to the public of $9.00 per share in an initial public offering (IPO). The shares began trading on the NASDAQ Global Market on April 25, 2012. The $54.4 million in proceeds from the IPO, net of underwriters discounts and commissions, but before deducting offering-related expenses payable by the Company of $5.8 million, were received on April 30, 2012, which was the closing date of the IPO. Immediately prior to the closing of the offering, all outstanding shares of convertible preferred stock converted into common stock on a one-for-one basis and we have blank check preferred stock authorized. The convertible preferred stock converted into 6,988,120 shares of common stock and 1,006,206 shares of Series 1 common stock and 12,909,470 shares of Series 2 common stock converted into one class of common stock. In addition to the 6,500,000 shares of common stock sold in the IPO, certain selling stockholders of the Company also sold 1,255,000 shares of common stock in the IPO. The shares sold by the selling stockholders consisted of 503,496 shares of convertible preferred stock and 751,504 shares of Series 1 and Series 2 common stock, which were converted to common stock immediately prior to the closing of the IPO.

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Shares of common stock authorized, issued and outstanding, by series, as of January 31, 2012 and 2013 consist of the following:

	January 31, 2012	
	Authorized	Issued and Outstanding
Series 1	2,000,000	1,006,206
Series 2	100,000,000	12,163,402
	102,000,000	13,169,608

	January 31, 2013	
	Authorized	Issued and Outstanding
Common stock	100,000,000	26,941,676

Shares of common stock reserved for issuance on an as-if converted basis is as follows as of January 31, 2012 and 2013:

	January 31, 2012	January 31, 2013
Conversion of convertible preferred stock	6,988,120	
Exercise and vesting of stock-based awards	3,108,972	3,395,102
Available for option grants	924,163	553,085
Exercise of Series G warrants	36,000	
Exercise of Common Stock warrants		36,000
	11,057,255	3,984,187

Convertible Preferred Stock

During the year ended January 31, 2009, the Company issued 870,319 shares of Series G at a purchase price of $12.50 per share and received aggregate proceeds of $10.9 million. At the same time, the Company issued 729,678 shares of Series G in exchange for the conversion of bridge loan principal and interest of $9.1 million. The Company incurred issuance costs related to the Series G issuances of $205,000.

During the year ended January 31, 2010, the Company issued 399,996 shares of Series G at a purchase price of $12.50 per share and received aggregate proceeds of $5.0 million. The Company incurred issuance costs related to the Series G issuances of $22,000.

In June 2010, the Company amended its COI to amend the automatic conversion features for the outstanding shares of Series B, C, D, E and F convertible preferred stock, individually referred to as Series B, Series C, Series D, Series E and Series F, such that these shares would automatically convert into common stock immediately prior to the consummation of the sale of $3.0 million of the yet to be issued Series H without any further action by the convertible preferred stockholders. The automatic conversion rate, which was not amended within the updated COI, was as follows: each share of the Series B converted into 72 shares of common, each share of the Series C converted into 52 shares of common, each share of the Series D converted into 1 share of common, each share of the Series E converted into 1 share of common, and each share of the Series F converted into 1.1428 shares of common. Also in conjunction with the amendment to the automatic conversion features for the convertible preferred stock, the Company amended all outstanding Series E and F warrants, consisting of

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

warrants to purchase 99,684 shares of Series E and warrants to purchase 61,137 shares of Series F, to reduce the number of shares underlying the warrants to 60% of the original number of shares underlying the warrants. In addition, the Series E and F warrant exercise price was reduced to $0.10 per share from $12.50 per share for the Series E warrants and $20.60 per share for the Series F warrants.

Following the amending of the Certificate of Incorporation (COI) in June 2010, the Company completed two financing rounds by issuing 2,238,127 shares of Series H at a purchase price of $3.35 per share to existing investors in the Company. The Company received gross proceeds of $7.5 million, which included the conversion of the principal and accrued interest on a $1.0 million bridge loan received in December 2009. The Company incurred offering expenses of $288,000 related to the Series H financing. As an incentive to participate in the Series H financing, the Company s existing stockholders were offered the opportunity to receive additional shares of common stock (Incentive Shares) if they purchased at least their full pro rata portion of the Series H financing, which was calculated based on the aggregate respective liquidation preferences for the outstanding convertible preferred stock. The existing holders of convertible preferred stock would not be penalized, however, if they did not participate, as the Incentive Shares were issued to participating stockholders in addition to the Series H purchased by participating stockholders. The number of Incentive Shares to be issued was based on the series of the currently outstanding convertible preferred stock held by each Series H participant as follows: at a rate of 107.430618 shares of common for each share of the Series B, 77.588779 shares of common for each share of Series C, 1.492092 shares of common for each share of Series D, 1.865115 shares of common for each share of Series E, and 3.073709 shares of common for each share of Series F. As a result, the Company issued 9,494,587 Incentive Shares with the shares of Series H issued during the Series H financing.

The Series E and F warrants were exercised immediately before the conversion of the Series E and F into common stock. Then immediately upon the closing of the Series H financing, after the exercise of the warrants, the outstanding shares of Series B, C, D, E and F converted into 3,407,582 shares of common stock and only shares of Series G and H remained outstanding after the conversion and financing.

The Company accounted for the Series H financing based on the fair value of the shares of Series H and common stock issued. The $2.3 million excess of the fair value of the shares of Series H and Incentive Shares issued over the proceeds received in the financing of $7.5 million, including the conversion of the principal and accrued interest on a $1.0 million bridge loan received in December 2009, was recognized as a deemed dividend on the convertible preferred stock directly through the accumulated deficit in the statements of convertible preferred stock, stockholders deficit and comprehensive income (loss) and as a charge to the net loss attributable to the common stockholders on the statement of operations during the year ended January 31, 2011.

In December 2011, the Company sold 2,500,000 shares of newly authorized Series I for $6.00 per share, which raised $15.0 million in gross proceeds. In January 2012, the Company redesignated the then-outstanding Series I into Series I2. Concurrently, the Company authorized and sold 150,000 shares of Series I1 and an additional 100,000 shares of Series I2 at $6.00 per share. The Company received gross proceeds of $1.5 million from the second round of financing. The Company incurred offering expenses of $162,000 related to the Series I financing.

As of January 31, 2012, the Company s convertible preferred stock consisted of Series G and H convertible preferred stock and Series I redeemable convertible preferred stock. The Series G and H convertible preferred stock and the Series I redeemable convertible preferred stock were individually referred to as Series G, Series H and Series I and collectively as convertible preferred stock. As of January 31, 2011, the Company was authorized to issue an aggregate of 45,360,000 shares of convertible preferred stock. During the year ended January 31, 2012, the Company amended its COI to amend the number of authorized shares and to designate a new series of

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

redeemable convertible preferred stock. As of January 31, 2012, the authorized number of shares was reduced to 7,286,000 shares of convertible preferred stock.

As of January 31, 2012 and immediately prior to the conversion into common stock, the authorized, issued and outstanding shares of convertible preferred stock were as follows (in thousands, except for share and per share amounts):

Series	Issuance Price per Share	Conversion Ratio	Shares Authorized	Shares Issued and Outstanding	Carrying Value	Liquidation Preference
Series G1	$ 12.50	1.000	200,000	199,999	$ 2,500	$ 2,500
Series G2	12.50	1.000	1,836,000	1,799,994	22,272	22,500
Series H1	3.35	1.000	100,000	89,550	266	300
Series H2	3.35	1.000	2,400,000	2,148,577	6,383	7,200
Series I1	6.00	1.000	150,000	150,000	895	900
Series I2	6.00	1.000	2,600,000	2,600,000	15,448	15,600
			7,286,000	6,988,120	$ 47,764	$ 49,000

In conjunction with the Company s initial public offering, all outstanding convertible preferred stock was converted to shares of common stock on a one-for-one basis. As of January 31, 2013, the Company has one authorized class of preferred stock in the amount of 2,500,000 shares. No preferred stock has been issued or is outstanding at January 31, 2013.

The significant rights and preferences of the various series of convertible preferred stock outstanding as of January 31, 2012 were as follows:

Conversion Rights

Holders of Series G1, H1 and I1 had the option to convert each share into one share of Series 1 common stock and holders of Series G2, H2 and I2 had the option to convert each share into one share of Series 2 common stock at any time. In addition, the convertible preferred stock would automatically convert into the applicable series of common stock upon an initial public offering with net proceeds of not less than $50.0 million and with a public offering price of not less than (1) $9.00 per share if the offering occurred prior to the end of the three year period after the first issuance of the Series I and (2) $6.70 per share thereafter.

Voting Rights

Each share of Series G2, H2 and I2 had voting rights equivalent to the number of shares of Series 2 common stock into which it was convertible and the Series G1, H1 and I1 did not have voting rights, except as required by law. In regards to the selection of the nine directors for the Company s board of directors, the Series G2 holders had the right to elect three directors, the Series H2 holders had the right to elect one director, the Series I2 holders had the right to elect one director, the Series 2 common stockholders had the right to elect one director, and the Series G2, H2, I2 holders and Series 2 common stockholders, voting together on an as-converted basis, had the right to elect the remaining three directors.

Dividend Rights

The holders of Series G, H and I were entitled to receive annual noncumulative dividends at a rate of $1.00, $0.27 and $0.52 per share as adjusted for stock splits, stock dividends, reverse stock splits, stock combinations,

Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

reorganizations, and the like, out of any assets available when and if declared by the board of directors. The dividends did not accrue to the holders if not declared in a particular period and the Company did not declare any dividends.

Liquidation Preferences

In the event of liquidation, dissolution or winding up of the Company, the holders of Series H and I were entitled to receive $3.35 and $6.00 per share and any declared but unpaid dividends prior to any other distributions on any other shares of convertible preferred or common stock. After payments of all liquidation preferences were made to the holders of the Series H and I, the holders of Series G were entitled to receive $12.50 per share and any declared but unpaid dividends prior to any other distributions. Any remaining assets after distribution to the holders of Series G, H and I would have been distributed pro rata among all common and convertible preferred stockholders on an as-converted basis. For purposes of this section, a merger or sale in which more than 50% of the outstanding voting power or capital stock was no longer held by the Company s stockholders, or the sale of all or substantially all of the Company s assets, would have been deemed to be a liquidation of the Company.

Redemption Rights

The outstanding shares of Series G and H were not mandatorily redeemable. The Series I, however, were contingently redeemable because these shares allowed for redemption by the holders with written consent of at least 50% of the Series I holders at any time after the fifth anniversary of the Series I issuance date, or December 2, 2011. Upon such a redemption request, the Company would have redeemed the outstanding shares of Series I by paying cash equal to the Series I original issue price of $6.00 per share plus any declared but unpaid dividends on those shares.

The Company recorded accretion of convertible preferred stock for the difference between the initial recorded amount and the redemption value of the Series I.

7. Convertible Preferred Stock Warrants

The Company had granted warrants to purchase shares of convertible preferred stock to investors as incentives during stock issuances, warrants to lenders as additional consideration for loans and warrants to a supplier as compensation for services. The warrants were fully vested upon issuance, immediately exercisable and expire five to eight years after issuance.

At various dates during the year ended January 31, 2008, corresponding to the related drawdown of the Company s notes payable, the Company issued warrants to purchase 22,936 shares of Series F with an exercise price $20.60 per share to a lender. The warrants were exercisable at any time and were subject to expiration in March 2015. The fair value of these warrants of $301,000 was recorded as a debt discount and a warrant liability on the consolidated balance sheet on the dates of issuance. In conjunction with the June 2010 amendment to the convertible preferred stock conversion features, the number of shares underlying the warrant was reduced to 60% of the original number. In addition, the warrant exercise price was reduced to $0.10 per share. These warrants were exercised as part of the Series H financing in June 2010, and the underlying Series F was subsequently converted into common stock. Upon exercise, the related warrant liability was reclassified to convertible preferred stock, and then subsequently converted to common stock and reclassified to additional paid-in capital.

During the year ended January 31, 2009, in conjunction with the issuance of a bridge loan in the form of a convertible note, the Company issued warrants to purchase 38,201 shares of Series F with an exercise price of $20.60 per share. In conjunction with the June 2010 amendment to the convertible preferred stock conversion

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Notes to Consolidated Financial Statements (Continued)

features, the number of shares underlying the warrant was reduced to 60% of the original number. In addition, the warrant exercise price was reduced to $0.10 per share. The warrants were exercisable at any time and expire at various dates through July 2012. These warrants were exercised as part of the Series H financing in June 2010, and the underlying Series F was subsequently converted into common stock. Upon exercise, the related warrant liability was reclassified to convertible preferred stock, and then subsequently converted to common stock and reclassified to additional paid-in capital.

At various dates during the year ended January 31, 2009, corresponding to the related drawdown of the Company s notes payable, the Company issued warrants to purchase 36,000 shares of Series G with an exercise price of $12.50 per share. The warrants are exercisable at any time and expire in June 2015. These warrants had not been exercised and were still outstanding as of January 31, 2011 and 2012.

The above convertible preferred stock warrants were accounted for as warrant liabilities and debt discounts on the Company s notes payable. The warrant liabilities were remeasured to their fair value at the end of each reporting period until they are exercised or expire.

Warrant activity during the years ended January 31, 2011, 2012 and 2013 was as follows:

	Series E Warrants	Exercise Price	Series F Warrants	Exercise Price	Series G Warrants	Exercise Price
January 31, 2010	99,684	$ 12.50	61,137	$ 20.60	36,000	$ 12.50
Warrants granted						
Warrants expired or forfeited	(39,878)		(24,459)			
Warrants exercised	(59,806)		(36,678)			
January 31, 2011		$		$	36,000	$ 12.50
Warrants granted						
Warrants expired or forfeited						
Warrants exercised						
January 31, 2012		$		$	36,000	$ 12.50
Preferred warrants converted to common warrants					(36,000)	
January 31, 2013		$		$		

The Company calculated the fair value of the warrants during the years ended January 31, 2012 and 2011 using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended January 31, 2011	Year Ended January 31, 2012
Contractual term (in years)	4.40	3.40
Volatility	75.00%	54.00%
Risk-free interest rate	1.50%	0.30%
Expected dividend	0.00%	0.00%

The fair value of the warrant liability was estimated to be $196,000 and $103,000 as of January 31, 2011 and 2012, respectively. The change in the fair value of the convertible preferred stock warrants resulted in a gain of $93,000 during the year ended January 31, 2012 and a loss of $113,000 during the year ended January 31, 2011, which has been included in other income (expense), net in the statements of operations.

Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

8. Stock-based compensation plans

Stock Option Plans

The Company adopted a stock option plan (the 2000 Plan) in 2000. Under the 2000 Plan, as amended, the Company was able to grant options to purchase up to 1,181,689 shares of common stock to certain employees, directors and consultants. Under the terms of the 2000 Plan, the Company may grant incentive stock options (ISO), nonstatutory stock options (NSO), common stock purchase agreements (CSPA) and stock purchase rights (SPR). Such awards are exercisable at prices generally equal to the fair value of the Company s common stock at the date of grant, as determined by the board of directors. Awards granted under the 2000 Plan generally vest over four years with a six-month cliff period and may be exercised for a period of up to ten years. Vested options generally expire 30 days after termination of employment. In December 2010, the board of directors approved the decrease in the number of shares of common stock reserved for issuance under the 2000 Plan to 644,366 shares. No shares were available for future grant under the 2000 Plan as of January 31, 2012 and January 31, 2013, respectively.

The Company adopted a 2010 stock incentive plan (the 2010 Plan) in June 2010. The 2010 Plan provides that only employees are eligible for the grant of ISOs and that employees, consultants and outside directors are eligible for the grant of NSOs. The 2010 Plan also allows for the grant of SPRs and restricted stock units (RSU). Awards granted under the 2010 Plan also generally vest over four years with a six-month cliff period and may be exercised for a period of up to ten years. Vested options generally expire three months after termination of employment. No shares were available for future grant under the 2010 Plan as of January 31, 2012 due to the adoption of a new stock incentive plan as more fully described below.

The Company adopted a 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. Vested options generally expire three months after termination of employment. Shares of common stock reserved for issuance under the 2012 Plan consist of 553,085 shares as of January 31, 2013. In addition, up to 3,500,000 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 least of (i) 2,000,000 shares, (ii) 4% of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year or (iii) another amount determined by our board of directors.

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The following table summarizes the stock-based award activity for the 2000 Plan, 2010 Plan and the 2012 Plan for the years ended January 31, 2011, 2012 and 2013:

	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, 2010	109,201	1,028,778	$ 1.40	8.8	$
Additional options authorized	1,764,096				
Options granted	(1,743,476)	1,743,476	0.30		
SPRs and CSPAs granted	(396,496)	396,496	0.30		
Options expired and forfeited	223,100	(223,100)	2.00		
SPRs and CSPAs expired and forfeited	148,890	(148,890)	2.00		
Exercised					
January 31, 2011	105,315	2,796,760	$ 0.60	9.0	$ 9,405
Additional options authorized	1,360,000				
Options granted	(559,000)	559,000	6.24		
SPRs and CSPAs granted	(8,500)	8,500	6.42		
RSUs granted	(613,268)				
Options expired and forfeited	281,450	(281,450)	4.96		
SPRs and CSPAs expired and forfeited	14,605	(14,605)	0.30		
RSUs expired	349,500				
Plan shares expired	(5,939)				
Exercised		(223,001)	2.48		
January 31, 2012	924,163	2,845,204	$ 1.15	8.5	$ 14,269
Additional options authorized	200,000				
Options granted	(796,968)	796,968	2.86		
SPRs and CSPAs granted	(5,500)	5,500	8.06		
RSUs granted	(77,250)				
Options expired and forfeited	242,573	(242,573)	3.70		
SPRs and CSPAs expired and forfeited	1,125	(1,125)	1.46		
RSUs expired	65,942				
Plan shares expired	(1,000)				
Exercised		(270,948)	0.33		
January 31, 2013	553,085	3,133,026	$ 1.46	7.6	$ 2,782
Vested and expected to vest January 31, 2012		2,775,575	1.13	8.5	13,947
Vested January 31, 2012		1,185,409	0.83	8.0	6,208
Vested and expected to vest January 31, 2013		3,091,019	1.45	7.5	$ 2,770
Vested January 31, 2013		1,559,683	0.98	6.5	$ 1,785

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Additional information regarding the Company s stock options outstanding and vested and exercisable as of January 31, 2012 is summarized below:

	Options Outstanding			Options Vested	
Exercise Prices	Stock Options and SPRs Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price per Share	Stock Options Outstanding	Weighted-Average Exercise Price per Share
$ 0.30	2,410,854	8.7	$ 0.30	1,005,556	$ 0.30
1.60	19,913	4.0	1.60	19,913	1.60
1.90	4,500	6.4	1.90	4,426	1.90
2.00	67,900	2.1	2.00	67,900	2.00
3.80	16,813	5.3	3.80	16,813	3.80
4.20	30,616	2.8	4.20	30,616	4.20
5.10	63,500	9.2	5.10	7,591	5.10
7.90	231,000	9.4	7.90	32,486	7.90
65.00	50	0.5	65.00	50	65.00
250.00	58		250.00	58	250.00
	2,845,204	8.5	$ 1.15	1,185,409	$ 0.83

Additional information regarding the Company s stock options outstanding and vested and exercisable as of January 31, 2013 is summarized below:

	Options Outstanding			Options Vested	
Exercise Prices	Stock Options and SPRs Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price per Share	Stock Options Outstanding	Weighted-Average Exercise Price per Share
$0.30 to 0.30	2,065,701	7.2	$ 0.30	1,330,238	$ 0.30
1.55 to 1.79	316,911	9.7	1.75	18,911	1.69
1.90 to 2.00	72,400	2.5	1.99	72,400	1.99
2.15	339,200	9.6	2.15		2.15
2.54 to 3.80	12,652	8.8	3.01	4,777	3.47
4.20	30,616	1.8	4.20	30,616	4.20
5.10 to 7.90	203,227	7.7	7.70	93,258	7.70
8.06 to 8.84	92,270	8.6	8.50	9,434	8.50
65.00	25	0.5	65.00	25	65.00
250.00	24		250.00	24	250.00
	3,133,026	8.5	$ 1.46	1,559,683	$ 0.98

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

Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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 service for any reason, the notes and the related options are cancelled. As of January 31, 2012 and 2013, 412,830 and 392,479 shares were subject to repurchase under the provisions of the SPRs and 103,439 and 97,478 shares, respectively were subject to repurchase under the provisions of the CSPAs.

The notes receivable issued to employees in conjunction with the SPRs and CSPAs are secured by the underlying shares and carry interest rates ranging from 2.1% to 5.9%. While the note terms indicate that they are full recourse, the Company has not pursued recourse in instances when a note receivable balance exceeds the fair value of the shares at the date of repurchase, and accordingly, the exercises of the SPRs and CSPAs has been considered to be nonsubstantive. Notes receivable relating to the SPRs and CSPAs are not recorded on the consolidated balance sheet due to the nonsubstantive 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.

From January 2003 to May 2008, the Company loaned an executive officer an aggregate of $559,000 at interest rates ranging from 2.7% to 4.6% per annum, pursuant to CSPAs. These notes were also indicated to be full recourse notes and secured by a pledge of stock, however, the notes and the related exercises of the underlying options were also considered to be nonsubstantive and, as a result, the notes and legally outstanding shares were not recorded on the consolidated balance sheet due to the nonsubstantive transactions. The aggregate amount of indebtedness of this executive officer as of January 31, 2011 and 2012 was $691,000 and zero. On April 12, 2011, the executive officer repaid $627,000 of these notes and accrued interest in connection with the sale to a third party of certain shares of the Company s common stock held by the executive officer. In addition, on April 13, 2011, the Company s board of directors agreed to forgive an aggregate of $69,000, representing the remaining outstanding principal and accrued interest which the executive officer owed as of April 13, 2011. The Company also agreed to provide the executive officer with a tax gross-up payment to cover the executive officer s income taxes on the cancellation of indebtedness income which was recorded as compensation expense. The repayment of the notes was considered to be in substance, a purchase of common shares, and the total consideration of $696,000 has been reflected as such in the accompanying consolidated statements of convertible preferred stock and stockholders equity (deficit).

Restricted Stock Units

The Company grants Restricted Stock Units (RSUs) or share-based awards to employees, executives and directors of the Company. The Company first granted RSUs during the year ended January 31, 2012. During that year, the Company granted 613,268 RSUs with market and performance vesting conditions to employees and executives of the Company. The RSUs vest in accordance with specified milestones related to the Company s stock price performance following an 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. The Company did not recognize any stock-based compensation related to RSUs with market and performance conditions during the year ended January 31, 2012. During the year ended January 31, 2013 the Company issued 55,250 RSUs with market and performance conditions and a further 22,000 RSUs without market and performance conditions. During the year ended

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

January 31, 2013, the Company recognized $437,000 in stock-based compensation expense related to RSUs with market and performance vesting.

A summary of the Company s restricted stock unit activity for the years ended January 31, 2012 and 2013 is presented below:

	RSUs Outstanding	Weighted Average Grant Date Fair Value
January 31, 2011		$
Granted	613,268	6.30
Cancelled and forfeited	(349,500)	5.10
January 31, 2012	263,768	$ 7.90
Granted	77,250	6.47
Vested	(13,000)	7.90
Cancelled and forfeited	(65,942)	5.51
January 31, 2013	262,076	$ 8.08

Stock-Based Compensation

The following table presents the total stock-based compensation expense for the years ended January 31, 2011, 2012 and 2013 (in thousands):

	Year Ended January 31,		
	2011	2012	2013
Cost of revenue	$ 37	$ 3	$ 5
Research and development	71	89	129
Sales and marketing	65	279	583
General and administrative	578	1,279	2,116
Total stock-based compensation	$ 751	$ 1,650	$ 2,833

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

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

Expected volatility The expected volatility is derived from historical volatilities of several unrelated publicly listed peer companies over a period approximately equal to the expected term of the award because the Company has limited information on the volatility of the common stock since it has no trading history. When making the selections of industry peer companies to be used in the volatility calculation, the Company considered the size, operational and economic similarities to the Company s principle business operations.

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

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

The weighted average assumptions used to estimate the fair value of the Company s stock-based awards at the grant dates for the years ended January 31, 2011, 2012 and 2013 were as follows:

	Year Ended January 31,		
	2011	2012	2013
Expected term (in years)	6.0	6.0	6.25
Volatility	59%	55%	57%
Risk-free interest rate	2.3%	2.4%	1.2%
Expected dividend	0%	0%	0%

As of January 31, 2013, total compensation cost not yet recognized for unvested awards was $3.5 million, which is expected to be recognized over the following 2.5 years, based on the weighted average vesting term.

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

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

Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The total estimated fair value of employee options and stock purchase rights granted during the years ended January 31, 2011, 2012 and 2013 was $5.6 million, $1.8 million and $2.3 million, respectively. The weighted average estimated fair value of those options granted during the years ended January 31, 2011, 2012 and 2013 was determined to be $2.72, $3.27, and $2.90 per share. The intrinsic value of options exercised during the years ended January 31, 2012 and 2013 was $457,000 and $2.3 million but was not significant during the year ended January 31, 2011.

The total estimated fair value of employee restricted stock awards granted during the years ended January 31, 2012 and 2013 was $1.6 million and $499,000, respectively. The weighted average estimated fair value of those awards granted during the years ended January 31, 2012 and 2013 was determined to be $6.17 and $6.47 per share, respectively.

As of January 31, 2013, total compensation cost not yet recognized for unvested restricted stock awards was $0.4 million and is expected to be recognized over the following 1.4 years, based on the weighted average vesting term.

Options Granted to Non-Employee

During the year ended January 31, 2012, the Company granted options to purchase 25,000 shares of common stock to a non-employee at an exercise price of $7.90 per share. The Company accounts for non-employee options based on the fair value of the awards as they vest. The fair value of the stock options is calculated at each reporting date using the Black-Scholes option-pricing model. For the calculation as of January 31, 2012, the Company used the following assumptions: remaining contractual life of 9.6 years, expected volatility of 57%, risk-free interest rate of 1.83% and expected dividend of 0%. In connection with options granted to a non-employee, the Company recognized stock-based compensation expense of $9,000 and $50,000 for the years ended January 31, 2012 and 2013, respectively.

Modification of Stock-Based Awards

During the year ended January 31, 2011, the Company implemented a stock option exchange program whereby all holders of stock options with exercise prices of more than $0.30 were given the opportunity to exchange their stock-based awards for similar awards at a reduced exercise price of $0.30 per share under revised vesting schedules. The Company completed the option exchange program in November 2010 and ten individuals participated in the program. As a result, the Company cancelled and reissued 61,635 stock options.

The exchange program is considered a modification of the stock-based awards, which requires the calculation of incremental compensation cost. The total incremental compensation cost resulting from the exchange program was $339,000. The Company has elected to recognize the remaining unamortized original grant date fair value over the vesting period of the original award and the incremental cost over the vesting period of the new awards.

As of January 31, 2012, one of the Company s board members transitioned from being an employee to a non-employee director. As part of the transition agreement, the vesting terms of 283,778 unvested options as of January 31, 2012 that were granted when the board member was an employee were modified to allow the continued vesting of the options under the original vesting periods. The options would have been forfeited if the terms were not modified. The Company accounted for this transaction as a modification of a vesting condition whereby the remaining unrecognized compensation cost of the originally measured award is no longer used and the fair value of the options expected to vest is measured and recognized over the remaining service period. In

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

addition, the incremental cost of vested options was measured and recognized upon modification. The incremental cost relating to vested options is immaterial while the compensation cost relating to unvested options of $1.6 million will be recognized over a weighted average term of 2.5 years.

During the fiscal year ended January 31, 2013, a member of our management team resigned. As part of his termination agreement the Company changed the vesting terms on 19,643 shares, accelerating the vesting into the fiscal year ended January 31, 2013. The Company accounted for this transaction as a modification of a vesting condition whereby the original outstanding option is cancelled and a new option is granted with the new vesting terms. The additional stock-based compensation expense recognized in the fiscal year ended January 31, 2013 was $26,000.

9. Net Loss per Share Attributable to Common Stockholders

The following table sets forth the computation of the Company s basic and diluted net loss per share attributable to common stockholders for the years ended January 31, 2013, 2012 and 2011 (in thousands, except for share and per share amounts):

	Year ended January 31,		
	2011	2012	2013
Net loss attributable to common stockholders	$ (4,771)	$	$ (16,935)
Shares used in computing net loss per share attributable to common stockholders, basic and diluted	8,203,001	13,123,524	23,577,491
Net loss per share attributable to common stockholders, basic and diluted	$ (0.58)	$ 0.00	$ (0.72)

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

	Year ended January 31,		
	2011	2012	2013
Convertible preferred stock	4,238,120	6,988,120	
Stock options to purchase common stock	2,054,680	2,328,935	2,643,083
Shares purchased with notes (SPRs and CSPAs)	742,080	516,269	489,943
Convertible preferred stock warrants	36,000	36,000	
Common stock warrants			36,000
Restricted stock units		263,768	262,076

10. Income Taxes

The provision for income taxes in the consolidated statements of operations consists mainly of state and foreign taxes incurred by foreign subsidiaries. The Company s net income (loss) before provision for income taxes during the years ended January 31, 2011, 2012 and 2013 is as follows (in thousands):

	Year ended January 31,		
	2011	2012	2013
Domestic	$ (4,088)	$ (1,183)	$ (18,836)
International	1,770	1,945	2,276

Income (loss) before provision for income taxes	$ (2,318)	$ 762	$ (16,560)

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The components of the provision for income taxes during the years ended January 31, 2011, 2012 and 2013 are as follows (in thousands):

	Year ended January 31,		
	2011	**2012**	**2013**
Current:			
Federal	$	$	$
State		90	(87)
Foreign	167	261	283
Total Current	167	351	196
Deferred:			
Federal			
State			
Foreign		273	179
Total deferred		273	179
Total provision for income taxes	$ 167	$ 624	$ 375

Significant components of deferred tax assets as of January 31, 2012 and 2013 are as follows (in thousands):

	January 31, 2012	January 31, 2013
Current deferred tax assets:		
Reserves and accruals	$ 4,769	$ 3,573
Deferred revenue, net	982	430
Other	7	7
	5,758	4,010
Valuation allowance	(5,013)	(3,277)
Current deferred tax assets:	$ 745	$ 733
Current deferred tax liability:		
Change in accounting method	(745)	(733)
Net current deferred tax asset (liability)	$	$
Non-current deferred tax assets:		
Net operating loss carryforwards	$ 20,733	$ 24,802
Stock-based compensation	298	941
Tax credits	93	447
Other	403	447
	21,527	26,637

Valuation allowance	(20,413)	(26,250)
Non-current deferred tax assets:	1,114	387
Current deferred tax liabilities:		
Fixed assets	(369)	(387)
Change in accounting method	(745)	
Non-current deferred tax liabilities	(1,114)	(387)
Net non-current deferred tax asset (liability)	$	$

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Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Reconciliations of the statutory federal income tax to the Company s effective income tax rate during the years ended January 31, 2011, 2012 and 2013 are as follows:

	Year ended January 31,		
	2011	2012	2013
Statutory federal rate	34.0%	34.0%	34.0%
State tax net of federal benefit	5.6	36.3	(4.8)
French research tax credit	18.2	(54.2)	3.2
Changes in reserves for uncertain tax positions	(13.1)	43.8	(1.2)
Stock-based compensation	(8.2)	47.5	(1.3)
Other	(1.2)	(2.6)	(4.8)
Change in valuation allowance	(42.5)	(22.7)	(27.4)
Provision for income taxes	(7.2)%	82.1%	(2.3)%

The Company provided a full valuation allowance for net operating losses, credits and other deferred tax assets for the state of California and U.S. Foreign deferred tax assets are immaterial. A valuation allowance is provided when based upon the available evidence, management concludes that it is more likely than not that some portion of the deferred tax assets will not be realized. The Company maintained a full valuation allowance as of January 31, 2011, 2012 and 2013 due to the uncertainty of realizing future tax benefits from its net operating loss carry-forwards and other deferred tax assets. There was an increase in the valuation allowance during the year ended January 31, 2011 of $989,000, a decrease of $48,000 during the year ended January 31, 2012 and an increase of $4,101,000 during the year ended January 31, 2013.

The Company has not accrued U.S. income taxes on accumulated undistributed earnings in its foreign subsidiaries because the earnings are intended to be indefinitely reinvested. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be repatriated to the U.S.

As of January 31, 2013, the Company had federal net operating loss carry-forwards of $67.3 million, and California net operating loss carry-forwards of $56.7 million. The Company s federal and state net operating loss carry-forwards begin to expire in 2021 and 2013, respectively.

As of January 31, 2013, the Company had federal research tax credit and foreign tax credit carry-forwards in the amount of $173,000 and $218,000, respectively, available to offset U.S. federal income taxes. The research tax credits begin to expire in 2021. Unutilized foreign tax credits are allowed as a business deduction upon expiration. The Company also has state research tax credit carry-forwards in the amount of $84,000 as of January 31, 2013. This credit has no expiration period and is carried forward indefinitely until utilized.

Federal and California tax laws impose substantial restrictions on the utilization of net operating losses and credit carry-forwards in the event of an ownership change for tax purposes, as defined in Section 382 of the Internal Revenue Code. The Company has determined that ownership changes under Section 382 have occurred and that certain tax attributes will expire due to the limitations imposed by Section 382. Accordingly, the Company has reduced its net operating loss carry-forwards for federal and state purposes by $8.6 million and $3.4 million as of January 31, 2012. In addition, the Company has reduced federal research tax credit carry-forwards by $173,000 as of January 31, 2012.

The Company performed its last Section 382 analysis during the taxable year ended January 31, 2012. The Company is currently gathering shareholder information in order to update the Company s analysis under Section 382 for the year ended January 31, 2013. To the extent an ownership change did occur under Section 382 during the year ended January 31, 2013, the resulting limitation could materially reduce the amount of gross net operating losses and tax credit carryforwards deferred tax assets reported above.

Envivio, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The table of deferred tax assets shown above does not include certain deferred tax assets at January 31, 2013 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for book purposes. Additional paid in capital will be increased by approximately $351,000 if and when such deferred tax assets are ultimately realized.

Uncertain Tax Positions

The Company remains open for audit by the United States Internal Revenue Service and state tax authorities since inception. The Company remains open for audit by the French tax authorities for the years 2008 through 2013. Most other foreign jurisdictions have statute of limitations that range from three to six years. The Company is not currently under examination by income tax authorities in federal, state or other foreign jurisdictions.

A reconciliation of the beginning and ending balances of the gross unrecognized tax benefits during the years ended January 31, 2011, 2012 and 2013 is as follows (in thousands):

	2011	2012	2013
Unrecognized benefit beginning of period	$ 663	$ 945	$ 1,277
Gross increases current period tax adjustments	282	365	65
Gross decreases prior period tax adjustments		(33)	(28)
Unrecognized benefit end of period	$ 945	$ 1,277	$ 1,314

As of January 31, 2013, the total amount of gross unrecognized tax benefits was $1,314,000 of which $326,000 offsets tax attributes. Unrecognized tax benefits of $988,000, if recognized, would affect the effective income tax rate in the period or periods recognized. The net unrecognized tax benefits were included in other non-current liabilities in the consolidated balance sheet as of January 31, 2012 and 2013.

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense. The Company accrued net interest and penalties of $4,000, $0 and $15,000 during the years ended January 31, 2011, 2012 and 2013. In addition, the Company recorded liabilities for accrued interest and penalties of $20,000 and $35,000 as of January 31, 2012 and 2013.

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

11. 401(k) Defined Contribution Plan

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

12. 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):

	Year Ended January 31,		
	2011	2012	2013
Americas	$ 9,706	$ 19,655	$ 8,250
Asia Pacific	7,229	10,521	10,908
EMEA	13,069	20,470	19,941
Total	$ 30,004	$ 50,646	$ 39,099

Included within the Americas total in the above table is revenue from sales originating in the U.S. of $7.0 million, $15.1 million and $5.2 million for the years ended January 31, 2011, 2012 and 2013, respectively.

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

	January 31, 2012	January 31, 2013
Americas	$ 1,600	$ 2,229
Asia Pacific	5	4
EMEA	1,411	2,770
Total	$ 3,016	$ 5,003

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

	Year Ended January 31,		
	2011	2012	2013
Customer A	12%	*	*
Customer B	12%	*	*
Customer C	11%	*	*

* less than 10%

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

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

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of January 31, 2013, at the reasonable assurance level.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

This Annual Report on Form 10-k does not include a report of management s assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to the transition period established by the rules of the SEC for newly public companies.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2013.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2013.

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

The information required by this item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2013.

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

The information required by this item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2013.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended January 31, 2013.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

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

2. Financial Statement Schedule

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

3. Exhibits

See exhibit index for a list of exhibits.

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SIGNATURES

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

ENVIVIO, INC.

By: /s/ Erik E. Miller
Erik E. Miller
Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: April 25, 2013

POWER OF ATTORNEY

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

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

Name	Title	Date
/s/ Julien Signès Julien Signès	President, Chief Executive Officer and Director (Principal Executive Officer)	April 25, 2013
/s/ Erik E. Miller Erik E. Miller	Chief Financial Officer (Principal Financial and Accounting Officer)	April 25, 2013
/s/ Gianluca U. Rattazzi Gianluca U. Rattazzi	Executive Chairman and Director	April 25, 2013
/s/ Kevin E. Dillon Kevin E. Dillon	Director	April 25, 2013
/s/ Marcel Gani Marcel Gani	Director	April 25, 2013
/s/ Edward Gilhuly	Director	April 25, 2013

Edward Gilhuly		
/s/ Terry Kramer	Director	April 25, 2013
Terry Kramer		
/s/ Corentin du Roy de Blicquy	Director	April 25, 2013
Corentin du Roy de Blicquy		
/s/ R. David Spreng	Director	April 25, 2013
R. David Spreng		

Exhibit Index

Exhibit Number	Description	Incorporated by reference from form	Incorporated by reference from exhibit number	Date Filed
3.1(a)	Restated Certificate of Incorporation of the Registrant	S-1	3.1(b)	6/22/2011
3.1(b)	Amended and Restated Bylaws of the Registrant	S-1	3.2(b)	6/3/2011
4.1	Form of Common Stock Certificate	S-1	4.1	6/22/2011
4.2	Amended and Restated Investors Rights Agreement between the Registrant and certain investors, as amended	S-1	4.2	4/5/2012
10.1	Form of Indemnification Agreement between the Registrant and its officers and directors	S-1	10.1	6/14/2011
10.2#	2000 Stock Option Plan and form of agreements thereunder	S-1	10.2	4/15/2011
10.3#	Amended and Restated 2010 Stock Incentive Plan and form of agreements thereunder	S-1	10.3	5/17/2011
10.4#	Amended and Restated 2012 Stock Incentive Plan and form of agreements thereunder	S-1	10.4	4/24/2012
10.5	Lease between the Registrant and Kashiwa Fudosan America, Inc., as amended	S-1	10.5	4/15/2011
10.6#	Executive Employment Agreement between the Registrant and Julien Signès	S-1	10.6	5/17/2011
10.7#	Offer Letter between the Registrant and Erik E. Miller	S-1	10.7	5/17/2011
10.8#	Offer Letter between the Registrant and Kevin P. O Keefe	S-1	10.8	5/17/2011
10.9#	Offer Letter between the Registrant and Anne M. Lynch	S-1	10.9	5/17/2011
10.10#	Change of Control Severance Agreement between the Registrant and Julien Signès	S-1	10.10	5/17/2011
10.11#	Change of Control Severance Agreement between the Registrant and Gianluca U. Rattazzi	S-1	10.11	5/17/2011
10.12#	Change of Control Severance Agreement between the Registrant and Erik E. Miller	S-1	10.12	5/17/2011
10.13#	Change of Control Severance Agreement between the Registrant and Kevin P. O Keefe	S-1	10.13	5/17/2011
10.14#	Change of Control Severance Agreement between the Registrant and Anne M. Lynch	S-1	10.14	5/17/2011
10.15#	Amendment of Executive Employment Agreement for Compliance with Section 409A between the Registrant and Julien Signès	S-1	10.15	5/17/2011
10.16#	Amendment of Offer Letter for Compliance with Section 409A between the Registrant and Erik E. Miller	S-1	10.16	5/17/2011
10.17#	Amendment of Offer Letter for Compliance with Section 409A between the Registrant and Kevin P. O Keefe	S-1	10.17	5/17/2011

10.18#	Amendment of Offer Letter for Compliance with Section 409A between the Registrant and Anne M. Lynch	S-1	10.18	5/17/2011
10.20#	Restricted Stock Unit Agreement between the Registrant and Gianluca U. Rattazzi, dated April 13, 2011	S-1	10.20	6/3/2011
10.23#	Restricted Stock Unit Agreement between the Registrant and Anne M. Lynch, dated April 13, 2011	S-1	10.23	6/3/2011
10.24	Standard Manufacturing Agreement between the Registrant and FutureQuest Incorporated	S-1	10.24	6/3/2011
10.25#	Stock Option Agreement between the Registrant and Gianluca U. Rattazzi	S-1	10.25	6/14/2011
10.26#	Restricted Stock Unit Agreement between the Registrant and Julien Signès, dated January 1, 2012	S-1	10.26	4/5/2012
10.27#	Restricted Stock Unit Agreement between the Registrant and Erik E. Miller, dated January 1, 2012	S-1	10.26	4/5/2012
10.28#	Restricted Stock Unit Agreement between the Registrant and Kevin P. O Keefe, dated January 1, 2012	S-1	10.26	4/5/2012
10.29	Warrants to Purchase Shares of Preferred Stock dated May 30, 2008 between the Registrant and entities affiliated with Venture Lending & Leasing	S-1	10.29	4/24/2012
10.30#	Separation Agreement by and between Kevin O Keefe and Envivio, Inc. dated November 27, 2012	8-K	10.1	1/30/2013
21.1	List of Subsidiaries	S-1	21.1	4/15/2011
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.			
32.1++	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS*	XBRL Instance Document			
101.SCH*	XBRL Taxonomy Extension Schema Document			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document			
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document			

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

* In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.

# Denotes management contract or compensatory arrangement.