AMBARELLA INC
Form 10-Q
June 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-35667

AMBARELLA, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Cayman Islands | 98-0459628 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3101 Jay Street | |
| Santa Clara, California | 95054 |
| (Address of principal executive offices) | (Zip Code) |

(408) 734-8888

(Registrant's telephone number, including area code)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

The number of ordinary shares, $0.00045 par value, of the Registrant, outstanding as of June 3, 2016 was 32,854,794 shares.

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AMBARELLA, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

AMBARELLA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

| | April 30, 2016 | January 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $267,959 | $268,056 |
| Marketable securities | 55,852 | 39,837 |
| Accounts receivable, net | 30,501 | 39,408 |
| Inventories | 17,921 | 18,167 |
| Restricted cash | 8 | 7 |
| Prepaid expenses and other current assets | 3,845 | 4,170 |
| Total current assets | 376,086 | 369,645 |
| Property and equipment, net | 3,567 | 3,448 |
| Deferred tax assets, non-current | 6,541 | 4,626 |
| Intangible assets, net | 4,173 | 4,178 |
| Goodwill | 26,601 | 26,601 |
| Other assets | 2,085 | 2,117 |
| Total assets | $419,053 | $410,615 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | 16,347 | 14,175 |
| Accrued liabilities | 17,395 | 23,778 |
| Income taxes payable | — | 787 |
| Deferred revenue, current | 6,092 | 10,077 |
| Total current liabilities | 39,834 | 48,817 |
| Other long-term liabilities | 2,767 | 12,342 |
| Total liabilities | 42,601 | 61,159 |
| Commitments and contingencies (Note 13) | | |
| Shareholders' equity: | | |
| Preference shares, $0.00045 par value per share, 20,000,000 shares authorized and no shares issued and outstanding at April 30, 2016 and January 31, 2016, respectively | — | — |
| Ordinary shares, $0.00045 par value per share, 200,000,000 shares authorized at April 30, 2016 and January 31, 2016, respectively; | 15 | 15 |

| | | |
|---|---|---|
| 32,839,779 shares issued and outstanding at April 30, 2016; 32,333,359 shares issued and outstanding at January 31, 2016 | | |
| Additional paid-in capital | 190,031 | 176,306 |
| Accumulated other comprehensive income (loss) | 20 | (7 ) |
| Retained earnings | 186,386 | 173,142 |
| Total shareholders’ equity | 376,452 | 349,456 |
| Total liabilities and shareholders' equity | $419,053 | $410,615 |

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

(unaudited)

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| Revenue | $57,157 | $71,013 |
| Cost of revenue | 20,450 | 25,095 |
| Gross profit | 36,707 | 45,918 |
| Operating expenses: | | |
| Research and development | 24,466 | 16,583 |
| Selling, general and administrative | 10,893 | 9,010 |
| Total operating expenses | 35,359 | 25,593 |
| Income from operations | 1,348 | 20,325 |
| Other income | 27 | 27 |
| Income before income taxes | 1,375 | 20,352 |
| Provision (benefit) for income taxes | (408) | 1,498 |
| Net income | $1,783 | $18,854 |
| Net income per share attributable to ordinary shareholders: | | |
| Basic | $0.05 | $0.61 |
| Diluted | $0.05 | $0.56 |
| Weighted-average shares used to compute net income per share attributable to ordinary shareholders: | | |
| Basic | 32,428,047 | 31,099,081 |
| Diluted | 33,950,736 | 33,472,309 |

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| Net income | $1,783 | $18,854 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized gains (losses) on investments | 27 | (16) |
| Other comprehensive income (loss), net of tax | 27 | (16) |
| Comprehensive income | $1,810 | $18,838 |

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | $1,783 | $18,854 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment | 464 | 367 |
| Amortization/accretion of marketable securities | 76 | 150 |
| Loss on disposal of long-lived assets | 1 | 7 |
| Stock-based compensation | 11,301 | 5,482 |
| Excess income tax benefits associated with stock-based compensation | — | (183) |
| Other non-cash items, net | 29 | 75 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 8,907 | 987 |
| Inventories | 246 | (4,110) |
| Prepaid expenses and other current assets | 323 | 833 |
| Deferred tax assets | 256 | (132) |
| Other assets | 32 | (26) |
| Accounts payable | 2,172 | 2,954 |
| Accrued liabilities | (5,210) | (2,499) |
| Income taxes payable | (787) | 741 |
| Deferred tax liabilities | (58) | (20) |
| Deferred revenue | (3,985) | 1,301 |
| Other long-term liabilities | — | 12 |
| Net cash provided by operating activities | 15,550 | 24,793 |
| Cash flows from investing activities: | | |
| Purchase of investments | (35,857) | (14,284) |
| Sales of investments | 8,974 | 5,478 |
| Maturities of investments | 10,790 | 8,350 |
| Purchase of property and equipment | (469) | (376) |
| Net cash used in investing activities | (16,562) | (832) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options and employee stock purchase plan | 915 | 2,876 |
| Excess income tax benefits associated with stock-based compensation | — | 183 |
| Net cash provided by financing activities | 915 | 3,059 |
| Net increase (decrease) in cash and cash equivalents | (97) | 27,020 |
| Cash and cash equivalents at beginning of period | 268,056 | 170,291 |
| Cash and cash equivalents at end of period | $267,959 | $197,311 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | $241 | $174 |
| Supplemental disclosure of noncash investing activities: | | |
| Increase in accrued liabilities related to non-monetary assets purchases | $153 | $20 |

See accompanying notes to condensed consolidated financial statements.

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AMBARELLA, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

## 1. Organization and Summary of Significant Accounting Policies

### Organization

Ambarella, Inc. (the “Company”) was incorporated in the Cayman Islands on January 15, 2004. The Company is a developer of semiconductor processing solutions for video that enable high-definition video capture, sharing and display. The Company combines its processor design capabilities with its expertise in video and image processing, algorithms and software to provide a technology platform that is designed to be easily scalable across multiple applications and enable rapid and efficient product development. The Company’s system-on-a-chip, or SoC, designs fully integrate high-definition video processing, image processing, audio processing and system functions onto a single chip, delivering exceptional video and image quality, differentiated functionality and low power consumption.

The Company sells its solutions to leading original design manufacturers, or ODMs, and original equipment manufacturers, or OEMs, globally.

### Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, therefore, do not include all information and notes normally provided in audited financial statements. The accounting policies are described in the “Notes to Consolidated Financial Statements” in the Annual Report on Form 10-K for the 2016 fiscal year filed with the SEC on March 25, 2016 (the “Form 10-K”) and updated, as necessary, in this Form 10-Q. The year-end condensed consolidated balance sheet data presented for comparative purposes was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States (“U.S. GAAP”). In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair statement have been included. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for any other interim period or for a full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Form 10-K.

### Basis of Consolidation

The Company’s fiscal year ends on January 31. The condensed consolidated financial statements of the Company and its subsidiaries have been prepared in conformity with U.S. GAAP. All intercompany transactions and balances have been eliminated upon consolidation.

### Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

On an ongoing basis, management evaluates its estimates and assumptions, including those related to (i) the collectibility of accounts receivable; (ii) write down of excess and obsolete inventories; (iii) intangible assets and goodwill; (iv) the estimated useful lives of long-lived assets; (v) impairment of long-lived assets and financial instruments; (vi) warranty obligations; (vii) the valuation of stock-based compensation awards and financial instruments; (viii) the probability of performance objectives achievement; (ix) the realization of tax assets and estimates of tax liabilities, including reserves for uncertain tax positions; and (x) the recognition and disclosure of contingent liabilities. These estimates and assumptions are based on historical experience and on various other factors which the Company believes to be reasonable under the circumstances. The Company may engage third-party valuation specialists to assist with estimates related to the valuation of financial instruments and assets associated with various contractual arrangements. Such estimates often require the selection of appropriate valuation methodologies and significant judgment. Actual results could differ from these estimates under different assumptions or circumstances.

Concentration of Risk

The Company's products are manufactured, assembled and tested by third-party contractors located primarily in Asia. The Company does not have long-term agreements with these contractors. A significant disruption in the operations of one or more of these contractors would impact the production of the Company's products which could have a material adverse effect on its business, financial condition and results of operations.

A substantial portion of the Company's revenue is derived from sales through its logistics provider, Wintech Microelectronics Co., Ltd., or Wintech, which serves as its non-exclusive sales representative in Asia other than Japan, and through one large direct ODM customer, Chicony Electronics Co., Ltd., or Chicony. Termination of the relationships with these two customers could result in a temporary or permanent loss of revenue and termination of the relationship with Wintech could result in an obligation to repurchase unsold product. Furthermore, any credit issues from these two customers could impair their abilities to make timely payment to the Company. See Note 14 for additional information regarding concentration with these two customers.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, marketable securities and accounts receivable. The Company maintains its cash primarily in checking and money market accounts with reputable financial institutions. Cash deposits held with these financial institutions may exceed the amount of insurance provided on such deposits. The Company has not experienced any material losses on deposits of its cash. The cash equivalents and marketable securities consist primarily of money market funds, asset-backed securities, commercial paper, U.S. government securities, agency bonds and debt securities of corporations which management assesses to be highly liquid, in order to limit the exposure of each investment. The Company does not hold or issue financial instruments for trading purposes.

The Company performs ongoing credit evaluations of each of its customers and adjusts credit limits based upon payment history and the customer's credit worthiness. The Company regularly monitors collections and payments from its customers.

Cash Equivalents and Marketable Securities

The Company considers all highly liquid investments with original maturities of less than three months at the time of purchase to be cash equivalents. Investments that are highly liquid with original maturities at the time of purchase greater than three months are considered as marketable securities.

The Company classifies these investments as "available-for-sale" securities carried at fair value, based on quoted market prices of similar assets, with the unrealized gains or losses reported, net of tax, as a separate component of shareholders' equity and included in accumulated other comprehensive income (loss) in the condensed consolidated balance sheets. The amortization of security premiums and accretion of discounts and the realized gains and losses are both recorded in other income (loss), net in the condensed consolidated statements of operations. The Company reviews its investments for possible other-than-temporary impairments on a regular basis. If any loss on investment is believed to be other-than-temporary, a charge will be recorded and a new cost basis in the investment will be established. In evaluating whether a loss on a security is other-than-temporary, the Company considers the following factors: 1) general market conditions, 2) the duration and extent to which the fair value is less than cost, 3) the Company's intent and ability to hold the investment.

For securities in an unrealized loss position which is deemed to be other-than-temporary, the difference between the security's then-current amortized cost basis and fair value is separated into (i) the amount of the impairment related to the credit loss (i.e., the credit loss component) and (ii) the amount of the impairment related to all other factors (i.e., the non-credit loss component). The credit loss component is recognized in earnings. The non-credit loss component is recognized in accumulated other comprehensive loss. Due to the relative short term nature of the investments, there have been no other-than-temporary impairments recorded to date.

Inventories

The Company records inventories at the lower of cost or market. The cost includes materials and other production costs and is computed using standard cost on a first-in, first-out basis. Inventory reserves are recorded for estimated obsolescence or unmarketable inventories based on forecast of future demand and market conditions. If actual market conditions are less favorable than projected, or if future demand for the Company's products decrease, additional inventory write-downs may be required. Once inventory is written down, a new accounting cost basis is established and, accordingly, any associated reserve is not reversed until the inventory is sold or scrapped. There were no material inventory losses recognized for the three months ended April 30, 2016 and 2015, respectively.

Business Combinations and Intangible Assets

The Company allocates the fair value of purchase price to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets, management makes significant estimates and assumptions.

Critical estimates in valuing certain intangible assets include, but are not limited to, replacement cost. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Goodwill and In-Process Research and Development

Goodwill and in-process research and development (“IPR&D”) are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company has a single reporting unit for goodwill impairment test purposes based on its business and reporting structure.

The Company does not amortize goodwill. Acquired IPR&D is capitalized at fair value as an intangible asset and amortization commences upon completion of the underlying projects. When a project underlying reported IPR&D is completed, the corresponding amount of IPR&D is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life.

Revenue Recognition

The Company generates revenue from the sales of its SoCs to OEMs or ODMs, either directly or through logistics providers. Revenue from sales directly to OEMs and ODMs is recognized upon shipment provided persuasive evidence of an arrangement exists, legal title to the products and risk of ownership have transferred, the fee is fixed or determinable, and collection of the resulting receivable is reasonably assured. The Company provides its logistics providers with the rights to return excess levels of inventory and to future price adjustments. Given the inability to reasonably estimate these price changes and returns, revenue and costs related to shipments to logistics providers are deferred until the Company has received notification from its logistics providers that they have sold the Company’s products. Information reported by the Company’s logistics providers includes product resale price, quantity and end customer shipment information as well as remaining inventory on hand. At the time of shipment to a logistics provider, the Company records a trade receivable as there is a legally enforceable right to receive payment, reduces inventory for the value of goods shipped as legal title has passed to the logistics provider and defers the related margin as deferred revenue in the condensed consolidated balance sheets. Any price adjustments are recorded as a change to deferred revenue at the time the adjustments are agreed upon.

Arrangements with certain OEM customers provide for pricing that is dependent upon the end products into which the Company’s SoCs are used. These arrangements may also entitle the Company to a share of the product margin ultimately realized by the OEM. The minimum guaranteed amount of revenue related to the sale of products subject to these arrangements is recognized when all other elements of revenue recognition are met. Any amounts at the date of shipment invoiced in excess of the minimum guaranteed contract price are deferred until the additional amounts the Company is entitled to are fixed or determinable. Additional amounts earned by the Company resulting from margin sharing arrangements and determination of the end products into which the products are ultimately incorporated are recognized when end customer sales volume is reported to the Company.

The Company also enters into engineering service agreements with certain customers. These agreements may include multiple deliverables, such as software development services, licensing of intellectual property and post-contract customer support, or PCS. The Company does not sell separately any of these components and does not have Vendor Specific Objective Evidence, or VSOE, for the deliverables. Accordingly, revenues from these agreements are

deferred for any amounts billed until delivery of all the elements. If the agreements include PCS, the revenues are recognized ratably over the estimated supporting periods. The revenue from engineering service agreements was not material for the three months ended April 30, 2016 and 2015, respectively.

Cost of Revenue

Cost of revenue includes cost of materials, cost associated with packaging and assembly, testing and shipping, cost of personnel, stock-based compensation, logistics and quality assurance, warranty cost, royalty expense, write-downs of inventories and allocation of overhead.

Income Taxes

The Company records income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in its financial statements or tax returns. In estimating future tax consequences, generally all expected future events other than enactments or changes in the tax law or rates are considered. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company applies authoritative guidance for the accounting for uncertainty in income taxes. The guidance requires that tax effects of a position be recognized only if it is “more likely than not” to be sustained based solely on its technical merits as of the reporting date. Upon estimating the Company’s tax positions and tax benefits, the Company considered and evaluated numerous factors, which may require periodic adjustments and which may not reflect the final tax liabilities. The Company adjusts its financial statements to reflect only those tax positions that are more likely than not to be sustained under examination.

As part of the process of preparing condensed consolidated financial statements, the Company is required to estimate its taxes in each of the jurisdictions in which it operates. The Company estimates actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets, which are included in the condensed consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the condensed consolidated statements of operations become deductible expenses under applicable income tax laws, or loss or credit carryforwards are utilized.

In assessing whether deferred tax assets may be realized, management considers whether it is more likely than not that some portion or all of deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income.

The Company makes estimates and judgments about its future taxable income based on assumptions that are consistent with its plans and estimates. Should the actual amounts differ from estimates, the amount of valuation allowance could be materially impacted. Any adjustment to the deferred tax asset valuation allowance would be recorded in the condensed consolidated income statement for the periods in which the adjustment is determined to be required.

Net Income Per Ordinary Share

Basic earnings per share is computed by dividing net income available to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period increased to include the number of additional ordinary shares that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company’s employee stock purchase plan, unvested restricted stock and restricted stock units. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method.

Comprehensive Income (Loss)

Comprehensive income (loss) includes unrealized gains or losses from available-for-sale securities that are excluded from net income.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance clarifies the principles and develops a common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards (the “IFRS”). Under the new guidance, an entity is required to recognize an amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The original effective date of the ASU would have required the public companies to adopt the standard for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In July 2015, the FASB voted to amend the ASU by approving a one-year deferral of the effective date as well as providing the option to early adopt the standard on the original effective date. The deferral results in this new revenue standard being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Accordingly, the Company will adopt the standard in its first quarter of fiscal year 2019. The new revenue guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of adoption on its financial position, results of operations and disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. In connection with each annual and interim period, management is required to assess whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date, and to provide related footnote disclosures in certain circumstances. The new guidance is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. This ASU is not expected to have an impact on the Company's financial statements or disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The new guidance changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. It applies to entities that measure inventory using a method other than last-in, first-out ("LIFO") and the retail inventory method ("RIM"). The new guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and should be applied prospectively. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of adoption on its financial position, results of operations and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard requires entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The standard is effective for fiscal years and the interim periods within those fiscal years beginning after December 15, 2018. The guidance is required to be applied by the modified retrospective transition approach. Early adoption is permitted. The Company is currently assessing the impact of the adoption of this new guidance on its financial position, results of operations and disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, to simplify and improve the accounting for employee share-based awards. The new standard amends the accounting for employee share-based payment transactions to require recognition of the tax effects resulting from the settlement of stock-based awards as income tax benefit or expense in the income statement in the reporting period in which they occur. In addition, the tax-related cash flows resulting from share-based payments will be classified as cash flows from operating activities and cash payments made to the taxing authorities on the employees' behalf for withheld shares will be classified as financing activities on the statement of cash flows. The new guidance also provides an accounting policy election to account for forfeitures as they occur. The new guidance is effective for public entities for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company elected to early adopt this new guidance in the first quarter of its fiscal year 2017. As a result of this adoption, the Company recorded an increase to retained earnings of $ 11.7 million to recognize U.S. net operating loss carryforwards attributable to tax benefits from excess stock-based compensation that had not been previously recognized and recorded a decrease to retained earnings of $0.2 million resulting from the election of accounting policy to account for forfeitures as they occur as of February 1, 2016. The Company also elected to apply the presentation for cash flows related to excess tax benefits prospectively. The presentation requirements for cash flows related to employee taxes paid for withheld shares has no impact on the Company's condensed consolidated statements of cash flows. On February 1, 2016, the cumulative effect adjustment of these changes recognized in the beginning of retained earnings was approximately $11.5 million.

2. Financial Instruments and Fair Value

The Company invested a portion of its cash in debt securities that are denominated in U.S. dollars. The investment portfolio consists of money market funds, asset-backed securities, commercial paper, U.S. government securities, agency bonds and debt securities of corporations. All of the investments are classified as available-for-sale securities and reported at fair value in the condensed consolidated balance sheets as follows:

| | As of April 30, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| | (in thousands) | | | |
| Money market funds | $3,424 | $ — | $ — | $3,424 |
| Commercial paper | 7,970 | — | — | 7,970 |
| Corporate bonds | 21,624 | 11 | (7) | 21,628 |
| Asset-backed securities | 7,588 | 7 | (1) | 7,594 |
| U.S. government securities | 17,820 | 11 | (1) | 17,830 |
| Agency bonds | 2,047 | — | — | 2,047 |
| Total cash equivalents and marketable securities | $60,473 | $ 29 | $ (9) | $60,493 |

| | As of January 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| | (in thousands) | | | |
| Money market funds | $530 | $ — | $ — | $530 |
| Commercial paper | 2,598 | — | — | 2,598 |
| Corporate bonds | 21,342 | 7 | (9) | 21,340 |
| Asset-backed securities | 4,586 | — | (1) | 4,585 |
| U.S. government securities | 9,274 | 4 | (6) | 9,272 |
| Agency bonds | 2,044 | — | (2) | 2,042 |
| Total cash equivalents and marketable securities | $40,374 | $ 11 | $ (18) | $40,367 |

| | As of April 30, 2016 | January 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Included in cash equivalents | $4,641 | $ 530 |
| Included in marketable securities | 55,852 | 39,837 |
| Total cash equivalents and marketable securities | $60,493 | $ 40,367 |

The contractual maturities of the investments at April 30, 2016 and January 31, 2016 were as follows:

| | As of April 30, 2016 | January 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Due within one year | $47,728 | $ 33,449 |
| Due within one to two years | 12,765 | 6,918 |
| Total cash equivalents and marketable securities | $60,493 | $ 40,367 |

The unrealized losses on the available-for-sale securities were caused by fluctuations in market value and interest rates as a result of the economic environment. As the decline in market value was attributable to changes in market conditions and not credit quality, and because the Company neither intended to sell nor was it more likely than not that it would be required to sell these investments prior to a recovery of par value, the Company did not consider these investments to be other-than temporarily impaired as of April 30, 2016.

The following fair value hierarchy is applied for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.

Level 3—Unobservable inputs based on the Company’s own assumptions used to measure assets and liabilities at fair value. The inputs require significant management judgment or estimation.

The Company measures the fair value of money market funds using quoted prices in active markets for identical assets and classifies them within Level 1. The fair value of the Company's investments in other debt securities are obtained based on quoted prices for similar asserts in active markets, or model driven valuations using significant inputs derived from or corroborated by observable market data and are classified within Level 2.

The following table presents the fair value of the financial instruments measured on a recurring basis as of April 30, 2016 and January 31, 2016:

| | As of April 30, 2016 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| Money market funds | $3,424 | $3,424 | $— | $ — |
| Commercial paper | 7,970 | — | 7,970 | — |
| Corporate bonds | 21,628 | — | 21,628 | — |
| Asset-backed securities | 7,594 | — | 7,594 | — |
| U.S. government securities | 17,830 | — | 17,830 | — |
| Agency bonds | 2,047 | — | 2,047 | — |
| Total cash equivalents and marketable securities | $60,493 | $3,424 | $57,069 | $ — |

| | As of January 31, 2016 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| Money market funds | $530 | $530 | $— | $ — |
| Commercial paper | 2,598 | — | 2,598 | — |
| Corporate bonds | 21,340 | — | 21,340 | — |
| Asset-backed securities | 4,585 | — | 4,585 | — |
| U.S. government securities | 9,272 | — | 9,272 | — |
| Agency bonds | 2,042 | — | 2,042 | — |
| Total cash equivalents and marketable securities | $40,367 | $530 | $39,837 | $ — |

3. Inventories

Inventory at April 30, 2016 and January 31, 2016 consisted of the following:

| | As of April 30, 2016 | January 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Work-in-progress | $9,671 | $ 9,474 |

| | | |
|---|---|---|
| Finished goods | 8,250 | 8,693 |
| Total | $17,921 | $ 18,167 |

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4. Property and Equipment, Net

Depreciation expense was approximately $0.5 million and $0.4 million for the three months ended April 30, 2016 and 2015, respectively. Property and equipment at April 30, 2016 and January 31, 2016 consisted of the following:

| | As of April 30, 2016 | January 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Computer equipment and software | $6,567 | $ 6,421 |
| Machinery and equipment | 2,849 | 2,706 |
| Furniture and fixtures | 595 | 492 |
| Leasehold improvements | 1,496 | 1,429 |
| Construction in progress | 353 | 253 |
| | 11,860 | 11,301 |
| Less: accumulated depreciation and amortization | (8,293 ) | (7,853 ) |
| Total property and equipment, net | $3,567 | $ 3,448 |

5. Goodwill and Intangible Assets

On June 25, 2015, the Company completed the acquisition of VisLab S.r.l., a privately held Italian company that develops computer vision and intelligent control systems for automotive and other commercial applications, including advanced driver assistance systems and several generations of autonomous vehicle driving systems, for $30.0 million in cash. As a result, there was $25.3 million attributed to goodwill, $4.1 million attributed to intangible assets and $0.6 million attributed to net assets acquired. A deferred tax liability of $1.3 million related to the intangible assets was recorded to account for the difference between financial reporting and tax basis at the acquisition date, with an addition to goodwill. The Company does not amortize goodwill. The intangible assets primarily consist of IPR&D. Acquired IPR&D is capitalized at fair value as an intangible asset and amortization commences upon completion of the underlying projects. When a project underlying reported IPR&D is completed, the corresponding amount of IPR&D is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. As of April 30, 2016, there was no IPR&D amortized. There were no goodwill or intangible asset impairments for the three months ended April 30, 2016.

6. Accrued Liabilities

Accrued liabilities at April 30, 2016 and January 31, 2016 consisted of the following:

| | As of | January 31, 2016 |
|---|---|---|

| | April 30, 2016 | |
|---|---|---|
| | (in thousands) | |
| Accrued employee compensation | $ 8,560 | $ 14,512 |
| Accrued warranty | 429 | 234 |
| Accrued rebates | 680 | 824 |
| Accrued product development costs | 5,679 | 6,339 |
| Other accrued liabilities | 2,047 | 1,869 |
| Total accrued liabilities | $ 17,395 | $ 23,778 |

7. Deferred Revenue and Deferred Cost

Deferred revenue and related cost at April 30, 2016 and January 31, 2016 consisted of the following:

| | As of April 30, 2016 | January 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Deferred revenue on product shipments | $ 5,305 | $ 12,201 |
| Deferred revenue from licenses & services | 2,340 | 1,653 |
| Deferred cost of revenue on product shipments | (1,553) | (3,777) |
| Total deferred revenue, net | $ 6,092 | $ 10,077 |

8. Other Long-Term Liabilities

Other long-term liabilities at April 30, 2016 and January 31, 2016 consisted of the following:

| | As of April 30, 2016 | January 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Unrecognized tax benefits, including interest | $1,401 | $ 10,917 |
| Deferred tax liabilities, non-current | 1,364 | 1,423 |
| Other long-term liabilities | 2 | 2 |
| Total other long-term liabilities | $2,767 | $ 12,342 |

On February 1, 2016, upon the adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, the Company recognized approximately $11.7 million of tax-effected previously unrecognized excess stock-based compensation deductions. As a result of recognizing these deductions, the Company reduced its unrecognized tax benefits by $9.5 million pursuant to accounting guidance, which provides that an unrecognized tax benefit shall be presented as a reduction to a deferred tax benefit to the extent such deferred tax benefit is available.

9. Capital Stock

Preference shares

After completion of the Company's initial public offering, or IPO, a total of 20,000,000 preference shares, with a $0.00045 par value per share, were authorized. There were no preference shares issued and outstanding as of April 30, 2016 and January 31, 2016, respectively.

Ordinary shares

As of April 30, 2016 and January 31, 2016, a total of 200,000,000 ordinary shares were authorized.

On February 1, 2016, the Company added 1,455,001 ordinary shares to the ordinary shares reserved for issuance, pursuant to an "evergreen" provision contained in the 2012 Equity Incentive Plan, or EIP. Pursuant to such provision, on February 1st of each fiscal year, the number of ordinary shares reserved for issuance under the EIP is automatically increased by a number equal to the lesser of (i) 3,500,000 ordinary shares, (ii) four and one half percent (4.5%) of the aggregate number of ordinary shares outstanding on January 31st of the preceding fiscal year, or (iii) a lesser number of shares that may be determined by the Company's Board of Directors.

On February 1, 2016, the Company added 404,166 ordinary shares to the ordinary shares reserved for issuance, pursuant to an "evergreen" provision contained in the Amended and Restated 2012 Employee Stock Purchase Plan, or ESPP. Pursuant to such provision, on February 1st of each fiscal year, the number of ordinary shares reserved for

issuance under the ESPP is automatically increased by a number equal to the lesser of (i) 1,500,000 ordinary shares, (ii) one and one quarter percent (1.25%) of the aggregate number of ordinary shares outstanding on such date, or (iii) an amount determined by the Company's Board of Directors or a duly authorized committee of the Board of Directors.

As of April 30, 2016 and January 31, 2016, the following ordinary shares were reserved for future issuance under the EIP and ESPP:

| | As of April 30, 2016 | January 31, 2016 |
|---|---|---|
| Shares reserved for options, restricted stock and restricted stock units | 6,033,913 | 5,027,475 |
| Shares reserved for employee stock purchase plan | 1,320,582 | 974,273 |

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10. Stock-based Compensation

The following table presents the classification of stock-based compensation for the periods indicated:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Stock-based compensation: | | |
| Cost of revenue | $245 | $124 |
| Research and development | 6,719 | 3,094 |
| Selling, general and administrative | 4,337 | 2,264 |
| Total stock-based compensation | $11,301 | $5,482 |

As of April 30, 2016, total unrecognized compensation cost related to unvested stock options was $11.2 million and is expected to be recognized over a weighted-average period of 2.32 years. Total unrecognized compensation cost related to unvested restricted stock units was $89.1 million and is expected to be recognized over a weighted-average period of 3.02 years. Total unrecognized compensation cost related to unvested restricted stock awards was $11.1 million and is expected to be recognized over a weighted-average period of 2.22 years.

The following table sets forth the weighted-average assumptions used to estimate the fair value of stock options and employee stock purchase plan awards for the periods indicated:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| Stock Options: | | |
| Volatility | 38 % | 60 % |
| Risk-free interest rate | 1.57 % | 1.74 % |
| Expected term (years) | 5.95 | 6.08 |
| Dividend yield | 0 % | 0 % |
| Employee stock purchase plan awards: | | |
| Volatility | 67 % | 63 % |
| Risk-free interest rate | 0.52 % | 0.15 % |
| Expected term (years) | 0.5 | 0.5 |
| Dividend yield | 0 % | 0 % |

The following table summarizes stock option activities for the three months ended April 30, 2016:

| Option Outstanding | Weighted-Average | Weighted-Average Grant-date | Total Intrinsic Value of options Exercised | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|---|

| | Shares | Exercise Price | Fair Value | (in thousands) | (in years) | (in thousands) |
|---|---|---|---|---|---|---|
| Outstanding at January 31, 2016 | 1,853,390 | $ 19.36 | | | | |
| Granted | 70,100 | 41.36 | $ 16.15 | | | |
| Exercised | (33,851 ) | 10.19 | | $ 1,053 | | |
| Forfeited | (6,850 ) | 45.30 | | | | |
| Outstanding at April 30, 2016 | 1,882,789 | 20.25 | | | 5.81 | $ 44,663 |
| Exercisable at April 30, 2016 | 1,397,915 | $ 11.49 | | | 4.84 | $ 42,118 |
| Vested and expected to vest at April 30, 2016 | 1,882,789 | $ 20.25 | | | 5.81 | $ 44,663 |

The intrinsic value of options outstanding, exercisable and expected-to-vest options are calculated based on the difference between the fair market value of the Company's ordinary shares on the reporting date and the exercise price. The closing price of the Company's ordinary shares was $41.10 on April 30, 2016, as reported by The NASDAQ Global Market. The intrinsic value of exercised options is calculated based on the difference between the fair market value of the Company's ordinary shares on the exercise date and the exercise price.

The following table summarizes restricted stock activities for the periods indicated:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Unvested at January 31, 2016 | 2,495,488 | $ 47.04 |
| Granted | 14,293 | 41.36 |
| Vested | (235,823 ) | 34.50 |
| Forfeited | (5,369 ) | 52.72 |
| Unvested at April 30, 2016 | 2,268,589 | $ 46.87 |

As of April 30, 2016, the aggregate intrinsic value of unvested restricted stock was $93.2 million.

11. Net Income Per Ordinary Share

The following table sets forth the computation of basic and diluted net income per ordinary share for the periods indicated:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands, except share and per share data) | |
| Numerator: | | |
| Net income | $1,783 | $18,854 |
| Less: amount allocable to unvested early exercised options | — | — |
| Net income allocable to ordinary shareholders - basic | $1,783 | $18,854 |
| Undistributed earnings reallocated to ordinary shareholders | — | — |
| Net income allocable to ordinary shareholders - diluted | $1,783 | $18,854 |
| Denominator: | | |
| Weighted-average ordinary shares outstanding | 32,428,047 | 31,099,137 |
| Less: weighted-average unvested early exercised options subject to repurchase | — | (56 ) |
| Weighted-average ordinary shares - basic | 32,428,047 | 31,099,081 |
| Effect of potentially dilutive securities: | | |
| Employee stock options | 1,050,288 | 1,397,695 |
| Restricted stock and restricted stock units | 465,976 | 961,284 |
| Employee stock purchase plan | 6,425 | 14,249 |
| Weighted-average ordinary shares - diluted | 33,950,736 | 33,472,309 |
| Net income per ordinary share: | | |
| Basic | $0.05 | $0.61 |
| Diluted | $0.05 | $0.56 |

The following weighted-average potentially dilutive securities were excluded from the computation of diluted net income per ordinary share as their effect would have been antidilutive:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| Options to purchase ordinary shares | 480,698 | 71,433 |
| Restricted stock and restricted stock units | 1,201,918 | — |
| Employee stock purchase plan | 34,381 | 13,428 |
| Early exercised options subject to repurchase | — | 56 |
| | 1,716,997 | 84,917 |

12. Income Taxes

The following table provides details of income taxes for the periods indicated:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Income before income taxes | $1,375 | $20,352 |
| Provision (benefit) for income taxes | (408) | 1,498 |
| Effective tax rate | (29.7) % | 7.4 % |

The decreases in tax expense and the effective tax rate for the three months ended April 30, 2016 was primarily due to an approximately $19.0 million decrease in income before income tax as compared to the same period in the prior fiscal year, combined with $0.6 million of discrete tax benefits recorded for the three months ended April 30, 2016. The discrete tax benefits recorded were largely related to a change in the U.S. federal tax rate at which the Company's deferred taxes are expected to reverse and tax benefits from excess stock-based compensation deductions following the Company's early adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, in the first quarter of fiscal year 2017.

The Company files federal and state income tax returns in the United States and in various foreign jurisdictions. The tax years 2013 to 2016 remain open to examination by U.S. federal tax authorities. The tax years 2004 to 2016 remain open to examination by U.S. state tax authorities. The tax years 2010 to 2016 remain open to examination by material foreign tax authorities.

The Company is subject to ongoing tax examinations of its tax returns by the Internal Revenue Service and other tax authorities in various jurisdictions. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. These assessments can require considerable estimates and judgments. As of April 30, 2016, the gross amount of unrecognized tax benefits was approximately $31.5 million. If the estimates of income tax liabilities prove to be less than the ultimate assessment, then a further charge to expense could be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities could result in tax benefits being recognized in the period in which the Company determines the liabilities are no longer necessary. The Company does not anticipate changes to its uncertain tax positions during the next twelve months.

13. Commitments and Contingencies

The Company leases its principal facilities and time-based software licenses under operating lease agreements. Net operating lease expenses for the three months ended April 30, 2016 and 2015 were approximately $1.7 million and $1.9 million, respectively. Future annual minimum payments under these operating leases with initial lease terms in excess of one year are as follows:

As of

| Fiscal Year | April 30, 2016 (in thousands) |
|---|---|
| 2017 | $ 4,734 |
| 2018 | 2,399 |
| 2019 | 1,703 |
| 2020 | 1,531 |
| 2021 | 515 |
| Total future annual minimum lease payments | $ 10,882 |

Contract Manufacturer Commitments

The Company's components and products are procured and built by independent contract manufacturers based on sales forecasts. These forecasts include estimates of future demand, historical trends, analysis of sales and marketing activities, and adjustment of overall market conditions. The Company regularly issues purchase orders to independent contract manufacturers which are cancelable only upon the agreement between the Company and the third-party manufacturers. As of April 30, 2016 and January 31, 2016, total manufacturing purchase commitments were approximately $21.1 million and $19.7 million, respectively.

Indemnification

The Company, from time to time, in the normal course of business, indemnifies certain vendors with whom it enters into contractual relationships. The Company has agreed to hold the other party harmless against third-party claims in connection with the Company's future products. The Company also indemnifies certain customers against third-party claims related to certain intellectual property matters. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim. The Company has not made payments under these obligations and no liabilities have been recorded for these obligations on the condensed consolidated balance sheets as of April 30, 2016 and January 31, 2016, respectively.

14. Segment Reporting

The Company operates in one reportable segment related to the development and sales of low-power, high-definition video products. The Chief Executive Officer of the Company has been identified as the Chief Operating Decision Maker (the "CODM") and manages the Company's operations as a whole and for the purpose of evaluating financial performance and allocating resources, the CODM reviews financial information presented on a consolidated basis accompanied by information by customer and geographic region.

Geographic Revenue

The following table sets forth the Company's revenue by geographic region for the periods indicated:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Hong Kong | $48,405 | $65,690 |
| Europe | 5,352 | 2,190 |
| United States | 1,847 | 1,206 |
| Asia Pacific | 1,283 | 484 |
| North America other than United States | 270 | 1,443 |
| Total revenue | $57,157 | $71,013 |

As of April 30, 2016, substantially all of the Company's property and equipment, net were located in the United States and Asia Pacific region with approximate net amount of $1.7 million and $1.5 million, respectively.

Major Customers

The one customer representing 10% or more of revenue and accounts receivable for the three months ended April 30, 2016 was Wintech, the Company's logistics provider, which accounted for approximately 74% of total revenue. The customers representing 10% or more of revenue and accounts receivable for the three months ended April 30, 2015 were Wintech and Chicony, a direct ODM customer, which combined accounted for approximately 91% of total revenue for the three months ended April 30, 2015. Accounts receivable with Wintech accounted for approximately $17.7 million as of April 30, 2016 and accounts receivable with Wintech and Chicony combined accounted for approximately $32.5 million as of January 31, 2016.

15. Related-Party Transactions

The Company considers an entity to be a related party if it owns more than 10% of the Company's total voting stock at the end of each reporting period or if an officer or employee of an entity also serves on the Company's board of directors or if it is a significant shareholder and has material business transactions with the Company.

The Company leases software licenses with Cadence Design Systems, Inc. ("Cadence"). A member of the Company's Board of Directors is also the Chief Executive Officer, President and a Director of Cadence. As of April 30, 2016, the Company committed to pay an aggregate amount of $2.3 million for these licenses through January 2017. The Company paid $0.6 million and $0.8 million under these agreements for the three months ended April 30, 2016 and 2015, respectively. License expenses related to these agreements included in research and development expense were approximately $0.7 million and $0.7 million for the three months ended April 30, 2016 and 2015, respectively.

In addition to the related party transactions noted above, the Company recognized revenue from sales to Wintech, the Company's logistics provider. Wintech, along with an affiliate, owned approximately 4.6% of the Company's voting stock as of January 31, 2013, but has sold such stock and is no longer a significant shareholder of the Company as of April 30, 2016 and January 31, 2016, respectively. The Company recognized revenue from sales to Wintech of approximately $42.1 million and $45.2 million for the three months ended April 30, 2016 and 2015, respectively. As of April 30, 2016 and January 31, 2016, the Company had receivables from Wintech of approximately $17.7 million and $20.6 million, respectively.

16. Subsequent Event

On May 31, 2016, the Company's Board of Directors authorized the repurchase of up to $75.0 million of the Company's ordinary shares over a six-month period. Repurchases may be made from time-to-time through open market purchases or through privately negotiated transactions subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate the Company to acquire any particular amount of ordinary shares, and it may be suspended at any time at the Company's discretion. The repurchase program will be funded using the Company's working capital and any repurchased shares will be available for general corporate purposes.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, and the consolidated financial statements and notes thereto for the fiscal year ended January 31, 2016 and management's discussion and analysis of our financial condition and results of operations included in our Annual Report on Form 10-K for the 2016 fiscal year filed with the Securities and Exchange Commission, or SEC, on March 25, 2016.

This Quarterly Report on Form 10-Q, including this "Management's Discussion and Analysis of Financial Condition and Results of Operations", includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words "would," "could," "will," "may," "expect," "believe," "shou "anticipate," "outlook," "if," "future," "intend," "plan," "estimate," "predict," "potential," "target," "seek," "project," "forecast similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. Such statements include, but are not limited to, statements concerning our market opportunity, our ability to develop new solutions, our future financial and operating performance, sales and marketing strategy, investment strategy, research and development, customer and supplier relationships and inventory levels, industry trends, our cash needs and capital requirements, expectations about seasonality, economic conditions, taxes, the availability of third-party components and operating expenses. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Quarterly Report on Form 10-Q. These factors include, but are not limited to, the risks described under Item 1A of Part II — "Risk Factors," Item 2 of Part I — "Management's Discussion and Analysis of Financial Condition and Results of Operations," elsewhere in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the SEC. We make these forward-looking statements based upon

information available on the date of this Quarterly Report on Form 10-Q, and we have no obligation (and expressly disclaim any such obligation) to update or alter any forward-looking statements, whether as a result of new information or otherwise except as otherwise required by securities regulations.

Overview

We are a leading developer of semiconductor processing solutions for video that enable high-definition, or HD, video capture, sharing and display. A device that captures video includes four primary components: a lens, an image sensor, a video processor and storage memory. The video processor converts raw video input into a format that can be stored and distributed efficiently. We combine our processor design capabilities with our expertise in video and image processing algorithms and software to provide a technology platform that is designed to be easily scalable across multiple applications and enable rapid and efficient product development. Our system-on-a-chip, or SoC, designs fully integrate HD video processing, image processing, audio processing and system functions onto a single chip, delivering exceptional video and image quality, differentiated functionality and low power consumption.

We sell our solutions to leading original design manufacturers, or ODMs, and original equipment manufacturers, or OEMs, globally. We refer to ODMs as our customers and OEMs as our end customers, except as otherwise indicated or as the context otherwise requires. In the camera market, our solutions enable the creation of high-quality video content primarily for wearable sports cameras, Internet Protocol, or IP, security cameras, unmanned aerial vehicle cameras, also referred to as UAVs, drones or flying cameras, and automotive aftermarket cameras. In the infrastructure market, our solutions efficiently manage IP video traffic, broadcast encoding, transcoding and IP video delivery applications.

Our sales cycles typically require a significant investment of time and a substantial expenditure of resources before we can realize revenue from the sale of our solutions, if any. Our typical sales cycle consists of a multi-month sales and development process involving our customers' system designers and management along with our sales personnel and software engineers. If successful, this process culminates in a customer's decision to use our solutions in its system, which we refer to as a design win. Our sales efforts are typically directed to the OEM of the product that will incorporate our video and image processing solution, but the eventual design and incorporation of our SoC into the product may be handled by an ODM on behalf of the OEM. Volume production may begin within six to 18 months after a design win, depending on the complexity of our customer's product and other factors upon which we may have little or no influence. Once one of our solutions has been incorporated into a customer's design, we believe that our solution is likely to remain a component of the customer's product for its life cycle because of the time and expense associated with redesigning a product or substituting an alternative solution. Conversely, a design loss to a competitor will likely preclude any opportunity for us to generate future revenue from such customer's product. Even if we obtain a design win and our SoC remains a component through the life cycle of a customer's product, the volume and timing of actual sales of our SoCs to the customer depend upon the production, release and market acceptance of that product, none of which are within our control.

Financial Highlights and Trends

- We recorded revenue of $57.2 million for the three months ended April 30, 2016, which was our first quarter of fiscal year 2017. This represented a decrease of 19.5% for the three months ended April 30, 2016, as compared to the same period in fiscal year 2016. The decrease was primarily due to significant revenue decline in the wearable sports camera market as a result of continued high inventory levels at a major customer. We anticipate that these high inventory levels at our customer will continue to adversely impact our revenue in the second quarter of fiscal year 2017. The decline in revenue from the wearable sports camera market was partially offset by strong growth in the UAV and home security and monitoring markets. In the professional IP security market, we experienced a decline in revenues from customers located in the China region in the first quarter of fiscal year 2017 due to continuing macroeconomic weakness, which offset stronger growth in other geographic regions in the period. In the automotive aftermarket, which is dominated by demand from Asia, revenue was down moderately in the first quarter of fiscal year 2017 primarily due to slowing revenues in China. For the three months ended April 30, 2016, the infrastructure market was flat sequentially due to the continued weak market conditions in the United States and Europe as system manufacturers continue to delay investment in network upgrades to the new H.265 video compression technology.
- We expect to experience some adverse impact to our business in the next couple of quarters due to the disruption in supply of image sensors from Sony Corporation to our customers resulting from the damage to its production facility caused by the April 2016 earthquake in Kumamoto, Japan. This disruption in image sensor supply impacts our customers' ability to build camera devices and, as a result, impacts the timing and scope of demand for our SoCs. At this time, we are unable to quantify the adverse impact.
- We recorded operating income of $1.3 million for the three months ended April 30, 2016, as compared to $20.3 million for the three months ended April 30, 2015. The decrease was primarily due to decreased revenue, as well as increased research and development costs as a result of timing and number of chips in development.
-

We generated cash flows from operating activities of $15.6 million for the three months ended April 30, 2016, as compared to $24.8 million for the three months ended April 30, 2015. The decreased cash flows from operating activities was primarily due to decreased net income as adjusted for increased non-cash stock-based compensation. The decrease also was attributable to decreased liabilities associated with the timing of payments to suppliers and decreased deferred revenue associated with the timing of inventory shipments by our logistics providers. The decrease was partially offset by decreased accounts receivable associated with the timing of payments from customers and decreased inventory purchases associated with a decrease in near term revenue forecasts.

Factors Affecting Our Performance

Design Wins. We closely monitor design wins by customer and end market. We consider design wins to be critical to our future success, although a design win may not successfully materialize into revenue, and even if they result in revenue, the amount generated by each design win can vary significantly. Our long-term sales expectations are based on forecasts from customers and internal estimations of customer demand factoring in the expected time to market for end customer products incorporating our solutions and associated revenue potential. Our ability to accurately forecast demand, however, can be adversely affected by a number of factors, including inaccurate forecasting by our customers, miscalculations by our customers of their inventory requirements, changes in market conditions, adverse changes in our product order mix and fluctuating demand for our customers' products.

Pricing, Product Cost and Margin. Our pricing and margins depend on the volumes and the features of the solutions we provide to our customers. Additionally, we make significant investments in new solutions for both cost improvements and new features that we expect to drive revenue and maintain margins. In general, solutions incorporated into more complex configurations, such as those used in high-performance camera or infrastructure applications, have higher prices and higher gross margins as compared to solutions sold into lower performing, more competitive camera applications. Our average selling price, or ASP, can vary by market and application due to market-specific supply and demand, the maturation of products launched in previous years and the launch of new products.

We continually monitor the cost of our solutions. As we rely on third-party manufacturers for the production of our products, we maintain a close relationship with these suppliers to continually monitor production yields, component costs and design efficiencies.

Shifting Consumer Preferences. Our revenue is subject to consumer preferences, regarding form factor and functionality, and how those preferences impact the video and image capture electronics that we support. For example, improved smartphone video capture capabilities, and the rapid adoption by consumers, led to the decline of pocket video cameras aimed at the video and image capture market. The current video and image capture market is now characterized by a greater volume of more specialized video and image capture devices that are less likely to be replaced with smartphones, such as wearable, IP security, UAV and automotive aftermarket cameras. This increasing specialization of video capture devices has changed our customer base and end markets and has impacted our revenue. In the future, we expect further changes in the market to continue to impact our business performance.

Continued Concentration of Revenue by End Market. Historically, our revenue has been significantly concentrated in a small number of end markets. In fiscal year 2010, the majority of our revenue came from the pocket video, camcorder and infrastructure markets. Since that time, we have developed technologies to provide solutions for new markets such as the wearable, IP security, UAV and automotive aftermarket camera markets. We believe these new markets can continue to facilitate revenue growth and customer diversification. Since fiscal year 2013, the wearable sports and IP security markets have been our largest end markets and sales into these markets collectively generated the majority of our revenue. While we will continue to expand our end market exposure, such as to home security and monitoring cameras, non-sports wearable cameras and UAVs, we anticipate that sales to a limited number of end markets will continue to account for a significant percentage of our total revenue for the foreseeable future. Our end market concentration may cause our financial performance to fluctuate significantly from period to period based on the success or failure of products that our SoCs are designed into as well as the overall growth or decline in the video capture markets in which we compete. In addition, we derive a significant portion of our revenue from a limited number of ODMs who build products on behalf of a limited number of OEMs and from a limited number of OEMs to whom we ship directly. We believe that our operating results for the foreseeable future will continue to depend on sales to a relatively small number of customers.

Ability to Capitalize on Connectivity Trend. Mobile connected devices are ubiquitous today and play an increasingly prominent role in consumers' lives. The constant connectivity provided by these devices has created a demand for

connected electronic peripherals such as video and image capture devices. Our ability to capitalize on these trends by supporting our end customers in the development of connected peripherals that seamlessly cooperate with other connected devices and allow consumers to distribute and share video and images with online media platforms is critical for our success. We have added wireless communication functionality into our solutions for wearable, IP security, UAV and automotive aftermarket cameras. The combination of our compression technology with wireless connectivity enables wireless video streaming and uploading of videos and images to the Internet. Our solutions enable IP security camera systems to stream video content to either cloud infrastructure or connected mobile devices, and our solutions for wearable and UAV cameras allow consumers to quickly stream or upload video and images to social media platforms.

Sales Volume. A typical camera design win that successfully launches into the marketplace can generate a wide range of sales volumes for our solutions, depending on the end market demand for our customers' products. This can depend on several factors, including the reputation of the end customer, market penetration, product capabilities, size of the end market that the product addresses and our end customers' ability to sell their products. In certain cases, we may provide volume discounts on sales of our solutions, which may be offset by lower manufacturing costs related to higher volumes. In general, our customers with greater market penetration and better branding tend to develop products that generate larger volumes over the product life cycle.

Customer Product Life Cycle. We estimate our customers' product life cycles based on the customer, type of product and end market. In general, products launched in the camera market have shorter life cycles than those sold into the infrastructure market. We typically commence commercial shipments from six to 18 months following a design win; however, in some markets, more lengthy product and development cycles are possible, depending on the scope and nature of the project. A portable consumer device typically has a product life cycle of six to 18 months. In the infrastructure market, the product life cycle can range from 24 to 60 months.

Results of Operations

The following table sets forth a summary of our statement of operations for the periods indicated:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (dollars in thousands) | |
| Revenue | $57,157 | $71,013 |
| Cost of revenue | 20,450 | 25,095 |
| Gross profit | 36,707 | 45,918 |
| Operating expenses: | | |
| Research and development | 24,466 | 16,583 |
| Selling, general and administrative | 10,893 | 9,010 |
| Total operating expenses | 35,359 | 25,593 |
| Income from operations | 1,348 | 20,325 |
| Other income | 27 | 27 |
| Income before income taxes | 1,375 | 20,352 |
| Provision (benefit) for income taxes | (408) | 1,498 |
| Net income | $1,783 | $18,854 |

The following table sets forth operating results as a percentage of revenue of each line item for the periods indicated:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| Revenue | 100% | 100% |
| Cost of revenue | 36 | 35 |

| | | | | |
|---|---|---|---|---|
| Gross profit | 64 | | 65 | |
| Operating expenses: | | | | |
| Research and development | 43 | | 23 | |
| Selling, general and administrative | 19 | | 13 | |
| Total operating expenses | 62 | | 36 | |
| Income from operations | 2 | | 29 | |
| Other income (loss), net | — | | — | |
| Income before income taxes | 2 | | 29 | |
| Provision (benefit) for income taxes | (1 | ) | 2 | |
| Net income | 3 | % | 27 | % |

Revenue

We derive substantially all of our revenue from the sale of HD video and image processing SoC solutions to OEMs and ODMs, either directly or through our logistics providers. Our SoC solutions have been used in the camera and infrastructure markets, although we expect the camera market will be the primary market for our solutions for the foreseeable future as the infrastructure market continues to decline due to delays in investments in network upgrades. We derive a substantial portion of our revenue from sales made indirectly through our logistics provider, Wintech Microelectronics Co., Ltd., or Wintech, and directly to one large ODM customer, Chicony Electronics Co., Ltd., or Chicony.

We typically experience seasonal fluctuations in our quarterly revenue with our third fiscal quarter normally being the highest revenue quarter. This fluctuation has been driven primarily by increased sales in the camera market as our customers build inventories in preparation for the holiday shopping season. More generally, our average selling prices fluctuate based on the mix of our solutions sold in a period which reflects the impact of both changes in unit sales of existing solutions as well as the introduction and sales of new solutions. Our solutions are typically characterized by a life cycle that begins with higher average selling prices and lower volumes, followed by broader market adoption, higher volumes and average selling prices that are lower than initial levels.

The end markets into which we sell our products have seen significant changes as consumer preferences have evolved in response to new technologies. As a result, the composition of our revenue may differ meaningfully during periods of technology or consumer preference changes. We expect shifts in consumer use of video capture to continue to change over time, as more specialized use cases emerge and video capture continues to proliferate.

Cost of Revenue and Gross Margin

Cost of revenue includes the cost of materials such as wafers processed by third-party foundries, costs associated with packaging, assembly and testing, and our manufacturing support operations such as logistics, planning and quality assurance. Cost of revenue also includes indirect costs such as warranty, inventory valuation reserves and other general overhead costs.

We expect that our gross margin may fluctuate from period to period as a result of changes in average selling price, product mix and the introduction of new products by us or our competitors. In general, solutions incorporated into more complex configurations, such as those used in high-performance cameras or infrastructure applications, have higher prices and higher gross margins, as compared to solutions sold into the lower performance, more competitive camera applications. As semiconductor products mature and unit volumes sold to customers increase, their average selling prices typically decline. These declines may be paired with improvements in manufacturing yields and lower wafer, packaging and test costs, which offset some of the margin reduction that could result from lower selling prices. We believe that our gross margin will decline in the future as we continue to penetrate the highly competitive camera market.

Research and Development

Research and development expense consists primarily of personnel costs, including salaries, stock-based compensation and employee benefits. The expense also includes costs of development incurred in connection with our collaborations with our foundry vendors, costs of licensing intellectual property from third parties for product development, costs of development for software and hardware tools, cost of fabrication of mask sets for prototype products, and allocated depreciation and facility expenses. All research and development costs are expensed as incurred. We expect our research and development expense to increase in absolute dollars as we continue to enhance and expand our product features and offerings.

Selling, General and Administrative

Selling, general and administrative expense consists primarily of personnel costs, including salaries, stock-based compensation and employee benefits for our sales, marketing, finance, human resources, information technology and administrative personnel. The expense also includes professional service costs related to accounting, tax, legal services, and allocated depreciation and facility expenses. We expect our selling expense to increase in absolute dollars as we expand the size of our sales and marketing organization to support our anticipated growth. We expect our general and administrative expense to increase in absolute dollars as we continue to maintain the infrastructure necessary to operate as a public company, which includes increased audit and legal fees, costs to comply with the Sarbanes-Oxley Act of 2002, the rules and regulations applicable to companies listed on The NASDAQ Stock Market, investor relations costs, and higher insurance premiums.

Other Income

Other income consists primarily of interest income from investment and net of gains and losses from foreign currency transactions and remeasurements.

Provision (Benefit) for Income Taxes

We are incorporated in the Cayman Islands and conduct business in several countries such as the United States, China, Taiwan, Hong Kong, Italy, South Korea and Japan, and we are subject to taxation in those jurisdictions. As such, our worldwide operating income is subject to varying tax rates and our effective tax rate is highly dependent upon the geographic distribution of our earnings or losses and the tax laws and regulations in each geographical region by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit; by transfer pricing adjustments and by tax effects of nondeductible compensation. We have experienced lower effective tax rates as a substantial percentage of our operations are conducted in lower-tax jurisdictions. If our operational structure was to change in such a manner that would increase the amount of operating income subject to taxation in higher-tax jurisdictions, or if we were to commence operations in jurisdictions assessing relatively higher tax rates, our effective tax rate could fluctuate significantly on a quarterly basis and/or be adversely affected.

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

Comparison of the Three Months Ended April 30, 2016 and 2015

Revenue

| | Three Months Ended April 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (dollars in thousands) | | | |
| Revenue | $57,157 | $71,013 | $(13,856) | (19.5)% |

The decreased revenue for the three months ended April 30, 2016 was primarily due to significant revenue decline in the wearable sports camera market as a result of continued high inventory levels at a major customer. We anticipate that these high inventory levels at our customer will continue to adversely impact our revenue in the second quarter of fiscal year 2017. The decline in revenue from the wearable sports camera market was partially offset by strong growth in the UAV and home security and monitoring markets. In the professional IP security market, we experienced a decline in revenues from customers located in the China region in the first quarter of fiscal year 2017 due to continuing macroeconomic weakness, which offset stronger growth in other geographic regions in the period. In the automotive aftermarket, which is dominated by demand from Asia, revenue was down moderately in the first quarter of fiscal year 2017 primarily due to slowing revenues in China. For the three months ended April 30, 2016, the infrastructure market was flat sequentially due to the continued weak market conditions in the United States and

Europe as system manufacturers continue to delay investment in network upgrades to the new H.265 video compression technology.

Cost of Revenue and Gross Margin

| | Three Months Ended April 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (dollars in thousands) | | | |
| Cost of revenue | $20,450 | $25,095 | $(4,645) | (18.5)% |
| Gross profit | 36,707 | 45,918 | (9,211) | (20.1)% |
| Gross margin | 64.2 % | 64.7 % | — | (0.5 )% |

Cost of revenue decreased for the three months ended April 30, 2016 primarily due to decreased revenue. The decrease was also attributable to cost reductions received from suppliers for certain SoCs that reached lifetime purchase volume milestones.

Gross margin decreased slightly for the three months ended April 30, 2016 compared to the same period in the prior fiscal year primarily due to a higher percentage of revenues associated with shipments of lower margin S2L SoC into the price competitive IP security camera market in Asia. The decreased gross margin was partially offset by increased revenue associated with shipments of higher margin A9 and H1S SoCs into the UAV market.

Research and Development

| | Three Months Ended April 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (dollars in thousands) | | | |
| Research and development | $24,466 | $16,583 | $7,883 | 47.5% |

Research and development expense increased for the three months ended April 30, 2016 compared to the same period in the prior fiscal year primarily due to increases in engineering headcount and SoC development costs. Our research and development engineering headcount increased to 459 at April 30, 2016 compared to 381 at April 30, 2015, which included 33 employees added as a result of the acquisition of VisLab, S.r.l., or VisLab, in the second quarter of fiscal year 2016. The increased engineering headcount resulted in an increase in salary related expenses of approximately $2.1 million for the three months ended April 30, 2016. The increase was also attributable to additional stock-based compensation of approximately $3.6 million for the three months ended April 30, 2016, as a result of the issuance of options, restricted stock and restricted stock units for newly hired employees, our annual evergreen stock program for existing employees and the increase in the fair market value of our ordinary shares. SoC development costs increased by approximately $1.7 million for the three months ended April 30, 2016.

Selling, General and Administrative

| | Three Months Ended April 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (dollars in thousands) | | | |
| Selling, general and administrative | $10,893 | $9,010 | $1,883 | 20.9% |

Selling, general and administrative expense increased for the three months ended April 30, 2016 compared to the same period in the prior fiscal year primarily due to increased stock-based compensation. Stock-based compensation increased by approximately $2.1 million for the three months ended April 30, 2016, as a result of the issuance of options, restricted stock and restricted stock units for newly hired employees, our annual evergreen stock program for existing employees and the increase in the fair market value of our ordinary shares. Our selling, general and administrative headcount increased to 162 at April 30, 2016 compared to 147 at April 30, 2015, resulting in a small increase in salary related expenses of approximately $0.2 million for the three months ended April 30, 2016. The increase was partially offset by a decrease of approximately $0.2 million for outside professional services for the three months ended April 30, 2016. The higher outside professional service expense in the three months ended April 30, 2015 was primarily due to legal expenses to support the VisLab acquisition in the second quarter of fiscal year 2016.

Other Income

| | Three Months Ended April 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (dollars in thousands) | | | |
| Other income | $27 | $27 | $— | 0% |

Other income consisted primarily of interest income from debt security investments and net of gains and losses from foreign currency transactions and remeasurements.

Provision (Benefit) for Income Taxes

| | Three Months Ended April 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (dollars in thousands) | | | |
| Provision (benefit) for income taxes | $(408) | $1,498 | $(1,906) | (127.2 )% |
| Effective tax rate | (29.7)% | 7.4 % | — | (37.1)% |

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The quarterly income taxes reflect an estimation of the corresponding fiscal year’s annual effective tax rate and include, when applicable, adjustments from discrete tax items arising in that quarter.

The decrease in tax expense and in the effective tax rate for the three months ended April 30, 2016 compared to the same period in the prior fiscal year was primarily due to an approximately $19.0 million decrease in pre-tax income for the three months ended April 30, 2016 as compared to the same period in the prior fiscal year, combined with $0.6 million of discrete tax benefits recorded for the three months ended April 30, 2016. The discrete tax benefits recorded in the three months ended April 30, 2016 were largely related to a change in the U.S. federal tax rate at which our deferred taxes are expected to reverse and tax benefits from excess stock-based compensation deductions following our early adoption of Accounting Standards Update, or ASU, 2016-09, Improvements to Employee Share-Based Payment Accounting, in the first quarter of fiscal year 2017.

Liquidity and Capital Resources

As of April 30, 2016 and January 31, 2016, we had cash, cash equivalents and marketable securities of approximately $323.8 million and $307.9 million, respectively. We invested in highly liquid, short-term marketable securities and hold these investments as available-for-sale securities. As of April 30, 2016, these securities had a fair value of approximately $60.5 million with insignificant unrealized gains caused by fluctuations in market value and interest rates.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

| | Three Months Ended April 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Net cash provided by operating activities | $15,550 | $24,793 |
| Net cash used in investing activities | (16,562) | (832) |
| Net cash provided by financing activities | 915 | 3,059 |
| Net increase (decrease) in cash and cash equivalents | $(97) | $27,020 |

Net Cash Provided by Operating Activities

Net cash provided by operating activities decreased for the three months ended April 30, 2016 primarily due to decreased net income as adjusted for increased non-cash stock-based compensation. The decrease also was attributable to decreased liabilities associated with the timing of payments to suppliers and decreased deferred revenue associated with the timing of inventory shipments by our logistics providers. The decrease was partially offset by decreased accounts receivable associated with the timing of payments from customers and decreased inventory purchases associated with a decrease in near term revenue forecasts.

Net Cash Used in Investing Activities

Net cash used in investing activities increased primarily due to an additional $20.0 million investment in debt securities for the three months ended April 30, 2016 compared to the three months ended April 30, 2015. The increase was partially offset by the receipt of approximately $5.9 million more cash from the partial sale and maturity of debt securities compared to the same period of last fiscal year.

Net Cash Provided by Financing Activities

Net cash provided by financing activities decreased for the three months ended April 30, 2016 compared to the same period in the prior fiscal year primarily due to decreased option exercises. The decrease was also attributable to excess income tax benefits associated with stock-based compensation being classified as cash flows from operating activities upon adoption of ASU 2019-06, Improvements to Employee Share-Based Payment Accounting, in the first quarter of fiscal year 2017.

Operating and Capital Expenditure Requirements

We have generated net income in each quarter beginning with the first quarter of fiscal year 2010, and we have generated cash from operations in each of fiscal years 2009 to 2016 and for the three months ended April 30, 2016. We believe that our anticipated cash generated from operations and our existing cash balances will be sufficient to meet our anticipated cash requirements through at least the next 12 months. In the future, we expect our operating and capital expenditures to increase as we increase headcount, expand our business activities, and implement and enhance our information technology platforms. We expect our accounts receivable and inventory balances to increase, and could be partially offset by increases in accounts payable, which will result in a greater need for working capital. If our available cash balances are insufficient to satisfy our future liquidity requirements, we may seek to sell equity or convertible debt securities or borrow funds commercially. The sale of equity and convertible debt securities may result in dilution to our shareholders and those securities may have rights senior to those of our ordinary shares. If we raise additional funds through the issuance of convertible debt securities, these securities could contain covenants that would restrict our operations. We may require additional capital beyond our currently anticipated amounts. Additional capital may not be available to us on reasonable terms, or at all.

Our short- and long-term capital requirements will depend on many factors, including the following:

- our ability to generate cash from operations;
- our ability to control our costs;
- the emergence of competing or complementary technologies or products;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, or participating in litigation-related activities; and
- our acquisition of complementary businesses, products and technologies.

Contractual Obligations, Commitments and Contingencies

The following table summarizes our outstanding contractual obligations as of April 30, 2016:

| | Payment Due by Period as of April 30, 2016 (in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | All Other |
| Contractual Obligations | | | | | | |
| Facilities under operating leases | $7,596 | $1,693 | $3,857 | $2,046 | $ — | $— |
| Technology license or other obligations under operating leases | 3,286 | 3,042 | 244 | — | — | — |
| Purchase obligations | 21,123 | 21,123 | — | — | — | — |
| Uncertain tax liabilities | 1,401 | — | — | — | — | 1,401 |
| Total | $33,406 | $25,858 | $4,101 | $2,046 | $ — | $1,401 |

As of April 30, 2016, we had purchase obligations with our independent contract manufacturers of $21.1 million.

Uncertain tax liabilities represent our potential liabilities related to these uncertain tax positions as of April 30, 2016. We are unable to reasonably estimate the timing of payments in individual years due to uncertainties in the timing of the effective settlement of tax positions.

Off-Balance Sheet Arrangements

As of April 30, 2016, we did not engage in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

Recent Authoritative Accounting Guidance

See Note 1 to our unaudited condensed consolidated financial statements for information regarding recently issued accounting pronouncements.

Critical Accounting Policies and Significant Management Estimates

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the 2016 fiscal year filed with the SEC on March 25, 2016.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

As of April 30, 2016 and January 31, 2016, we had cash, cash equivalents, marketable securities and restricted cash totaling $323.8 million and $307.9 million, respectively. Our cash and restricted cash consist of deposits in standard bank accounts and certificates of deposit. The cash equivalents and marketable securities consist primarily of investments in debt securities. Our cash is held for working capital purposes. We do not enter into investments for trading or speculative purposes.

Interest Rate Fluctuation Risk

The primary objectives of our investment activities are to preserve principal, provide liquidity and maximize income without significantly increasing risk. Some of the securities we invest in are subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we maintain our portfolio of short-term investments in a variety of debt securities with high liquidity. We do not enter into investments for trading or speculative purposes. A 10% change in interest rates will not have a material impact on our future interest income or investment fair value. The risk associated with fluctuating interest rates is limited to our investment portfolio.

Foreign Currency Risk

To date, all of our product sales and inventory purchases have been denominated in U.S. dollars. We therefore have not had any foreign currency risk associated with these two activities. The functional currency of all of our entities is the U.S. dollar. Our operations outside of the United States incur operating expenses and hold assets and liabilities denominated in foreign currencies, principally the New Taiwan Dollar and the Chinese Yuan Renminbi. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates, and certain currency exchange rates, such as the exchange rate between the Chinese Yuan Renminbi and the U.S. dollar, have been especially volatile in the recent past. Given that the operating expenses that we incur in currencies other than U.S. dollars have not been a significant percentage of our total revenue, we believe that the exposure to foreign currency fluctuation risk from operating expenses is not material at this time. As we grow our operations, our exposure to foreign currency risk could become more significant. To date, we have not entered into any foreign currency exchange contracts and currently do not expect to enter into foreign currency exchange contracts for trading or speculative purposes.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on

Form 10-Q. The term “disclosure controls and procedures” (as defined in Rules 13a- 15(e) and 15d- 15(e)) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of April 30, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the Company’s fiscal quarter ended April 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Internal Control over Financial Reporting

Because of their inherent limitations, our disclosure controls and procedures and our internal control over financial reporting may not prevent material errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to risks, including that the controls may become inadequate because of changes in conditions or that the degree of compliance with our policies or procedures may deteriorate.

## PART II – OTHER INFORMATION

### ITEM 1. Legal Proceedings

We are not engaged in any material legal proceedings at this time.

ITEM 1A. Risk Factors

Certain factors may have a material adverse effect on our business, financial condition and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our ordinary shares could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Our Industry

If our customers do not design our solutions into their product offerings, or if our customers' product offerings are not commercially successful, our business would suffer.

We sell our video and image processing system-on-a-chip, or SoC, solutions to original equipment manufacturers, or OEMs, who include our SoCs in their products, and to original design manufacturers, or ODMs, who include our SoCs in the products that they supply to OEMs. We refer to ODMs as our customers and OEMs as our end customers, except as otherwise indicated or as the context otherwise requires. Our video and image processing SoCs are generally incorporated into our customers' products at the design stage, which is referred to as a design win. As a result, we rely on OEMs to design our solutions into the products that they design and sell. Without these design wins, our business would be harmed. We often incur significant expenditures developing a new SoC solution without any assurance that an OEM will select our solution for design into its own product. Once an OEM designs a competitor's device into its product, it becomes significantly more difficult for us to sell our SoC solutions to that OEM because changing suppliers involves significant cost, time, effort and risk for the OEM. Furthermore, even if an OEM designs one of our SoC solutions into its product, we cannot be assured that the OEM's product will be commercially successful over time or at all or that we will receive or continue to receive any revenue from that OEM. For example, improved smartphone video capture capabilities, and rapid adoption of smartphones by consumers, led to the decline of an entire category of pocket video cameras aimed at the casual video capture market. In fiscal year 2011, pocket video revenue represented approximately 40% of our total revenue. The proliferation of smartphones and their ability to capture high-quality video and still images significantly impacted this market, decreasing pocket video cameras' contribution to approximately zero percent of our total revenue by fiscal year 2013. Similarly, higher than normal customer inventory levels in the wearable sports camera market significantly impacted our revenue in the fiscal quarter ended January 31, 2016, and will continue to adversely impact our revenue for the first half of fiscal year 2017. If products or other product categories incorporating our SoC solutions are not commercially successful or experience rapid decline, our revenue and business will suffer.

We depend on a limited number of customers and end customers for a significant portion of our revenue. If we fail to retain or expand our customer relationships, our revenue could decline.

We derive a significant portion of our revenue from a limited number of ODMs who build products on behalf of a limited number of OEMs and from a limited number of OEMs to whom we ship directly. We anticipate that this customer concentration will continue for the foreseeable future. In fiscal years 2016, 2015 and 2014, sales directly and through our logistics providers to our five largest ODM and OEM customers collectively accounted for approximately 56%, 64% and 55% of our total revenues, respectively. In fiscal years 2016, 2015 and 2014, sales to our ten largest ODM and OEM customers collectively accounted for approximately 69%, 74% and 67% of our total revenues, respectively. For the three months ended April 30, 2016, sales directly and through our logistics providers to our five and ten largest ODM and OEM customers collectively accounted for approximately 50% and 64% of our total revenues, respectively. In fiscal years 2016, 2015 and 2014, sales to our largest ODM customer accounted for approximately 21%, 32% and 29% of our total revenues, respectively. For the three months ended April 30, 2016,

sales to our single largest ODM customer accounted for approximately 6% of our total revenues. This ODM customer builds products for several OEM customers as well as for its own brand. We believe that our operating results for the foreseeable future will continue to depend on sales to a relatively small number of customers and end-customers. In the future, these customers may decide not to purchase our SoC solutions at all, may purchase fewer solutions than they did in the past or may alter their purchasing patterns. As substantially all of our sales to date have been made on a purchase order basis, these customers may cancel, change or delay product purchase commitments with little or no notice to us and without penalty and may make our revenue volatile from period to period. For example, our largest OEM end customer in fiscal year 2011, Eastman Kodak Company, or Kodak, closed its camera division in January 2012. Similarly, we anticipate that, as a result of higher than normal inventory levels at a major end customer in the wearable sports camera market, our revenues in fiscal year 2017 and, in particular, the first half of the fiscal year, will be significantly and adversely impacted. The loss of a significant customer, or substantial reduction in purchases by a significant customer, could happen again at any time and without notice, and such loss would likely harm our financial condition and results of operations.

In addition, our relationships with some customers may deter other potential customers who compete with these customers from buying our solutions. To attract new customers or retain existing customers, we may have to offer these customers favorable prices on our solutions. In that event, our average selling prices and gross margins would decline. The loss of a key customer, a reduction in sales to any key customer or our inability to attract new customers could seriously impact our revenue and harm our results of operations.

Our customers may cancel their orders, change production quantities or delay production. If we fail to accurately forecast demand for our solutions, revenue shortfalls or excess, obsolete or insufficient inventory could result.

Our customers typically do not provide us with firm, long-term purchase commitments. Substantially all of our sales are made on a purchase order basis, which permits our customers to cancel, change or delay their product purchase commitments with little or no notice to us and without penalty to them. Because production lead times often exceed the amount of time required by our customers to fill their orders, we often must build SoCs in advance of orders, relying on an imperfect demand forecast to project volumes and product mix.

Our SoCs are incorporated into products manufactured by or for our end customers, and as a result, demand for our solutions is influenced by the demand for our customers' products. Our ability to accurately forecast demand can be adversely affected by a number of factors, including inaccurate forecasting by our customers, miscalculations by our customers of their inventory requirements, changes in market conditions, adverse changes in our product order mix and fluctuating demand for our customers' products. For example, we anticipate that, as a result of higher than normal customer inventory levels at a major end customer in the wearable sports camera market, demand for our solutions in this market in fiscal year 2017 and, in particular, the first half of the fiscal year, will be significantly and adversely impacted. Even after an order is received, our customers may cancel these orders, request a decrease in production quantities or request a delay in the delivery of our solutions. Any such cancellation, decrease or delay subjects us to a number of risks, most notably that our projected sales will not materialize on schedule or at all, leading to unanticipated revenue shortfalls and excess or obsolete inventory that we may be unable to sell to other customers.

Alternatively, if we are unable to project customer requirements accurately, we may not build enough SoCs, which could lead to delays in product shipments and lost sales opportunities in the near term, as well as force our customers to identify alternative sources, which could affect our ongoing relationships with these customers. We have in the past had customers significantly increase their requested production quantities with little or no advance notice. If we do not fulfill customer demands in a timely manner, our customers may cancel their orders and we may be subject to customer claims for cost of replacement. In addition, the rapid pace of innovation in our industry could render portions of our inventory obsolete. Excess or obsolete inventory levels could result in unexpected expenses or increases in our reserves that could adversely affect our business, operating results and financial condition. In addition, any significant future cancellations or deferrals of product orders could harm our margins, increase our write-offs due to product obsolescence and restrict our ability to fund our operations.

Our target markets may not grow or develop as we currently expect and are subject to market risks, any of which could harm our business, revenue and operating results.

To date, our revenue has been attributable to demand for our video and image processing SoCs in the camera and infrastructure markets and the growth of these overall markets. We initially focused on the infrastructure market, and then leveraged our knowledge and experience to design solutions for the camera market. We now derive substantially all of our revenue from the camera market, and our operating results are increasingly affected by trends in the camera market. These trends include demand for higher resolution, increasing functionality, longer battery life, greater storage and connectivity requirements, while accommodating more sophisticated standards for video compression. We may be unable to predict the timing or development of these markets with accuracy. For example, the proliferation of smartphones having the ability to capture high-quality video and still images has significantly impacted the camera market in a relatively short period of time and continues to impact this market. In the Internet Protocol, or IP, security camera market, a slower than expected adoption rate for digital technology in place of analog solutions could slow the

demand for our solutions. If our target markets, such as wearable cameras, automotive aftermarket cameras, IP security cameras, and unmanned aerial vehicle cameras, also referred to as UAVs, drones or flying cameras, do not grow or develop in ways that we currently expect, demand for our video and image processing SoCs may not materialize as expected and our business and operating results could suffer.

Fluctuations in our operating results on a quarterly and annual basis could cause the market price of our ordinary shares to decline.

Our revenue and operating results have fluctuated significantly from period to period in the past and are likely to do so in the future. In particular, our business tends to be seasonal with higher revenue in our third quarter as our customers typically increase their production to meet year-end demand for their products. We also may experience seasonally lower demand in our first quarter in the Asia-based portion of the IP security camera market as a result of industry seasonality and the impact of ODM and OEM factory closures associated with the Chinese New Year holiday. As a result, you should not rely on period-to-period comparisons of our operating results as an indication of our future performance. In future periods, our revenue and results of operations may be below the expectations of analysts and investors, which could cause the market price of our ordinary shares to decline.

Factors that may affect our operating results include:

- fluctuations in demand, sales cycles, product mix, and prices for our products;
- the forecasting, scheduling, rescheduling or cancellation of orders by our customers;
- shifts in consumer preferences and any resultant change in demand for video and image capture devices into which our solutions are incorporated;
- changes in the competitive dynamics of our markets, including new entrants or pricing pressures;
- delays in our customers' ability to manufacture and ship products that incorporate our solutions caused by internal and external factors beyond our control;
- our ability to successfully define, design and release new solutions in a timely manner that meet our customers' needs;
- changes in manufacturing costs, including wafer, test and assembly costs, mask costs, manufacturing yields and product quality and reliability;
- timely availability of adequate manufacturing capacity from our manufacturing subcontractors;
- the timing of product announcements by our competitors or by us;
- incurrence of research and development and related new products expenditures;
- write-downs of inventory for excess quantities and technological obsolescence;
- future accounting pronouncements and changes in accounting policies;
- volatility in our share price, which may lead to higher stock-based compensation expense;
- volatility in our effective tax rate;
- general socioeconomic and political conditions in the countries where we operate or where our products are sold or used; and
- costs associated with litigation, especially related to intellectual property.

Moreover, the semiconductor industry has historically been cyclical in nature, reflecting overall economic conditions as well as budgeting and buying patterns of consumers. We expect these cyclical conditions to continue. For example, given the current global economic uncertainty and recent signs of slowing growth in Asia, and China in particular, the demand for our products may be more varied and our customers may be more conservative with the inventory levels they maintain. As a result, our quarterly operating results are difficult to predict, even in the near term. Our expense levels are relatively fixed in the short term and are based, in part, on our expectations of future revenue. If revenue levels are below our expectations, we may experience material impacts on our business, including declines in margins and profitability, or incur losses. For example, in the first quarter of fiscal year 2017, our revenue declined 19.5% compared to the same period of prior fiscal year, resulting in a substantial decline in profit and cash flows.

Achieving design wins is subject to lengthy competitive selection processes that require us to incur significant costs. Even if we begin a product design, a customer may decide to cancel or change its product plans, resulting in no revenue from such expenditures.

We are focused on selling our video and image processing solutions to ODMs and OEMs for incorporation into their products at the design stage. These efforts to achieve design wins typically are lengthy, especially in new markets we intend to address, and in any case can require us to both incur design and development costs and dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not prevail in the competitive selection process and, even when we do achieve a design win, we may never generate any revenue despite incurring development expenditures. For example, in the past we had achieved a significant design win and projected substantial future revenue from that end customer as a result of that design win. Subsequently, based on changes in that end customer's assessment of the consumer market, among other factors, the end customer abruptly shut down its business unit with which we achieved the design win, with no notice to us.

These risks are exacerbated by the fact that some of our end customers' products, particularly in the camera market, likely will have short life cycles. Further, even after securing a design win, we have experienced and may again experience delays in generating revenue from our solutions as a result of the lengthy product development cycle typically required, if we generate any revenue at all as a result of any such design win.

Our customers generally take a considerable amount of time to evaluate our solutions. The typical time from early engagement by our sales force to actual product introduction runs from nine to 12 months for the camera market, and 12 to 24 months for the infrastructure market, though it may take longer in new markets we intend to address. The delays inherent in these lengthy sales cycles increase the risk that a customer will decide to cancel, curtail, reduce or delay its product plans, causing us to lose anticipated sales. In addition, any delay or cancellation of a customer's plans could harm our financial results, as we may have incurred significant expense and generated no revenue. Finally, our customers' failure to successfully market and sell their products could reduce demand for our SoC solutions and harm our business, financial condition and results of operations. If we were unable to generate revenue after incurring substantial expenses to develop any of our solutions, our business would suffer.

The average selling prices of video and image processing solutions in our target markets have historically decreased over time and will likely do so in the future, which could harm our revenue and gross margins.

Average selling prices of semiconductor products in the markets we serve have historically decreased over time, and we expect such declines to continue to occur for our solutions over time. Our gross margins and financial results will suffer if we are unable to offset reductions in our average selling prices by reducing our costs, developing new or enhanced SoC solutions on a timely basis with higher selling prices or gross margins, or increasing our sales volumes. Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities, and our costs may even increase, which could also reduce our gross margins. In the past, we have reduced the prices of our SoC solutions in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. Recently, we have experienced competitive pricing pressures at the low ends of the automotive aftermarket camera market and China-based IP security camera market. We expect that we will have to address pricing pressures again in the future, which could require us to reduce the prices of our SoC solutions and harm our operating results.

We expect competition to increase in the future, which could have an adverse effect on our revenue and market share.

The global semiconductor market in general, and the video and image processing markets in particular, are highly competitive. We compete in different target markets to various degrees on the basis of a number of competitive factors, including our solutions' performance, features, functionality, energy efficiency, size, ease with which our solution may be integrated into our customers' products, customer support, reliability and price, as well as on the basis of our reputation. We expect competition to increase and intensify as more and larger semiconductor companies enter

our markets and as large OEMs grow their internal resources and potentially develop their own semiconductor solutions. Increased competition could result in price pressure, reduced profitability and loss of market share, any of which could harm our business, revenue and operating results.

Our competitors range from large, international companies offering a wide range of semiconductor products to smaller companies specializing in narrow markets. In the wearable sports camera market, our primary competitors are vertically integrated divisions of camera device OEMs, including Sony Corporation, or Sony, and Panasonic Corporation, as well as HiSilicon Technologies Co., Ltd., or HiSilicon, and Socionext Inc., or Socionext, a new entity created from the merger of the system LSI businesses of Fujitsu Ltd. and Panasonic Corporation. In the IP security camera market, our primary competitors include Geo Semiconductor, Inc., Grain Media, Inc., HiSilicon, Intel Corporation, or Intel, Movidius Ltd., Qualcomm Incorporated, or Qualcomm, Realtek Semiconductor Corp., Socionext, and Texas Instruments Incorporated, as well as vertically integrated divisions of IP Security camera device OEMs, including Axis Communications AB and Sony. In the market for automotive aftermarket cameras, we compete against Allwinner Technology Co., Ltd., Alpha Imaging Technology Corp., Core Logic, Inc., Novatek Microelectronics Corp. and Sunplus Technology Co. Ltd. Our primary competitors in the UAV camera market include HiSilicon, Intel, NVIDIA Corporation and Qualcomm. Our primary competitors in the infrastructure market include Intel, Magnum Semiconductor, Inc. and Texas Instruments Incorporated. Certain of our customers and suppliers also have divisions that produce products competitive with ours. We expect competition in our current markets to increase in the future as existing competitors improve or expand their product offerings and as potential new competitors, such as Broadcom Corporation, MediaTek, Inc. and Samsung Electronics Co., Ltd., or Samsung, enter these markets.

Our ability to compete successfully depends on elements both within and outside of our control, including industry and general economic trends. Many of our competitors are substantially larger, have greater financial, technical, marketing, distribution, customer support and other resources, are more established than we are and have significantly better brand recognition and broader product offerings which may enable them to develop and enable new technology into product solutions better or faster than us and to better withstand adverse economic or market conditions in the future. Our ability to compete will depend on a number of factors, including:

- our ability to anticipate market and technology trends and successfully develop solutions that meet market needs;
- our success in identifying and penetrating new markets, applications and customers;
- our ability to understand the price points and performance metrics of competing products in the marketplace;
- our solutions' performance and cost-effectiveness relative to that of competing products;
- our ability to gain access to leading design tools and product specifications at the same time as our competitors;
- our ability to develop and maintain relationships with key OEMs and ODMs;
- our products' effective implementation of video processing standards;
- our ability to protect our intellectual property;
- our ability to expand international operations in a timely and cost-efficient manner;
- our ability to deliver products in volume on a timely basis at competitive prices;
- our ability to support our customers' incorporation of our solutions into their products; and
- our ability to recruit design and application engineers with expertise in image video and image processing technologies and sales and marketing personnel.

Our competitors may also establish cooperative relationships among themselves or with third parties or acquire companies that provide similar products to ours. As a result, new competitors or alliances may emerge that could acquire significant market share. Any of these factors, alone or in combination with others, could harm our business and result in a loss of market share and an increase in pricing pressure.

We are dependent on sales of a limited number of video and image processing solutions, and a decline in market adoption of these solutions could harm our business.

From inception through April 30, 2016, our revenue has been generated primarily from the sale of a limited number of high-definition, or HD, video and image processing SoC solutions in the camera and infrastructure markets. Moreover, we currently derive substantially all of our revenue from the sale of our SoCs for use in the camera market and we expect to do so for the next several years. As a result, continued market adoption of our SoC solutions in the camera market is critical to our future success. If demand for our SoC solutions were to decline, or demand for products incorporating our solutions declines, does not continue to grow or does not grow as expected, our revenue

would decline and our business would be harmed.

If we fail to develop and introduce new or enhanced solutions on a timely basis, our ability to attract and retain customers could be impaired and our competitive position could be harmed.

We operate in a dynamic environment characterized by rapidly changing technologies and technological obsolescence. To compete successfully, we must design, develop, market and sell enhanced solutions that provide increasingly higher levels of performance and functionality and that meet the cost expectations of our customers. Our existing or future solutions could be rendered obsolete by the introduction of new products by our competitors; convergence of other markets, such as smartphones, with or into the camera market; the market adoption of products based on new or alternative technologies; the emergence of new industry standards for video compression; or the requirement of additional functionality included in our products, such as analytics or computer vision functionality. In addition, the markets for our solutions are characterized by frequent introduction of next-generation and new products, short product life cycles, increasing demand for added functionality and significant price competition. If we or our customers are unable to manage product transitions in a timely and cost-effective manner, our business and results of operations would suffer.

Our failure to anticipate or timely develop new or enhanced solutions in response to technological shifts could result in decreased revenue and our competitors achieving design wins that we sought. In particular, we may experience difficulties with product design, development of new software, manufacturing, marketing or qualification that could delay or prevent our development, introduction or marketing of new or enhanced solutions. In addition, delays in development could impair our relationships with our customers and negatively impact sales of our solutions under development. Moreover, it is possible that our customers may develop their own product or adopt a competitor’s solution for products that they currently buy from us. If we fail to introduce new or enhanced solutions that meet the needs of our customers or penetrate new markets in a timely fashion, we will lose market share and our operating results will be adversely affected.

If we fail to penetrate new markets, our revenue and financial condition could be harmed.

In the past several years, a significant amount of our revenue was generated from sales of our products to OEMs and ODMs of high definition, or HD, video cameras and broadcasting infrastructure equipment. Our future revenue growth, if any, will depend in part on our ability to expand within these markets with our video and image processing SoC solutions, particularly for the wearable sports cameras, automotive aftermarket camera and IP security camera markets, as well as emerging markets such as the home security and monitoring market, non-sports wearable camera market and the UAV market. Each of these markets presents distinct and substantial risks and, in many cases, requires us to develop new software to address the particular requirements of that market. If any of these markets do not develop as we currently anticipate or if we are unable to penetrate them successfully, our revenue could decline.

Some of these markets are primarily served by only a few large, multinational OEMs with substantial negotiating power relative to us and, in some instances, with internal solutions that are competitive to our products. Meeting the technical requirements and securing design wins with any of these companies will require a substantial investment of our time and resources. We cannot assure you that we will secure design wins from these or other companies or that we will achieve meaningful revenue from the sales of our solutions into these markets.

If we fail to penetrate these or other new markets we are targeting, our revenue likely will decrease over time and our financial condition could suffer.

We do not have long-term supply contracts with our third-party manufacturing vendors, and they may not allocate sufficient capacity to us at reasonable prices to meet future demands for our solutions.

The semiconductor industry is subject to intense competitive pricing pressure from customers and competitors. Accordingly, any increase in the cost of our solutions, whether by adverse purchase price variances or adverse manufacturing cost variances, will reduce our gross margins and operating profit. We currently do not have long-term supply contracts with most of our primary third-party vendors, and we negotiate pricing with our main vendors on a purchase order-by-purchase order basis. Therefore, they are not obligated to perform services or supply product to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. Availability of foundry capacity has in the recent past been limited due to strong demand. The ability of our foundry vendors to provide us with a product, which is sole sourced at each foundry, is limited by their available capacity, existing obligations and technological capabilities. Foundry capacity may not be available when we need it or at reasonable prices. None of our third-party foundry or assembly and test vendors has provided contractual assurances to us that adequate capacity will be available to us to meet our anticipated future demand for our solutions. Our foundry and assembly and test vendors may allocate capacity to the production of other companies' products while reducing deliveries to us on short notice. In particular, other companies that are larger and better financed than we are or that have long-term agreements with our foundry or assembly and test vendors may cause our foundry or assembly and test vendors to reallocate capacity to them, decreasing the capacity available to us. Converting or transferring manufacturing from a primary location or supplier to a backup foundry vendor could be expensive and would likely take at least two or more quarters. There are only a few foundries, including Samsung and Taiwan Semiconductor Manufacturing Co., Ltd., or TSMC, that are currently available for certain advanced process technologies that we utilize or may utilize, such as 14 or 10 nanometer. As we continue to develop solutions in advanced process nodes we will be increasingly dependent upon such foundries.

If, in the future, we enter into arrangements with suppliers that include additional fees to expedite delivery, nonrefundable deposits or loans in exchange for capacity commitments or commitments to purchase specified quantities over extended periods, such arrangements may be costly, reduce our financial flexibility and be on terms unfavorable to us, if we are able to secure such arrangements at all. Moreover, if we are able to secure foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties could harm our financial results. To date, we have not entered into any such arrangements with our suppliers. If we need additional foundry or assembly and test subcontractors because of increased demand or the inability to obtain timely and adequate deliveries from our current vendors, we may not be able to do so cost-effectively, if at all.

A substantial portion of our revenue is processed through a single logistics provider and the loss of this logistics provider may cause disruptions in our shipments, which may adversely affect our operations and financial condition.

We sell most of our solutions through a single logistics provider, Wintech Microelectronics Co., Ltd., or Wintech, which serves as our non-exclusive sales representative in Asia, other than Japan. Approximately 67%, 57% and 56% of our revenue was derived from sales through Wintech for the fiscal years ended January 31, 2016, 2015 and 2014, respectively. Approximately 74% of our revenue was derived from sales through Wintech for the three months ended April 30, 2016. We anticipate that a significant portion of our revenue will continue to be derived from sales through Wintech in the foreseeable future. Our current agreement with Wintech is effective until September 2018, unless it is terminated earlier by either party for any or no reason with 90 days written notice or by failure of the breaching party to cure a material breach within 30 days following written notice of such material breach by the non-breaching party. Our agreement with Wintech will automatically renew for additional successive 12-month terms unless at least 60 days before the end of the then-current term either party provides written notice to the other party that it elects not to renew the agreement. Termination of the relationship with Wintech, either by us or by Wintech, could result in a temporary or permanent loss of revenue. We may not be successful in finding suitable alternative logistics providers on satisfactory terms, or at all, and this could adversely affect our ability to effectively sell our solutions in certain geographical locations or to certain end customers. Additionally, if we terminate our relationship with Wintech, we may be obligated to repurchase unsold product, which could be difficult or impossible to sell to other end customers.

Furthermore, Wintech, or any successor or other logistics providers we do business with, may face issues obtaining credit, which could impair their ability to make timely payments to us.

Deterioration of the financial conditions of our customers could adversely affect our operating results.

Deterioration of the financial condition of our logistics providers or customers could adversely impact our collection of accounts receivable. We regularly review the collectibility and creditworthiness of our logistics providers and customers to determine an appropriate allowance for doubtful receivables. Based on our review of our logistics providers and customers, we currently have no reserve for uncollectible accounts. If our uncollectible accounts, however, were to exceed our current or future allowance for doubtful receivables, our operating results would be negatively impacted.

If we do not sustain our growth rate, we may not be able to execute our business plan and our operating results could suffer.

We have experienced significant growth in a short period of time. Our revenue increased from $21.5 million in fiscal year 2008 to $316.4 million in fiscal year 2016, including growth rates of 45% and 39% in the last two fiscal years. We may not achieve similar growth rates in future periods. For example, in the first quarter of fiscal year 2017, our revenue declined 19.5% compared to the same period of prior fiscal year, and our operating margin also declined substantially. You should not rely on our revenue growth, gross margins or operating results for any prior quarterly or annual periods as an indication of our future operating performance. If we are unable to maintain adequate revenue growth, our financial results could suffer and our stock price could decline.

If we are unable to manage any future growth, we may not be able to execute our business plan and our operating results could suffer.

Our business has grown rapidly. Our future operating results depend to a large extent on our ability to successfully manage any expansion and growth, including the challenges of managing a company with headquarters in the United States and the majority of its employees in Asia. To manage our growth successfully and handle the responsibilities of being a public company, we believe we must effectively, among other things:

- recruit, hire, train and manage additional qualified engineers for our research and development activities, particularly in our offices in Asia and especially for the positions of semiconductor design and systems and applications engineering;
- add additional sales and business development personnel;
- add additional finance and accounting personnel;
- implement and improve our administrative, financial and operational systems, procedures and controls; and
- enhance our information technology support for enterprise resource planning and design engineering by adapting and expanding our systems and tool capabilities, and properly training new hires as to their use.

We are increasing our investment in research and development and other functions to grow our business. We are likely to incur the costs associated with these increased investments earlier than some of the anticipated benefits, and the return on these investments, if any, may be lower, may develop more slowly than we expect or may not materialize.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or develop new solutions, and we may fail to satisfy customer product or support requirements, maintain product quality, execute our business plan or respond to competitive pressures.

We may have difficulty accurately predicting our future revenue and appropriately budgeting our expenses.

The rapidly evolving nature of the markets in which we sell our solutions, combined with substantial uncertainty concerning how these markets may develop and other factors beyond our control, limits our ability to accurately forecast quarterly or annual revenue. In addition, because we record a significant portion of our revenue from sales when we have received notification from our logistics providers that they have sold our products, some of the revenue we record in a quarter may be derived from sales of products shipped to our logistics providers during previous quarters. This revenue recognition methodology limits our ability to forecast quarterly or annual revenue accurately. We are currently expanding our staffing and increasing our expenditures in anticipation of future revenue growth. If our revenue does not increase as anticipated, we could incur significant losses due to our higher expense levels if we are not able to decrease our expenses in a timely manner to offset any shortfall in future revenue.

While we intend to continue to invest in research and development, we may be unable to make the substantial investments that are required to remain competitive in our business.

The semiconductor industry requires substantial investment in research and development in order to bring to market new and enhanced solutions. Our research and development expense was $82.9 million, $58.0 million and $48.8 million in fiscal years 2016, 2015 and 2014, respectively. Our research and development expense was $24.5 million for the three months ended April 30, 2016. We expect to increase our research and development expenditures as compared to prior periods as part of our strategy of focusing on the development of innovative and sustainable video and image processing solutions with increased functionality, such as analytics or computer vision capabilities. We are unable to predict whether we will have sufficient resources to maintain the level of investment in research and development required to remain competitive. For example, development in the latest process nodes, such as 14 or 10 nm, can cost significantly more than required to develop in 28 nm. This added cost could prevent us from being able to maintain a technology advantage over larger competitors that have significantly more resources to invest in research and development. In addition, we cannot assure you that the technologies which are the focus of our research and development expenditures will become commercially successful or generate any revenue.

We may experience difficulties demonstrating the value to customers of newer, higher priced and higher margin solutions if they believe existing solutions are adequate to meet end customer expectations.

As we develop and introduce new solutions, we face the risk that customers may not value or be willing to bear the cost of incorporating these newer solutions into their products, particularly if they believe their customers are satisfied with current solutions. Regardless of the improved features or superior performance of the newer solutions, customers may be unwilling to adopt our new solutions due to design or pricing constraints. Owing to the extensive time and resources that we invest in developing new solutions, if we are unable to sell customers new generations of our solutions, our revenue could decline and our business, financial condition, operating results and cash flows could be negatively affected.

The complexity of our solutions could result in unforeseen delays or expenses from undetected defects, errors or bugs in hardware or software which could reduce the market adoption of our new solutions, damage our reputation with current or prospective customers and adversely affect our operating costs.

Highly complex SoC solutions such as ours frequently contain defects, errors and bugs when they are first introduced or as new versions are released. We have in the past and may in the future experience these defects, errors and bugs. If any of our solutions have reliability, quality or compatibility problems, we may not be able to successfully correct these problems in a timely manner or at all. In addition, if any of our proprietary features contain defects, errors or bugs when first introduced or as new versions of our solutions are released, we may be unable to timely correct these problems. Consequently, our reputation may be damaged and customers may be reluctant to buy our solutions, which could harm our ability to retain existing customers and attract new customers, and could adversely affect our financial results. In addition, these defects, errors or bugs could interrupt or delay sales to our customers. If any of these problems are not found until after we have commenced commercial production of a new product, we may incur significant additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others.

The loss of any of our key personnel could seriously harm our business, and our failure to attract or retain qualified management, engineering, sales and marketing talent could impair our ability to grow our business.

We believe our future success depends in large part upon the continuing services of the members of our senior management team and various engineering and other technical personnel. If one or more of our senior executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our business may be disrupted, and our financial condition and results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may experience material disruption of our operations and development plans and lose customers, know-how and key professionals and staff members, and we may incur increased operating expenses as the attention of other senior executives is diverted to recruit replacements for key personnel. Our industry is characterized by high demand and intense competition for talent, and the pool of qualified candidates is very limited. While we plan to continue to recruit software and system engineers with expertise in video processing technologies, primarily in Taiwan and China, we may not be successful in attracting, retaining and motivating sufficient numbers of technical and engineering personnel to support our anticipated growth. The competition for qualified engineering personnel in our industry, and particularly in Asia, is very intense. If we are unable to hire, train and retain qualified engineering personnel in a timely manner, our ability to grow our business will be impaired. In addition, if we are unable to retain our existing engineering personnel, our ability to maintain or grow our revenue will be adversely affected.

Camera manufacturers incorporate components supplied by multiple third parties, and a supply shortage or delay in delivery of these components could delay orders for our solutions by our customers.

Our customers purchase components used in the manufacture of their cameras from various sources of supply, often involving several specialized components, including lenses and sensors. Any supply shortage or delay in delivery by third-party component suppliers, or a third-party supplier's cessation or shut down of its business, may prevent or delay production of our customers' products. In addition, replacement or substitute components may not be available on commercially reasonable terms, or at all. As a result of delays in delivery or supply shortages of third-party components, orders for our solutions may be delayed or canceled and our business may be harmed. For example, we expect that a disruption in the availability of image sensors from Sony Corporation as a result of the April 14, 2016 Kumamoto, Japan earthquake will impact our customers' ability to build cameras and, as a result, impact the timing and scope of demand for our SoCs over the next couple of quarters. Similarly, errors or defects within a camera system or in the manner in which the various components interact could prevent or delay production of our customers' products, which could harm our business.

We outsource our wafer fabrication, assembly and testing operations to third parties, and if these parties fail to produce and deliver our products according to requested demands in specification, quantity, cost and time, our reputation, customer relationships and operating results could suffer.

We rely on third parties for substantially all of our manufacturing operations, including wafer fabrication, assembly and testing. Currently, the majority of our SoCs are supplied by Samsung in South Korea, from whom we have the option to purchase both fully assembled and tested products as well as tested die in wafer form for assembly. Samsung subcontracts the assembly and initial testing of the assembled chips it supplies to us to Signetics Corporation and STATS ChipPAC Ltd. In the case of purchases of tested die from Samsung, we contract the assembly to Advanced Semiconductor Engineering, Inc., or ASE. We also have products supplied by Global UniChip Corporation, or GUC, in Taiwan, from whom we purchase fully assembled and tested products. The wafers used by GUC in the assembly of our products are manufactured by TSMC in Taiwan. The assembly is done by GUC subcontracted assembly suppliers ASE, and Powertech Technology Inc, or PTI. Final testing of all of our products is handled by King Yuan Electronics Co., Ltd. or Sigurd Corporation under the supervision of our engineers. We depend on these third parties to supply us with material of a requested quantity in a timely manner that meets our standards for yield, cost and manufacturing quality. We do not have any long-term supply agreements with any of our manufacturing suppliers. If one or more of these vendors terminates its relationship with us, or if we encounter any problems with our manufacturing supply chain, our ability to ship our solutions to our customers on time and in the quantity required would be adversely affected, which in turn could cause an unanticipated decline in our sales and damage our customer relationships.

If our foundry vendors do not achieve satisfactory yields or quality, our reputation and customer relationships could be harmed.

The fabrication of our video and image processing SoC solutions is a complex and technically demanding process. Minor deviations in the manufacturing process can cause substantial decreases in yields, and in some cases, cause production to be suspended. Our foundry vendors, from time to time, experience manufacturing defects and reduced manufacturing yields, including in the fabrication of our SoCs. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundry vendors could result in lower than anticipated manufacturing yields or unacceptable performance of our SoCs. Many of these problems are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. Poor yields from our foundry vendors, or defects, integration issues or other performance problems in our solutions, could cause us significant customer relations and business reputation problems, harm our financial results and give rise to financial or other damages to our customers. Our customers might consequently seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

Each of our SoC solutions is manufactured at a single location. If we experience manufacturing problems at a particular location, we would be required to transfer manufacturing to a new location or supplier. Converting or transferring manufacturing from a primary location or supplier to a backup fabrication facility could be expensive and could take two or more quarters. During such a transition, we would be required to meet customer demand from our then-existing inventory, as well as any partially finished goods that could be modified to the required product specifications. We do not seek to maintain sufficient inventory to address a lengthy transition period because we believe it is uneconomical to keep more than minimal inventory on hand. As a result, we may not be able to meet customer needs during such a transition, which could delay shipments, cause production delays, result in a decline in our sales and damage our customer relationships.

We may experience difficulties in transitioning to new wafer fabrication process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased costs.

We aim to use the most advanced manufacturing process technology appropriate for our products that is available from our third-party foundries. As a result, we periodically evaluate the benefits of migrating our solutions to smaller

geometry process technologies in order to improve performance and reduce costs. We believe this strategy will help us remain competitive. These ongoing efforts require us from time to time to modify the manufacturing processes for our products and to redesign some products, which in turn may result in delays in product deliveries. We may face difficulties, delays and increased expense as we transition our products to new processes, such as 14nm or 10nm process nodes, and potentially to new foundries. We depend on Samsung and TSMC, as the principal foundries for our products, to transition to new processes successfully. We cannot assure you that Samsung or TSMC will be able to effectively manage such transitions or that we will be able to maintain our relationship with Samsung or TSMC or develop relationships with new foundries. Moreover, as we transition to more advanced process nodes beyond 28nm, we will be increasingly dependent upon Samsung and TSMC, who are two of the few foundries currently available for certain advanced process technologies. If we or our foundry vendors experience significant delays in transitioning to smaller geometries or fail to efficiently implement transitions, we could experience reduced manufacturing yields, delays in product deliveries and increased costs, all of which could harm our relationships with our customers and our operating results. As new processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as more end-customer and third-party intellectual property, into our solutions. We may not be able to achieve higher levels of design integration or deliver new integrated solutions on a timely basis.

We rely on third-party vendors to supply software development tools to us for the development of our new products, and we may be unable to obtain the tools necessary to develop or enhance new or existing products.

We rely on third-party software development tools to assist us in the design, simulation and verification of new products or product enhancements. To bring new products or product enhancements to market in a timely manner, or at all, we need software development tools that are sophisticated enough or technologically advanced enough to complete our design, simulations and verifications. In the future, the design requirements necessary to meet consumer demands for more features and greater functionality from our solutions may exceed the capabilities of available software development tools. Unavailability of software development tools may result in our missing design cycles or losing design wins, either of which could result in a loss of market share or negatively impact our operating results.

Because of the importance of software development tools to the development and enhancement of our solutions, our relationships with leaders in the computer-aided design industry, including Cadence Design Systems, Inc., Mentor Graphics Corporation and Synopsys, Inc., are critical to us. We have invested significant resources to develop relationships with these industry leaders. We believe that utilizing next-generation development tools to design, simulate and verify our products will help us remain at the forefront of the video compression market, and develop solutions that utilize leading-edge technology on a rapid basis. If these relationships are not successful, we may be unable to develop new products or product enhancements in a timely manner, which could result in a loss of market share, a decrease in revenue or negatively impact our operating results.

Our failure to adequately protect our intellectual property rights could impair our ability to compete effectively or defend ourselves from litigation, which could harm our business, financial condition and results of operations.

Our success depends, in part, on our ability to protect our intellectual property. We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality and non-disclosure agreements and other contractual protections, to protect our proprietary technologies and know-how, all of which offer only limited protection. The steps we have taken to protect our intellectual property rights may not be adequate to prevent misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to prevent such misappropriation or infringement is uncertain, particularly in countries outside of the United States. As of April 30, 2016, we had 48 issued and allowed patents in the United States plus 33 additional continuation patents, five patents issued in Europe, three issued patents in China, five issued patents in Japan and 53 pending and provisional patent applications in the United States. Even if the pending patent applications are granted, the rights granted to us may not be meaningful or provide us with any commercial advantage. For example, these patents could be opposed, contested, circumvented, designed around by our competitors or be declared invalid or unenforceable in judicial or administrative proce