ENVIVIO INC
Form S-1
April 15, 2011
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As filed with the Securities and Exchange Commission on April 15, 2011

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

ENVIVIO, INC.

(Exact name of registrant as specified in its charter)

Delaware	**3663**	**94-3353255**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

400 Oyster Point Boulevard, Suite 325

South San Francisco, California 94080

(650) 243-2700

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

Julien Signès

President and Chief Executive Officer

400 Oyster Point Boulevard, Suite 325

South San Francisco, California 94080

(650) 243-2700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Proposed maximum aggregate offering price (1)(2)**	**Amount of registration fee**
Common Stock, $0.001 par value per share	$69,000,000	$8,011

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(2) Includes shares that the underwriters have the option to purchase, if any.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED , 2011

PRELIMINARY PROSPECTUS

Shares

Common Stock

$ per share

This is Envivio, Inc. s initial public offering. We are offering shares of our common stock.

We expect the public offering price to be between $ and $ per share. Currently, no public market exists for the shares of our common stock. After pricing of the offering, we expect that the shares will trade on the Nasdaq Global Market under the symbol ENVI.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$

These securities are not deposits, savings accounts, or other obligations of any bank or savings association and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

We have granted the underwriters the right to purchase up to an additional shares of common stock to cover over-allotments.

The underwriters expect to deliver the shares of common stock to purchasers on , 2011.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Stifel Nicolaus Weisel **Piper Jaffray**

Needham & Company, LLC **William Blair & Company**

The date of this prospectus is , 2011.

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Through and including (the 25th day after the date of this prospectus) all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from or in addition to that contained in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock.

In this prospectus, Company, we, us, and our refer to Envivio, Inc. and its subsidiaries. Unless otherwise indicated, all information in this prospectus assumes no exercise of the underwriters over-allotment option. The name Envivio is our trademark. We have trademark applications pending for Envivio Genesis and Envivio Halo in the United States. This prospectus also contains trademarks and trade names that are the property of their respective owners.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information concerning our company, the common stock being sold in this offering, and our consolidated financial statements appearing in this prospectus. Because this is only a summary, you should read the rest of this prospectus before you invest in our common stock. Read this entire prospectus carefully, especially the risks described under Risk Factors.

Our Business

Overview

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

We enable service providers and content providers to deliver linear broadcast and on-demand video services to their customers via multiple screens, such as tablets, smartphones, netbooks, laptops, PCs and TVs. We offer service providers and content providers the ability to deliver high-quality video to their customers either across their managed networks or outside the boundaries of their network over the open Internet, referred to as over-the-top, or OTT. Our customers include mobile and wireline telecommunications service providers, cable multiple system operators, or MSOs, direct broadcast satellite service providers, or DBSs, and content providers, which includes broadcasters and content publishers, owners, aggregators and licensees. We have sold our solution to over 220 end-customers to date in over 50 countries. We distribute our products and solutions globally through a network of channel partners, which includes leading telecommunications systems integrators throughout the world, as well as through our own direct sales force.

Industry Background

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

We believe the growth in demand for TV without Boundaries is being driven by several key consumer trends, including demand for increased quality and quantity of video content, demand for video-enabled Internet Protocol, or IP, connected devices, growth in global broadband users and the shift in how video is consumed in the home. Service providers and content providers must continue to launch innovative new service offerings in order to address evolving consumer trends. Traditional telecommunications service providers are competing with MSOs and DBSs by offering bundled services where consumers can enjoy a

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single service package and monthly bill covering broadband Internet, voice and video services, or triple play, and additionally bundling mobile as a fourth service, or quad play. Service providers who also operate mobile networks can leverage their dual-network presence to offer innovative video services. Broadcasters and content owners, including BBC, CBS and ESPN, have broadened their means of distribution to consumers beyond the linear broadcast business model to include direct OTT distribution. In addition, new business models from emerging content providers, including Hulu, Netflix and Sezmi, have circumvented traditional video delivery models to reach consumers directly via OTT delivery.

Limitations of Existing Technologies

We believe that existing technologies designed to enable video delivery are largely either engineered solely for broadcast-centric applications serving standard TVs or engineered solely for web delivery of content. Products designed only for broadcast-centric applications do not address the growing diversity of devices and networks, and products designed only for web delivery of content do not address the technical requirements of traditional broadcast TV or provide the quality, reliability and manageability expected by service providers. Although the video delivery models of service providers and content providers historically have had different offerings, consumers are increasingly demanding a similar video experience across all of their devices. As video service offerings converge and traditional video delivery solutions attempt to address the needs of their end users in a single solution, the delivery of video increasingly requires new architectures which can accommodate delivery of high-quality video across multiple networks to multiple devices with the flexibility to adapt to a rapidly evolving market.

The Envivio Solution

Our software-based solution enables the delivery of a converged multi-screen service across mobile, broadband, managed or open networks, allowing service providers and content providers to offer consumers the same high-quality experience across multiple devices and networks. We utilize a unified software architecture that provides a flexible video delivery platform to service and content providers. We believe our software-based solution offers the following key benefits to our customers:

- ***Provides a high-quality video experience*** We have designed a solution that enables the delivery of video to consumers to multiple screens while maintaining a high-quality video experience through advanced video encoding algorithms, networking and adaptive streaming technologies irrespective of whether video is delivered across mobile networks, managed video networks or OTT.
- ***Addresses complexities of multi-screen video delivery with high reliability*** Our solution addresses the complexities of the service provider and content provider ecosystem by providing a platform to effectively enable delivery of video over mobile and IP networks to a wide array of device and operating system combinations in a number of display formats and resolutions.
- ***Ingests and delivers video in a broad array of formats*** Our software-based solution is compatible with all major video formats across all major codecs, resolutions, frame rates, bitrates and transport profiles. We accommodate the transport of video through different networks, such as broadband and mobile networks, or traditional cable and satellite broadcast networks.
- ***Optimizes video distribution architecture*** Our solution is designed to optimize bandwidth and to ensure that video is delivered to the consumer in a highly efficient manner. Our solution adapts video content at each edge location distributed throughout the network, eliminating the need for service providers to repetitively deliver the same video content in different formats from the core of the network to the edge, which consumes valuable capacity and resources.

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

Our Growth Strategy

Our objective is to become the leading multi-screen video delivery solution to service providers and content providers. The key elements of our growth strategy are:

- ***Continued innovation of our software-based, multi-screen solution*** We intend to leverage our core IP video technology strength to develop new products with enhanced software-based capabilities to further demonstrate the value of our solution and increase our long-term revenue opportunities.
- ***Increase our share of our customers network footprint*** We intend to expand our relationships with our customers by offering additional products, including the addition of mobile or IPTV capabilities or the extension of our services to new geographies or content offerings.
- ***Maximize our sales distribution capabilities to add new customers*** We intend to further broaden our customer and geographic presence through expanded channel partnerships with new and existing partners. We also intend to further develop our direct sales capabilities to capitalize on the emerging and rapidly growing OTT market.
- ***Extend our solution through complementary products*** We intend to develop new products and features for our customers through internal development, potential acquisitions and partnerships.

Risks to our Business

Our business is subject to numerous risks and uncertainties, including those identified in Risk Factors immediately following this prospectus summary, that primarily represent challenges we face in connection with the successful implementation of our strategy and the growth of our business. We compete in rapidly evolving markets and have a limited operating history, which make it difficult to predict our future operating results. In addition, we expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance. Such factors include the capital spending patterns of our customers, our dependence on our channel partners, our lengthy sales cycle, our reliance on a limited number of suppliers and our competition.

Corporate Information

We were founded in 2000. Our principal executive offices are located at 400 Oyster Point Blvd., Suite 325, South San Francisco, California 94080, and our telephone number is (650) 243-2700. As of January 31, 2011, we had 117 full-time employees. Our website address is www.envivio.com. We do not incorporate the information on or accessible through our website into this prospectus, and you should not consider any information on, or that can be accessed through, our website as part of this prospectus.

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THE OFFERING

Common stock offered by us	shares
Common stock to be outstanding after this offering	shares
Over-allotment option	The underwriters have an option to purchase a maximum of additional shares of common stock to cover over-allotments, if any. All of the shares subject to the option would be sold by us. The underwriters could exercise this option at any time within 30 days from the date of this prospectus.
Use of proceeds	We intend to use the net proceeds received by us from this offering for working capital and general corporate purposes, including further expansion of our sales and marketing efforts, continued investments in research and development and for capital expenditures. In addition, we may use a portion of the net proceeds of this offering for acquisitions of complementary businesses, technologies or other assets. However, we do not have agreements for any material acquisitions at this time. See Use of Proceeds.
Risk Factors	See Risk Factors beginning on page 7 and the other information included in this prospectus for a discussion of factors you should consider carefully before deciding to invest in our common stock.
Proposed Nasdaq Global Market symbol	ENVI

The number of shares of common stock that will be outstanding after this offering is based on 171,679,778 shares outstanding as of January 31, 2011, and excludes:

- 20,546,889 shares of common stock issuable upon the exercise of options outstanding as of January 31, 2011, at a weighted average exercise price of $0.04 per share;
- 7,420,804 shares of common stock that were issued through the exercise of options by issuances of notes, but were not included in stockholders equity (deficit) as these shares are subject to repurchase by us;
- 360,000 shares of common stock, on an as-converted basis, issuable upon the exercise of outstanding warrants to purchase convertible preferred stock, which warrants will convert into warrants to purchase common stock immediately prior to the completion of this offering, at a weighted average exercise price of $1.25 per share; and
- 1,053,079 shares of common stock reserved for future issuance under our 2010 Stock Incentive Plan and shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2011 Stock Incentive Plan, which will become effective in connection with this offering.

Unless otherwise indicated, all information in this prospectus assumes:

- that our amended and restated certificate of incorporation, which we will file in connection with the completion of this offering, is in effect;
- the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 42,381,371 shares of common stock, effective immediately prior to the completion of this offering;
- the conversion of all outstanding shares of our Series 1 common stock into an aggregate of 9,894,156 shares of common stock, effective immediately prior to the completion of this offering; and
- no exercise by the underwriters of their over-allotment option to purchase up to additional shares of common stock from us.

In addition, unless otherwise indicated, all share numbers presented in this prospectus do not give effect to the 1-for- reverse stock split that will be effected prior to the completion of this offering.

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SUMMARY CONSOLIDATED FINANCIAL DATA

We derived the summary consolidated statement of operations data for fiscal years ended January 31, 2009, 2010 and 2011 and the consolidated balance sheet data as of January 31, 2011 from our audited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future. The following summary consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended January 31,		
	2009	2010	2011
	(in thousands, except share and per share data)		
Consolidated Statement of Operations Data:			
Revenue	$ 18,664	$ 16,288	$ 30,004
Cost of revenue	10,085	7,482	11,504
Gross profit	8,579	8,806	18,500
Operating expenses:			
Research and development	7,878	4,908	5,152
Sales and marketing	9,698	6,980	8,886
General and administrative	5,840	5,309	6,449
Total operating expenses	23,416	17,197	20,487
Loss from operations	(14,837)	(8,391)	(1,987)
Interest expense, net	(1,557)	(850)	(270)
Other income (expense), net	695	86	(61)
Loss before provision for income taxes	(15,699)	(9,155)	(2,318)
Provision for income taxes	70	22	167
Net loss	(15,769)	(9,177)	(2,485)
Deemed dividend on convertible preferred stock			(2,286)
Net loss attributable to common stockholders	$ (15,769)	$ (9,177)	$ (4,771)
Net loss per share of common stock, basic and diluted (1)	$ (2.84)	$ (1.62)	$ (0.06)
Shares used in computing net loss per share of common stock, basic and diluted (1)	5,543,689	5,661,128	82,591,441
Pro forma net loss per share of common stock, basic and diluted (unaudited) (1)			$ (0.04)
Shares used in computing pro forma net loss per share of common stock, basic and diluted (unaudited) (1)			129,061,385

	As of January 31, 2011		
	Actual	Pro Forma (2)	Pro Forma as Adjusted (3) (4)
		(unaudited)	
		(in thousands)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 10,017	$ 10,017	$

Working capital	2,283	2,283
Total assets	26,751	26,751
Warrant liability	196	
Convertible preferred stock	31,421	
Total stockholders equity (deficit)	(28,915)	2,702

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(1) Please see Note 9 to our audited consolidated financial statements for an explanation of the calculations of our basic and diluted net loss per share of common stock and pro forma net loss per share of common stock.

(2) The pro forma column in the consolidated balance sheet data table above reflects the conversion of all outstanding shares of our convertible preferred stock into common stock immediately prior to the completion of this offering and the resulting reclassification of the warrant liability to additional paid-in capital.

(3) The pro forma as adjusted column in the consolidated balance sheet data table above reflects (i) the conversion of all outstanding shares of our convertible preferred stock into common stock immediately prior to the completion of this offering, (ii) the resulting reclassification of the warrant liability to additional paid-in capital and (iii) the receipt of the net proceeds from the sale of shares of common stock offered by us in this offering at a price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus.

(4) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) each of cash and cash equivalents, working capital, total assets and total stockholders equity (deficit) by $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions. Each increase (decrease) of 1.0 million shares in the number of shares of common stock offered by us would increase (decrease) each of cash and cash equivalents, working capital, total assets and total stockholders equity (deficit) by approximately $ million assuming a price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions. The pro forma as adjusted information discussed above is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including our consolidated financial statements and related notes included elsewhere in this prospectus, before making an investment decision. If any of the following risks is realized, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to our Business

We depend on the capital spending of telecommunications, cable and satellite service providers, as well as broadcast, media and Internet content providers for a substantial majority of our revenue and any material decrease or delay in capital spending in these industries would negatively impact our operating results, financial condition and cash flows.

A substantial majority of our historical revenue has been derived from sales to telecommunications, cable and satellite service providers, as well as, more recently, the emerging broadcast, media and Internet content providers. We expect that revenue from all of these markets will constitute a substantial majority of our revenue for the foreseeable future. Because many of our customers in these markets purchase our products in connection with constructing and upgrading their architecture and systems, demand for our products will depend on the magnitude and timing of capital spending by our customers.

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

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

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

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

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

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

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

We have incurred significant losses since our inception, including net losses of $15.8 million, $9.2 million and $2.5 million during fiscal years 2009, 2010 and 2011, respectively. As of January 31, 2011, we had an accumulated deficit of $79.0 million. These losses have resulted principally from costs incurred in our research and development programs and sales and marketing programs. We may continue to incur operating losses for at least the foreseeable future as a result of the expenses associated with the continued development and expansion of our business, including expenditures to hire additional sales and marketing personnel. Additionally, following the completion of this offering, we expect that our general and administrative expenses will increase due to the additional operational and reporting costs associated with being a public company. We may also increase our research and development expenses. Our ability to attain profitability in the future will be affected by, among other things, our ability to execute on our business strategy, the continued acceptance of our products, the timing and size of customer orders, the average sales prices of our products, the costs of our products, and the extent to which we invest in our sales and marketing, research and development, and general and administrative resources. Even if we achieve profitability, we may not be able to sustain or increase our profitability. As a result, our business could be harmed and our stock price could decline.

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

We generate a significant portion of our revenue through sales to channel partners, principally to assist us with the integration of our software-based solution with other third-party products to provide a tailored solution for the end-customer. We expect that these sales to channel partners will continue to generate a significant percentage of our revenue in the future. Accordingly, our future success is highly dependent upon establishing and maintaining successful relationships with a variety of channel partners.

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

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

The timing of our sales is difficult to predict. Our sales efforts involve educating our customers about the use and benefits of our software-based solution, including the technical capabilities of our products and the potential cost savings achievable by organizations deploying our software-based solution. Customers, particularly in the cable, satellite and telecommunications industries, typically undertake a significant evaluation process, which frequently involves not only our products but also those of our competitors and can result in a lengthy sales cycle. We spend substantial time, effort and money on our sales efforts without any assurance that such efforts will

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produce any sales. In addition, purchases of our products are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. The length of a customer s deployment period may directly affect the timing of any subsequent purchase of additional products by that customer. In addition, once we deliver our software-based solution to our customers, we may not be able to recognize revenue for the sale until the customer completes its acceptance procedures. If sales expected from a specific customer for a particular quarter are not realized or completed in that quarter or at all, our operating results, financial condition and cash flows could be materially and adversely affected.

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

Our operating results have fluctuated in the past and are likely to continue to fluctuate in the future, on an annual and a quarterly basis, as a result of several factors, many of which are outside of our control. Some of the factors that may cause these fluctuations include:

- the level and timing of capital spending of our customers, both in the United States and in foreign markets, due in part to access to financing, including credit, for capital spending;
- economic and financial conditions specific to the telecommunications, cable and satellite service providers, as well as broadcast, media and Internet content providers;
- changes in market demand for our products or our customers services or products;
- the timing and amount of orders, especially from significant customers;
- increases and decreases in the number and size of relatively larger transactions, and projects in which we are involved, from quarter to quarter;
- the timing of revenue recognition with respect to certain of our sales arrangements, which may include multiple deliverables and timing of customer acceptance;
- the timing of completion of our customers projects;
- competitive market conditions, including pricing actions by our competitors;
- the level and mix of our international revenue;
- new product introductions by our competitors or by us;
- changes in domestic and international regulatory environments affecting our business;
- market acceptance of our new or existing products;
- the impact of new revenue recognition accounting standards, which became effective for us beginning in fiscal 2012;
- the evaluation of new services, new standards and system architectures by our customers;
- the cost and availability to us of components and subassemblies;
- the mix of our customer base, by industry and size, and sales channels;
- the mix of our products sold and the effect it has on gross margins;
- changes in our operating and extraordinary expenses, such as litigation expenses and settlement costs;
- write-downs of inventory and investments;
- the impact of applicable accounting guidance that requires us to record the fair value of stock options, restricted stock units and employee stock purchase plan awards as compensation expense;
- changes in our effective tax rate, including as a result of changes in our valuation allowance against our deferred tax assets, changes in our effective state tax rates, including as a result of apportionment, and changes in our mix of domestic versus international revenue, as well as proposed amended tax rules related to the deferral of foreign earnings and compliance with foreign tax rules;
- the impact of applicable accounting guidance on accounting for uncertainty in income taxes that requires us to establish reserves for uncertain tax positions and accrue potential tax penalties and interest;
- the timing of any acquisitions and the financial impact of any such acquisitions;
- the impact of applicable accounting guidance on business combinations that requires us to record charges for certain acquisition related costs and expenses and generally to expense restructuring costs associated with a business combination subsequent to the acquisition date; and
- general economic conditions.

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

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

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

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

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

Our encoding products are based on industry video compression standards, which can change rapidly. For example, encoding products based on the MPEG-2 compression standards are being increasingly replaced by encoding products based on newer standards, such as MPEG-4 AVC/H.264, that have been recently adopted and provide significantly greater compression efficiency, thereby making more bandwidth available to operators. The availability of more bandwidth is particularly important to those operators seeking to launch, or expand, HDTV services. We have developed and launched products, including HD encoders, based on these new standards in order to remain competitive, and are continuing to devote considerable resources to these efforts. As industry standards continue to evolve, however, we must continue to devote significant resources to address these evolving standards. Our efforts to address these evolving standards may not be successful in the future, or at all, and we may be unable to compete effectively in our target markets when new industry standards are established.

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

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

The average sales prices of our products may decrease.

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

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

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

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

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

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

Historically, a majority of our revenue has been derived from relatively few customers. Sales to our ten largest customers in fiscal 2011 together accounted for approximately 63% of our total revenue. In fiscal 2011, three of our customers who are our channel partners directly accounted for 11%, 12% and 12%, respectively, of our total revenue. In fiscal 2009 and 2010, one of these large customers directly accounted for 19% and 13%, respectively, of our total revenue. In addition, two other customers accounted for 15% and 12% of our total revenue in fiscal 2010. We expect to see continuing industry consolidation and customer concentration. At the same time, we are currently targeting large customer accounts, which if successful, could increase our concentration risk on an even smaller group of customers. Even if we are successful in selling a large volume of products to these large potential customers, we may not be able to continue to sell such large volumes to these customers, which could cause our operating results to fluctuate significantly and decline.

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

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

We outsource the manufacturing of our products to a single manufacturer and are, therefore, subject to the risk that our third-party manufacturer does not provide our customers with the quality and performance that they expect from our products. Our manufacturer may not view fulfilling our orders a priority in the event it is constrained in its ability to fulfill all of its customer obligations in a timely manner. In addition, if we need to increase our manufacturing capacity beyond what our current manufacturer is able to provide, we may not be able to meet customer demand on a timely basis. If we are required, or we desire, to replace our manufacturer or add an additional manufacturer, we may need to expend a considerable amount of resources, time and money to locate another manufacturer, and as a result, we may experience a delay in our ability to meet customer demand during the transition process. We place manufacturing orders on a purchase order basis, with no long-term contract. If we are

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unable to fulfill customer demand, we may lose revenue opportunities and our reputation could suffer. In addition, we must also predict the number of products that we will require. If we underestimate our requirements, our manufacturer may have inadequate materials and components required to produce our products. This could result in an interruption of the manufacturing of our products, delays in shipments and deferral or loss of revenue. Quality or performance failures of our products or changes in our manufacturer s financial or business condition could disrupt our ability to supply quality products to our customers and thereby have a material and adverse effect on our operating results, financial condition and cash flows.

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

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

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

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

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

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

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

- difficulties in the integration of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition transaction;

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- the diversion of management s attention from the regular operations of the business and the challenges of managing larger and more widespread operations;
- adverse effects on new and existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience;
- the potential loss of key employees of acquired businesses; and
- delays in realizing or failure to realize the anticipated benefits of an acquisition.

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

- issue equity securities, which would dilute current stockholders percentage ownership;
- incur substantial debt;
- incur significant acquisition-related expenses;
- assume contingent liabilities; or
- expend significant cash.

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

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

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

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

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

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

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

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

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

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

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

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

Our products incorporate complex technology that must operate with a significant number and types of devices, which attempt to run new and complex applications in a variety of environments that utilize different communication industry standards. Our products have contained and may in the future contain defects or errors. In some cases, these defects or errors have delayed the introduction of our new products. Some errors in our products may only be discovered after a product has been installed and used by customers. These problems may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our development efforts and cause customer relations problems. We may also be subject to liability claims for damages related to product errors or defects. While we carry insurance policies covering these types of liability claims, which we believe to be reasonable for the level of our business activity, these policies may not provide sufficient protection in the event of a liability claim. Moreover, errors in our products are most prevalent when new products are introduced into the market. Any errors or defects discovered in our products after commercial release could result in loss of revenue or delay in revenue recognition, loss of customers, damage to our brand and reputation, and increased service and warranty cost, any of which could materially and adversely affect our operating results, financial condition and cash flows.

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

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

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

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

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

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, or Nasdaq, have imposed various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal, accounting and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

In addition, the Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. Our compliance with Section 404 of the Sarbanes-Oxley Act will require that we incur substantial accounting expense and expend significant management time on compliance-related issues.

If we are unable to successfully remediate the material weakness in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected.

In connection with the audit of our consolidated financial statements for the fiscal year ended January 31, 2011, our management and independent registered public accounting firm identified a material weakness in our internal control over financial reporting. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our management and independent registered public accounting firm did not perform an evaluation of our internal control over financial reporting as of January 31, 2011 in accordance with the provisions of the Sarbanes-Oxley Act. Had we and our independent registered public

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accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, additional control deficiencies may have been identified by management or our independent registered public accounting firm, and those control deficiencies could have also represented one or more material weaknesses.

Our management and independent registered public accounting firm identified a material weakness related to our ability to properly record certain revenue transactions in accordance with software revenue recognition guidance for the fiscal year ended January 31, 2011. This deficiency resulted in a more than remote likelihood that a material misstatement of our annual and interim financial statements would not be prevented or detected. As a result, audit adjustments to our financial statements were identified during the course of the audit. In an effort to remediate this material weakness, we intend to hire additional finance and accounting personnel with the appropriate expertise and experience, and further develop and document our accounting policies and financial reporting procedures around our revenue recognition practices for fiscal 2012. For example, we recently hired a new assistant controller. In addition, we have retained consultants to assist with our implementation of new revenue recognition accounting guidance related to multiple-element arrangements that we adopted as of February 1, 2011 and to advise us on making further improvements to our internal controls related to revenue recognition in the future. We cannot assure you that we will be successful in these efforts or that these measures will significantly improve or remediate the material weakness described above. We also cannot assure you that we have identified all, or that we will not in the future have additional, material weaknesses. Accordingly, material weaknesses may still exist when we report on the effectiveness of our internal control over financial reporting for purposes of our attestation required by reporting requirements under the Securities Exchange Act of 1934, or the Exchange Act, or Section 404 of the Sarbanes-Oxley Act after this offering. The standards required for a Section 404 assessment under the Sarbanes-Oxley Act will require us to implement additional corporate governance practices and adhere to a variety of reporting requirements. These stringent standards require that our audit committee be advised and regularly updated on management s review of internal controls. Our management may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements that will be applicable to us as a public company. If we fail to staff our accounting and finance function adequately or maintain internal controls adequate to meet the demands that will be placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, we may be unable to report our financial results accurately or in a timely manner and our business and stock price may suffer.

Furthermore, investor perceptions of our company may suffer, and this could cause a decline in the market price of our stock.

Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. If we are unable to implement these changes effectively or efficiently, it could materially and adversely affect our operations, financial reporting or financial results and could result in an adverse opinion on internal controls from our independent registered public accounting firm.

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

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

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

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

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

Revenue derived from customers outside of the United States in fiscal years 2009, 2010 and 2011 represented 87%, 92% and 77% of our revenue, respectively. We expect that international revenue will continue to represent a similar substantial percentage of our revenue for the foreseeable future. Our international operations and our efforts to maintain and increase revenue in international markets are subject to a number of risks, which are generally greater with respect to emerging market countries, including the impact on our business and operating results of:

- general economic conditions in international economies, which may adversely affect our customers capital spending;
- changes in foreign government regulations and standards;
- import and export license requirements, tariffs, taxes and other trade barriers;
- fluctuations in currency exchange rates;
- a significant reliance on distributors, resellers and other third parties to sell our products and solutions, particularly in emerging market countries;
- difficulty in collecting accounts receivable, especially from smaller customers and resellers, particularly in emerging market countries;
- compliance with the United States Foreign Corrupt Practices Act, or FCPA, and the Office of Foreign Asset Control regulations, particularly in emerging market countries;
- the burden of complying with a wide variety of foreign laws, treaties and technical standards;
- fulfilling country of origin requirements for our products for certain customers;
- difficulty in staffing and managing foreign operations;
- political and economic instability, including risks related to terrorist activity, particularly in emerging market countries;
- changes in economic policies by foreign governments;
- lack of basic infrastructure, particularly in emerging market countries;
- availability of credit, particularly in emerging market countries; and
- impact of the recent escalating social and political unrest, particularly in the Middle East.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC and other various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. In addition, the SEC has announced a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by U.S. issuers in their SEC filings. Any such change could have a significant effect on our reported financial results.

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

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

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

We believe that our existing cash and cash equivalents, combined with the amounts available under our line of credit facility, will be sufficient to meet our anticipated cash requirements for at least the next 12 months. We may, however, need to raise substantial additional capital to:

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

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

- market acceptance of our products;
- the cost of our research and development activities;
- the cost of filing and prosecuting patent applications;
- the cost of defending, in litigation or otherwise, any claims that we infringe third-party patents or violate other intellectual property rights;
- the cost and timing of establishing additional sales, marketing and distribution capabilities;
- the cost and timing of establishing additional technical support capabilities;
- the effect of competing technological and market developments; and
- the market for such funding requirements and overall economic conditions.

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

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

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

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

We are also dependent on our ability to retain and motivate our existing highly qualified personnel, including Julien Signès, our President, Chief Executive Officer and co-Founder, and Gianluca Rattazzi, our Executive Chairman. Neither of these officers is party to an employment agreement with us, and either of them therefore may

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terminate employment with us at any time with no advance notice. The replacement of either of these two officers likely would involve significant time and costs, and the loss of either of these officers may significantly delay or prevent the achievement of our business objectives.

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

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

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

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

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

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

Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose

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unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could materially and adversely affect our operating results, financial condition and cash flows.

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

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

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

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

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

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

- earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates;
- changes in the valuation of our deferred tax assets and liabilities;
- expiration of, or lapses in, the research and development tax credit laws;
- transfer pricing adjustments, including the effect of acquisitions on our intercompany research and development cost sharing arrangement and legal structure;
- tax effects of nondeductible compensation;
- tax costs related to intercompany realignments;
- changes in accounting principles; or
- changes in tax laws and regulations, including possible changes to the taxation of earnings in the United States of our foreign subsidiaries, and the deductibility of expenses attributable to foreign income, or the foreign tax credit rules.

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

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

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

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

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

Risks Related to Our Industry

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

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

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

- video compression standards, such as MPEG-4 AVC/H.264, for both standard definition and high definition services;
- delivery of high-speed services, such as fiber-to-the-premises, or FTTP, and digital subscriber line, or DSL, networks designed to facilitate the delivery of video services by telecommunications operators;
- the further adoption of bandwidth-optimization techniques, such as switched digital video and DOCSIS 3.0; and
- the introduction of new consumer devices, such as advanced set-top boxes, personal video recorders, or PVRs, and a variety of smartphones, such as the iPhone.

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

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

- convergence, or the need of many network operators to deliver a package of video, voice and data services to consumers, including mobile delivery options;
- the increasing availability of traditional broadcast video content on the Internet;
- the further penetration of telecommunications operators into video service delivery;
- the emergence of a viable mobile video content delivery standard;
- efforts by regulators and governments in the United States and abroad to encourage the adoption of broadband and digital technologies;
- increased consumer interest in 3D television and content;
- the extent and nature of regulatory attitudes towards such issues as network neutrality, competition between operators, access by third parties to networks of other operators, local franchising requirements for telecommunications operators to offer video, and other new services, such as mobile video; and
- the outcome of litigation and negotiations between content owners and service providers regarding rights of service providers to store and distribute recorded broadcast content, which outcomes may drive adoption of one technology over another in some cases.

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

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

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

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

The markets in which we operate are intensely competitive.

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

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

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

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

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

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

Video delivery markets are characterized by rapid technological change.

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

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

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

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

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

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

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

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

Risks Related to this Offering and our Common Stock

There may have been deficiencies in the process we followed to approve and adopt certain prior amendments to our Certificate of Incorporation.

Delaware law imposes certain statutory requirements for the approval and adoption of amendments to a Delaware corporation s charter document. We may not have satisfied such requirements in all respects in connection with the approval and adoption of certain prior amendments to our Certificate of Incorporation. Although we believe that these prior amendments would not be invalidated, we are in the process of taking certain actions, which will be completed prior to the completion of this offering, to address any deficiencies.

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Our stock price may be volatile. Further, you may not be able to resell shares of our common stock at or above the price you paid.

Prior to this offering, there has been no public market for shares of our common stock, and an active public market for these shares may not develop or be sustained after this offering. We and the representatives of the underwriters will determine the initial public offering price of our common stock through negotiation. This price will not necessarily reflect the price at which investors in the market will be willing to buy and sell our shares following this offering. In addition, the trading price of our common stock following this offering is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

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

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

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

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

Future sales of shares by existing stockholders could cause our stock price to decline.

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. Based on shares outstanding as of January 31, 2011, upon completion of this offering, we will have outstanding a total of shares of common stock, assuming no exercise of the underwriters over-allotment option. Of these shares, only the shares of common stock sold in this offering by us will be freely tradable, without restriction, in the public market immediately after the offering. Each of our directors and officers, and certain of our stockholders, has entered into lock-up agreements with the underwriters that restrict their ability to sell or transfer their shares. The lock-up agreements pertaining to this offering will expire 180 days from the date of this prospectus, although they may be extended for up to an additional 34 days under certain circumstances. Our underwriters, however, may, in their sole discretion, permit our officers, directors and other current stockholders who are subject to the contractual lock-up to sell shares prior to the expiration of the lock-up agreements. After the lock-up agreements expire, based on shares outstanding as of January 31, 2011, up to an additional shares of common stock will be eligible for sale in the public market, of which are held by directors, executive officers and other affiliates and will be subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, and various vesting agreements. In addition, shares of common stock that are subject to outstanding options as of January 31, 2011 will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements and Rules 144 and 701 under the Securities Act. We intend to file a registration statement on Form S-8 under the Securities Act covering all of the shares of common stock subject to options outstanding and reserved for issuance under our stock plans. This registration statement will become effective immediately upon filing, and shares covered by this registration statement will be eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates and any lock-up agreements described above. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Insiders have substantial control over us and will be able to influence corporate matters.

As of January 31, 2011, our directors and executive officers and their affiliates beneficially owned, in the aggregate, 53.3% of our outstanding capital stock. As a result, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit stockholders ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

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

Provisions in our certificate of incorporation and bylaws, as expected to be restated immediately prior to the closing of this offering, may have the effect of delaying or preventing a change of control or changes in our management.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, which prohibits or restricts the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us. These provisions in our certificate of incorporation and bylaws and under Delaware law could discourage potential takeover attempts and could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in our market price being lower than it would without these provisions.

We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

We will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. Our failure to apply these funds effectively could have a material adverse effect on our business, delay the development of our products and cause the price of our common stock to decline.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of $ in net tangible book value per share from the price you paid, based on an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus. In addition, new investors who purchase shares in this offering will contribute approximately % of the total amount of equity capital raised by us through the date of this offering, but will only own approximately % of the outstanding share capital and approximately % of the voting rights. The exercise of outstanding options and warrants will result in further dilution. For a further description of the dilution that you will experience immediately after this offering, see Dilution.

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

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

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, design, intend, expect c version of these words and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Risk Factors. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- anticipated trends and challenges in our business and the competition that we face;
- our intent to leverage our core IP video technology strength to develop new products with enhanced software-based capabilities to demonstrate the unique value of our solution and increase our long-term revenue opportunities;
- our intent to increase our market share by selling additional products into our existing customers networks;
- our intent to leverage our relationships with leading systems integrators to expand our market presence;
- our intent to develop new products and features for our customers through internal development, potential acquisitions and partnerships with third party technologies and products;
- our liquidity and working capital requirements;
- our expectations regarding future expenses; and
- our expectations regarding the use of proceeds from this offering.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. We disclaim any duty to update any of these forward-looking statements after the date of this prospectus to confirm these statements to actual results or revised expectations.

You may rely only on the information contained in this prospectus. You should read this prospectus and the documents that we reference in this prospectus and have filed with the SEC as exhibits to the registration statement of which this prospectus is a part completely and with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect. Neither we nor any of the underwriters have authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus, nor sale of common stock, means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy shares of common stock in any circumstances under which the offer or solicitation is unlawful.

This prospectus also contains statistical data and estimates, including those relating to market size and growth rates of the markets in which we participate, that we obtained from industry publications and reports generated by Cisco, Frost & Sullivan, Gartner, Inc.[1], or Gartner, IDC and IMS Research. These publications typically indicate that they have obtained their information from sources they believe to be reliable, but do not guarantee the accuracy and completeness of their information. Although we have assessed the information in the publications and found it to be reasonable and believe the publications are reliable, we have not independently verified their data.

[1] The Gartner reports described herein, or the Gartner Reports, represent data, research opinion or viewpoints published, as part of a syndicated service, by Gartner and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and opinions expressed in the Gartner Reports are subject to change without notice.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of shares of our common stock that we are selling in this offering will be $, based on an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters over-allotment option to purchase additional shares from us is exercised in full, we estimate that we will receive additional net proceeds of $. A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the net proceeds to us by $ million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. We may also increase or decrease the number of shares we are offering. An increase (decrease) of 1.0 million shares in the number of shares offered by us would increase (decrease) the net proceeds to us by $ million, assuming a price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The principal purposes of this offering are to obtain additional capital, to create a public market for our common stock and to facilitate our future access to the public equity markets.

We currently intend to use the net proceeds received by us from this offering for working capital and general corporate purposes, including further expansion of our sales and marketing efforts, continued investments in research and development and for capital expenditures. Specifically, we intend to hire additional personnel to support the growth in our business. In addition, we may use a portion of the proceeds received by us from this offering for acquisitions of complementary businesses, technologies or other assets. We have no agreements with respect to any material acquisitions at this time and we have not allocated specific amounts of net proceeds for any of these purposes. Based on our current cash and cash equivalents balance together with cash generated from operations, we do not expect that we will need to utilize any of the net proceeds to us of this offering to fund our operations during the next 12 months.

We cannot specify with certainty the particular amounts or uses for the net proceeds to be received by us from this offering. Accordingly, our management team will have broad discretion in using the net proceeds to be received by us from this offering.

Pending the use of proceeds from this offering as described above, we plan to invest the net proceeds in short- and intermediate-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

DIVIDEND POLICY

We have never declared or paid any cash dividend on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent on a number of factors, including our earnings, capital requirements and overall financial conditions. Additionally, under the terms of our Term Loan and Security Agreement dated as of November 22, 2010, by and between us and Silicon Valley Bank, we must obtain written consent from Silicon Valley Bank prior to paying any cash dividends.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of January 31, 2011, as follows:

- our actual cash and cash equivalents and capitalization as of January 31, 2011;
- our pro forma cash and cash equivalents and capitalization after giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into common stock, assuming the conversion immediately prior to the completion of this offering, and the resulting reclassification of the warrant liability to additional paid-in capital; and
- our pro forma as adjusted cash and cash equivalents and capitalization after giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into common stock assuming the conversion immediately prior to the completion of this offering, the resulting reclassification of our warrant liability to additional paid-in capital, and the receipt of the net proceeds from the sale of shares of common stock offered by us in this offering at the initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus.

You should read this table in conjunction with Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of January 31, 2011		
	Actual	Pro Forma	Pro Forma as Adjusted (1)
		(unaudited)	
	(in thousands, except share and per share data)		
Cash and cash equivalents	$ 10,017	$ 10,017	$
Warrant liability	196		
Convertible preferred stock, par value $0.001 per share: 45,360,000 shares authorized, 42,381,371 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma (unaudited) and pro forma as adjusted (unaudited)	31,421		
Stockholders equity (deficit):			
Preferred stock, par value $ per share: no shares authorized, issued or outstanding, actual; shares authorized, no shares issued and outstanding, pro forma (unaudited) and pro forma as adjusted (unaudited)			
Common stock, par value $0.001 per share: 250,000,000 shares authorized, 129,298,407 shares issued and outstanding, actual; shares authorized, 171,679,778 shares issued and outstanding, pro forma (unaudited); shares issued and outstanding, pro forma as adjusted (unaudited)	129	172	
Additional paid-in capital	50,490	82,064	
Accumulated other comprehensive loss	(565)	(565)	
Accumulated deficit	(78,969)	(78,969)	
Total stockholders equity (deficit)	(28,915)	2,702	
Total capitalization	$ 2,702	$ 2,702	$

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) each of additional paid-in capital, total stockholders equity (deficit) and total capitalization by $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions. Each increase (decrease) of 1.0 million

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shares in the number of shares offered by us would increase (decrease) cash and cash equivalents, additional paid-in capital, total stockholders equity (deficit) and total capitalization by approximately $ million assuming a price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. The pro forma as adjusted information discussed above is illustrative only and will be adjusted based on the actual public offering price and terms of this offering determined at pricing.

If the underwriters over-allotment option were exercised in full, pro forma as adjusted cash and cash equivalents, common stock and additional paid-in capital, stockholders equity (deficit) and shares issued and outstanding as of January 31, 2011 would be $, $, $ and , respectively.

The number of shares of common stock in the table above excludes the following shares:

- 20,546,889 shares of common stock issuable upon the exercise of options outstanding as of January 31, 2011, at a weighted average exercise price of $0.04 per share;
- 7,420,804 shares of common stock that were issued through the exercise of options by issuances of notes, but were not included in stockholders equity (deficit) as these shares are subject to repurchase by us;
- 360,000 shares of common stock, on an as-converted basis, issuable upon the exercise of outstanding warrants to purchase convertible preferred stock, which warrants will convert into warrants to purchase common stock immediately prior to the completion of this offering, at a weighted average exercise price of $1.25 per share; and
- 1,053,079 shares of common stock reserved for future issuance under our 2010 Stock Incentive Plan and shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2011 Stock Incentive Plan, which will become effective in connection with this offering.

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DILUTION

If you invest in our common stock in this offering, your ownership interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock immediately after this offering. Net tangible book value dilution per share to new investors represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma as adjusted net tangible book value per share of common stock immediately after completion of this offering.

Net tangible book value per share is determined by dividing our total tangible assets less our total liabilities by the number of shares of common stock outstanding. Our historical net tangible book value (deficit) as of January 31, 2011, was $, or $ per share. Our pro forma net tangible book value (deficit) as of January 31, 2011, was $, or $ per share, based on the total number of shares of our common stock outstanding as of January 31, 2011, after giving effect to the conversion of all outstanding shares of our convertible preferred stock into common stock assuming the conversion immediately prior to the completion of this offering and the resulting reclassification of the warrant liability to additional paid-in capital.

After giving effect to our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of January 31, 2011 would have been $, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution in net tangible book value of $ per share to purchasers of common stock in this offering, as illustrated in the following table:

Initial public offering price per share		$
Pro forma net tangible book value (deficit) per share as of January 31, 2011	$	
Increase in pro forma net tangible book value (deficit) per share attributable to new investors		
Pro forma as adjusted net tangible book value per share after this offering		
Dilution per share to investors in this offering		$

Each $1.00 increase (decrease) in the assumed public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) our pro forma as adjusted net tangible book value by approximately $ million, or approximately $ per share, and the pro forma dilution per share to investors in this offering by approximately $ per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase of 1.0 million shares in the number of shares offered by us would result in a pro forma as adjusted net tangible book value of approximately $ million, or $ per share, and the pro forma dilution per share to investors in this offering would be $ per share. Similarly, a decrease of 1.0 million shares in the number of shares offered by us would result in a pro forma as adjusted net tangible book value of approximately $ million, or $ per share, and the pro forma dilution per share to investors in this offering would be $ per share. The pro forma as adjusted information discussed above is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

If the underwriters over-allotment option to purchase additional shares from us is exercised in full, the pro forma as adjusted net tangible book value per share after this offering would be $ per share, the increase in pro forma as adjusted net tangible book value per share to existing stockholders would be $ per share and the dilution to new investors purchasing shares in this offering would be $ per share.

The following table presents on a pro forma as adjusted basis as of January 31, 2011, after giving effect to the conversion of all outstanding shares of convertible preferred stock into common stock assuming the conversion immediately prior to the completion of this offering, the differences between the existing stockholders and the purchasers of shares in this offering with respect to the number of shares purchased from us, the total consideration paid, which includes net proceeds received from the issuance of common and convertible preferred stock, cash received from the exercise of stock options and warrants and the value of any stock issued for services and the average price paid per share (in thousands, except per share amounts and percentages):

	Shares Purchased		Total Consideration (1)		Average Price
	Number	Percent	Amount	Percent	per Share
Existing stockholders		%	$	%	$
New investors					
Totals		%	$	%	$

(1) Each $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the total consideration paid to us by new investors and total consideration paid to us by all stockholders by $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. An increase (decrease) of 1.0 million shares in the number of shares offered by us would increase (decrease) the total consideration paid to us by new investors and total consideration paid to us by all stockholders by $ million assuming a price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise their over-allotment option in full, our existing stockholders would own % and our new investors would own % of the total number of shares of our common stock outstanding immediately after this offering.

The foregoing calculations are based on 171,679,778 shares outstanding as of January 31, 2011 after giving effect to the conversion of all outstanding shares of convertible preferred stock into common stock, and excludes the following shares:

- 20,546,889 shares of common stock issuable upon the exercise of options outstanding as of January 31, 2011, at a weighted average exercise price of $0.04 per share;
- 7,420,804 shares of common stock that were issued through the exercise of options by issuances of notes, but were not included in stockholders equity (deficit) as these shares are subject to repurchase by us;
- 360,000 shares of common stock, on an as-converted basis, issuable upon the exercise of outstanding warrants to purchase convertible preferred stock, which warrants will convert into warrants to purchase common stock immediately prior to the completion of this offering, at a weighted average exercise price of $1.25 per share; and
- 1,053,079 shares of common stock reserved for future issuance under our 2010 Stock Incentive Plan and shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2011 Stock Incentive Plan, which will become effective in connection with this offering.

To the extent that any outstanding options are exercised or new options are issued under our incentive plans, there will be further dilution to investors participating in this offering. If all outstanding options under our 2000 Stock Option Plan and our 2010 Stock Incentive Plan as of January 31, 2011 were exercised, and if all of our outstanding warrants were exercised for cash, then our existing stockholders, including the holders of these options and warrants, would own % and our new investors would own % of the total number of shares of our common stock outstanding upon the completion of this offering. In such event, the total consideration paid by our existing stockholders, including the holders of these options and warrants, would be approximately $ million, or %, the total consideration paid by our new investors would be $ million, or %, the average price per share paid by our existing stockholders would be $ and the average price per share paid by our new investors would be $ per share.

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SELECTED CONSOLIDATED FINANCIAL DATA

We derived the selected consolidated statement of operations data for fiscal years ended January 31, 2009, 2010 and 2011 and the consolidated balance sheet data as of January 31, 2010 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the selected consolidated statement of operations data for the fiscal year ended January 31, 2008 and the consolidated balance sheet data as of January 31, 2008 and 2009 from our audited consolidated financial statements which are not included in this prospectus. We derived the selected consolidated statements of operations data for the fiscal year ended January 31, 2007 and the consolidated balance sheet data as of January 31, 2007 from our unaudited consolidated financial statements which are also not included in this prospectus. The unaudited results for the fiscal year ended January 31, 2007 have been prepared on the same basis as the audited financial statements and reflect all adjustments necessary to fairly reflect our financial position as of January 31, 2007 and the results of operations for the fiscal year then ended. Our historical results are not necessarily indicative of the results that may be expected in the future. You should read the following selected consolidated historical financial data below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, related notes and other financial information included elsewhere in this prospectus. The selected consolidated financial data in this section is not intended to replace the consolidated financial statements and is qualified in its entirety by the consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended January 31,				
	2007 (unaudited)	2008	2009	2010	2011
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ 17,608	$ 14,064	$ 18,664	$ 16,288	$ 30,004
Cost of revenue (1)	9,241	7,888	10,085	7,482	11,504