AMBARELLA INC
Form 10-Q
September 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2016

OR

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

Commission file number: 001-35667

AMBARELLA, INC.

(Exact name of registrant as specified in its charter)

Cayman Islands	98-0459628
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3101 Jay Street

Santa Clara, California	95054
(Address of principal executive offices)	(Zip Code)

(408) 734-8888

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The number of ordinary shares, $0.00045 par value, of the Registrant, outstanding as of September 1, 2016 was 32,699,784 shares.

AMBARELLA, INC.

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

		Page
PART I. FINANCIAL INFORMATION		3
Item 1.	Financial Statements	3
	Unaudited Condensed Consolidated Balance Sheets at July 31, 2016 and January 31, 2016	3
	Unaudited Condensed Consolidated Statements of Operations for the three and six months ended July 31, 2016 and 2015	4
	Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and six months ended July 31, 2016 and 2015	5
	Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended July 31, 2016 and 2015	6
	Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	31
Item 4.	Controls and Procedures	31
PART II. OTHER INFORMATION		32
Item 1.	Legal Proceedings	32
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 6.	Exhibits	55
Signatures		56

2

PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

AMBARELLA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	July 31, 2016	January 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$276,507	$268,056
Marketable securities	50,520	39,837
Accounts receivable, net	33,588	39,408
Inventories	20,898	18,167
Restricted cash	8	7
Prepaid expenses and other current assets	4,180	4,170
Total current assets	385,701	369,645
Property and equipment, net	3,642	3,448
Deferred tax assets, non-current	5,743	4,626
Intangible assets, net	4,173	4,178
Goodwill	26,601	26,601
Other non-current assets	1,998	2,117
Total assets	$427,858	$410,615
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	19,723	14,175
Accrued liabilities	23,123	23,778
Income taxes payable	—	787
Deferred revenue	5,464	10,077
Total current liabilities	48,310	48,817
Other long-term liabilities	2,793	12,342
Total liabilities	51,103	61,159
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preference shares, $0.00045 par value per share, 20,000,000 shares authorized and no shares issued and outstanding at July 31, 2016 and January 31, 2016, respectively	—	—
Ordinary shares, $0.00045 par value per share, 200,000,000 shares authorized at July 31, 2016 and January 31, 2016, respectively;	15	15

32,677,136 shares issued and outstanding at July 31, 2016; 32,333,359 shares issued and outstanding at January 31, 2016		
Additional paid-in capital	181,690	176,306
Accumulated other comprehensive income (loss)	33	(7)
Retained earnings	195,017	173,142
Total shareholders' equity	376,755	349,456
Total liabilities and shareholders' equity	$427,858	$410,615

See accompanying notes to condensed consolidated financial statements.

3

AMBARELLA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Revenue	$65,142	$84,193	$122,299	$155,206
Cost of revenue	21,672	29,345	42,122	54,440
Gross profit	43,470	54,848	80,177	100,766
Operating expenses:				
Research and development	23,643	20,840	48,109	37,423
Selling, general and administrative	10,565	9,087	21,458	18,097
Total operating expenses	34,208	29,927	69,567	55,520
Income from operations	9,262	24,921	10,610	45,246
Other income	171	127	198	154
Income before income taxes	9,433	25,048	10,808	45,400
Provision for income taxes	801	1,951	393	3,449
Net income	$8,632	$23,097	$10,415	$41,951
Net income per share attributable to ordinary shareholders:				
Basic	$0.27	$0.73	$0.32	$1.34
Diluted	$0.25	$0.68	$0.31	$1.25
Weighted-average shares used to compute net income per share attributable to ordinary shareholders:				
Basic	32,557,398	31,515,446	32,492,723	31,307,236
Diluted	34,175,466	33,904,222	34,063,103	33,688,239

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Net income	$8,632	$23,097	$10,415	$41,951
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments	13	(7)	40	(23)
Other comprehensive income (loss), net of tax	13	(7)	40	(23)
Comprehensive income	$8,645	$23,090	$10,455	$41,928

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Six Months Ended July 31,	
	2016	2015
Cash flows from operating activities:		
Net income	$10,415	$41,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	842	755
Amortization/accretion of marketable securities	125	283
Loss on disposal of long-lived assets	10	8
Stock-based compensation	22,767	11,603
Excess income tax benefits associated with stock-based compensation	—	(263)
Other non-cash items, net	57	72
Changes in operating assets and liabilities, net of impact of acquisition:		
Accounts receivable	5,820	(1,467)
Inventories	(2,731)	(5,979)
Prepaid expenses and other current assets	2	1,369
Deferred tax assets	1,054	(223)
Other assets	119	(26)
Accounts payable	5,548	(741)
Accrued liabilities	(543)	5,466
Income taxes payable	(787)	2,395
Deferred tax liabilities	(58)	(20)
Deferred revenue	(4,613)	2,034
Other long-term liabilities	26	23
Net cash provided by operating activities	38,053	57,240
Cash flows from investing activities:		
Acquisition, net of cash acquired	—	(29,905)
Purchase of investments	(50,214)	(28,661)
Sales of investments	19,827	9,908
Maturities of investments	19,560	15,900
Purchase of property and equipment	(997)	(615)
Net cash used in investing activities	(11,824)	(33,373)
Cash flows from financing activities:		
Stock repurchase	(20,183)	—
Proceeds from exercise of stock options and employee stock purchase plan	2,405	5,156
Excess income tax benefits associated with stock-based compensation	—	263
Net cash provided by (used in) financing activities	(17,778)	5,419
Net increase in cash and cash equivalents	8,451	29,286
Cash and cash equivalents at beginning of period	268,056	170,291
Cash and cash equivalents at end of period	$276,507	$199,577
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$637	$551
Supplemental disclosure of noncash investing activities:		

Increase in accrued liabilities related to non-monetary assets purchases	$86	$29

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Basis of presentation

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

Basis of Consolidation

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

Use of Estimates

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

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

Concentration of Risk

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

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

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

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

Cash Equivalents and Marketable Securities

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

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

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

Inventories

The Company records inventories at the lower of cost or market. The cost includes materials and other production costs and is computed using standard cost on a first-in, first-out basis. Inventory reserves are recorded for estimated obsolescence or unmarketable inventories based on forecast of future demand and market conditions. If actual market conditions are less favorable than projected, or if future demand for the Company's products decrease, additional inventory write-downs may be required. Once inventory is written down, a new accounting cost basis is established and, accordingly, any associated reserve is not reversed until the inventory is sold or scrapped. There were no material inventory losses recognized for the three and six months ended July 31, 2016 and 2015, respectively.

Business Combinations and Intangible Assets

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

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

Goodwill and In-Process Research and Development

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

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

Revenue Recognition

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

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

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

deferred for any amounts billed until delivery of all the elements. If the agreements include PCS, the revenues are recognized ratably over the estimated supporting periods. The revenue from engineering service agreements was not material for the three and six months ended July 31, 2016 and 2015, respectively.

Cost of Revenue

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

Income Taxes

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

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

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

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

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

Net Income Per Ordinary Share

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

Comprehensive Income (Loss)

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

10

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The new guidance clarifies the principles and develops a common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards (the "IFRS"). Under the new guidance, an entity is required to recognize an amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The original effective date of the ASU would have required the public companies to adopt the standard for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In July 2015, the FASB voted to amend the ASU by approving a one-year deferral of the effective date as well as providing the option to early adopt the standard on the original effective date. The deferral results in this new revenue standard being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations ("ASU 2016-08"), which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing ("ASU 2016-10"), which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. Accordingly, the Company must adopt ASU 2016-08 and ASU 2016-10 with ASU 2014-09 in its first quarter of fiscal year 2019. The new revenue guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of adoption on its financial position, results of operations and disclosures.

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

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

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

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, to simplify and improve the accounting for employee share-based awards. The new standard amends the accounting for employee share-based payment transactions to require recognition of the tax effects resulting from the settlement of stock-based awards as income tax benefit or expense in the income statement in the reporting period in which they occur. In addition, the tax-related cash flows resulting from share-based payments will be classified as cash flows

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), to introduce a new impairment model for recognizing credit losses on financial instruments based on an estimated of current expected credit losses (ECL). Under the new model, available-for-sale (AFS) debt securities are required to estimate ECL only when the fair value is below the amortized cost of the asset and is no longer based on an impairment being "other-than-temporary". The new model also requires the impairment calculation on an individual security level and requires an entity use present value of cash flows when estimating the ECL. The credit-related losses are required to be recognized through earnings and non-credit related losses are reported in other comprehensive income. The ASU will be effective for public entities in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The new guidance will require modified retrospective application to all outstanding instruments, with a cumulative effect adjustment recorded to opening retained earnings as of the beginning of the first period in which the guidance becomes effective. The Company does not believe the adoption of this new guidance will have material impact on its consolidated financial statements.

2. Financial Instruments and Fair Value

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

	As of July 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Money market funds	$103	$ —	$ —	$103
Demand deposit	10,000	—	—	10,000
Commercial paper	7,479	—	—	7,479
Corporate bonds	19,342	17	(2)	19,357
Asset-backed securities	8,446	6	—	8,452
U.S. government securities	13,197	11	—	13,208
Agency bonds	2,023	1	—	2,024
Total cash equivalents and marketable securities	$60,590	$ 35	$ (2)	$60,623

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

	As of	
	July 31, 2016	January 31, 2016
	(in thousands)	
Included in cash equivalents	$10,103	$ 530
Included in marketable securities	50,520	39,837
Total cash equivalents and marketable securities	$60,623	$ 40,367

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

	As of	
	July 31, 2016	January 31, 2016
	(in thousands)	
Due within one year	$52,856	$ 33,449
Due within one to two years	7,767	6,918
Total cash equivalents and marketable securities	$60,623	$ 40,367

The unrealized losses on the available-for-sale securities were caused by fluctuations in market value and interest rates as a result of the economic environment. As the decline in market value was attributable to changes in market conditions and not credit quality, and because the Company neither intended to sell nor was it more likely than not that it would be required to sell these investments prior to a recovery of par value, the Company did not consider these investments to be other-than temporarily impaired as of July 31, 2016 and January 31, 2016, respectively.

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

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

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

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

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

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

	As of July 31, 2016			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	$103	$103	$—	$ —
Demand deposit	10,000	10,000	—	
Commercial paper	7,479	—	7,479	—
Corporate bonds	19,357	—	19,357	—
Asset-backed securities	8,452	—	8,452	—
U.S. government securities	13,208	—	13,208	—
Agency bonds	2,024	—	2,024	—
Total cash equivalents and marketable securities	$60,623	$10,103	$50,520	$ —

	As of January 31, 2016			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	$530	$530	$—	$ —
Commercial paper	2,598	—	2,598	—

Corporate bonds	21,340	—	21,340	—
Asset-backed securities	4,585	—	4,585	—
U.S. government securities	9,272	—	9,272	—
Agency bonds	2,042	—	2,042	—
Total cash equivalents and marketable securities	$40,367	$530	$39,837	$ —

3. Inventories

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

	As of July 31, 2016	January 31, 2016
	(in thousands)	
Work-in-progress	$11,944	$ 9,474
Finished goods	8,954	8,693
Total	$20,898	$ 18,167

4. Property and Equipment, Net

Depreciation expense was approximately $0.3 million and $0.4 million for the three months ended July 31, 2016 and 2015, respectively. Depreciation expense was approximately $0.8 million for the six months ended July 31, 2016 and 2015, respectively. Property and equipment at July 31, 2016 and January 31, 2016 consisted of the following:

	As of July 31, 2016	January 31, 2016
	(in thousands)	
Computer equipment and software	$6,700	$ 6,421
Machinery and equipment	3,004	2,706
Furniture and fixtures	794	492
Leasehold improvements	1,550	1,429
Construction in progress	195	253
	12,243	11,301
Less: accumulated depreciation and amortization	(8,601)	(7,853)
Total property and equipment, net	$3,642	$ 3,448

5. Goodwill and Intangible Assets

On June 25, 2015, the Company completed the acquisition of VisLab S.r.l., a privately held Italian company that develops computer vision and intelligent control systems for automotive and other commercial applications, including advanced driver assistance systems and several generations of autonomous vehicle driving systems, for $30.0 million in cash. As a result, there was $25.3 million attributed to goodwill, $4.1 million attributed to intangible assets and $0.6 million attributed to net assets acquired. A deferred tax liability of $1.3 million related to the intangible assets was recorded to account for the difference between financial reporting and tax basis at the acquisition date, with an addition to goodwill. The Company does not amortize goodwill. The intangible assets primarily consist of IPR&D. Acquired IPR&D is capitalized at fair value as an intangible asset and amortization commences upon completion of

the underlying projects. When a project underlying reported IPR&D is completed, the corresponding amount of IPR&D is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. As of July 31, 2016, there was no IPR&D amortized. There were no goodwill or intangible asset impairments for the three and six months ended July 31, 2016 and 2015, respectively.

Pro forma results of operations for this acquisition have not been presented because they are not material to the consolidated results of operations.

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6. Accrued Liabilities

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

	As of July 31, 2016	January 31, 2016
	(in thousands)	
Accrued employee compensation	$11,806	$ 14,512
Accrued warranty	200	234
Accrued rebates	1,191	824
Accrued product development costs	7,544	6,339
Other accrued liabilities	2,382	1,869
Total accrued liabilities	$23,123	$ 23,778

7. Deferred Revenue and Deferred Cost

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

	As of July 31, 2016	January 31, 2016
	(in thousands)	
Deferred revenue on product shipments	$6,048	$ 12,201
Deferred revenue from licenses & services	1,957	1,653
Deferred cost of revenue on product shipments	(2,541)	(3,777)
Total deferred revenue, net	$5,464	$ 10,077

8. Other Long-Term Liabilities

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

	As of July 31, 2016	January 31, 2016
	(in thousands)	

Unrecognized tax benefits, including interest	$1,427	$ 10,917
Deferred tax liabilities, non-current	1,364	1,423
Other long-term liabilities	2	2
Total other long-term liabilities	$2,793	$ 12,342

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

9. Capital Stock

Preference shares

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

Ordinary shares

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

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

On February 1, 2016, the Company added 404,166 ordinary shares to the ordinary shares reserved for issuance, pursuant to an "evergreen" provision contained in the Amended and Restated 2012 Employee Stock Purchase Plan, or ESPP. Pursuant to such provision, on February 1st of each fiscal year, the number of ordinary shares reserved for issuance under the ESPP is automatically increased by a number equal to the lesser of (i) 1,500,000 ordinary shares, (ii) one and one quarter percent (1.25%) of the aggregate number of ordinary shares outstanding on such date, or (iii) an amount determined by the Company's Board of Directors or a duly authorized committee of the Board of Directors.

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

	As of July 31, 2016	January 31, 2016
Shares reserved for options, restricted stock and restricted stock units	5,791,467	5,027,475
Shares reserved for employee stock purchase plan	1,320,582	974,273

Shares repurchased

On May 31, 2016, the Company's Board of Directors authorized the repurchase of up to $75.0 million of the Company's ordinary shares over a six-month period. Repurchases may be made from time-to-time through open market purchases or through privately negotiated transactions subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate the Company to acquire any particular amount of ordinary shares, and it may be suspended at any time at the Company's discretion. The repurchase program will be funded using the Company's working capital and any repurchased shares will be recorded as authorized but unissued shares and available for general corporate purposes. As of July 31, 2016, a total of 405,089 shares were repurchased for approximately $20.2 million in cash and recorded as a reduction to equity.

10. Stock-based Compensation

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
	(in thousands)			
Stock-based compensation:				

Cost of revenue	$246	$127	$491	$251
Research and development	6,873	3,671	13,592	6,765
Selling, general and administrative	4,347	2,323	8,684	4,587
Total stock-based compensation	$11,466	$6,121	$22,767	$11,603

As of July 31, 2016, total unrecognized compensation cost related to unvested stock options was $10.0 million and is expected to be recognized over a weighted-average period of 2.16 years. Total unrecognized compensation cost related to unvested restricted stock units was $81.2 million and is expected to be recognized over a weighted-average period of 2.82 years. Total unrecognized compensation cost related to unvested restricted stock awards was $9.5 million and is expected to be recognized over a weighted-average period of 2.06 years.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Stock Options:				
Volatility	38 %	57 %	38 %	59 %
Risk-free interest rate	1.39%	1.85%	1.55%	1.76%
Expected term (years)	6.08	6.08	5.96	6.08
Dividend yield	0 %	0 %	0 %	0 %
Employee stock purchase plan awards:				
Volatility	—	—	67 %	63 %
Risk-free interest rate	—	—	0.52%	0.15%
Expected term (years)	—	—	0.5	0.5
Dividend yield	—	—	0 %	0 %

The following table summarizes stock option activities for the six months ended July 31, 2016:

	Option Outstanding					
	Shares	Weighted-Average Exercise Price	Weighted-Average Grant-date Fair Value	Total Intrinsic Value of options Exercised (in thousands)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2016	1,853,390	$ 19.36				
Granted	78,700	41.93	$ 16.38			
Exercised	(65,836)	10.96		$ 2,176		
Forfeited	(8,625)	52.43				
Expired	(7,721)	14.12				
Outstanding at July 31, 2016	1,849,908	20.48			5.59	$ 71,725
Exercisable at July 31, 2016	1,430,350	$ 13.00			4.75	$ 65,004

The intrinsic value of options outstanding, exercisable, vested and expected-to-vest options are calculated based on the difference between the fair market value of the Company's ordinary shares on the reporting date and the exercise price. The closing price of the Company's ordinary shares was $57.98 on July 31, 2016, as reported by The NASDAQ Global Market. The intrinsic value of exercised options is calculated based on the difference between the fair market value of the Company's ordinary shares on the exercise date and the exercise price.

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

	Weighted-Average

	Shares	Grant-Date Fair Value
Unvested at January 31, 2016	2,495,488	$ 47.04
Granted	25,504	43.64
Vested	(464,699)	35.56
Forfeited	(11,703)	46.10
Unvested at July 31, 2016	2,044,590	$ 48.03

As of July 31, 2016, the aggregate intrinsic value of unvested restricted stock was $118.5 million.

11. Net Income Per Ordinary Share

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
	(in thousands, except share and per share data)			
Numerator:				
Net income	$8,632	$23,097	$10,415	$41,951
Less: amount allocable to unvested early exercised options	—	—	—	—
Net income allocable to ordinary shareholders - basic	$8,632	$23,097	$10,415	$41,951
Undistributed earnings reallocated to ordinary shareholders	—	—	—	—
Net income allocable to ordinary shareholders - diluted	$8,632	$23,097	$10,415	$41,951
Denominator:				
Weighted-average ordinary shares outstanding	32,557,398	31,515,446	32,492,723	31,307,292
Less: weighted-average unvested early exercised options subject to repurchase	—	—	—	(56)
Weighted-average ordinary shares - basic	32,557,398	31,515,446	32,492,723	31,307,236
Effect of potentially dilutive securities:				
Employee stock options	1,074,331	1,351,924	1,062,310	1,374,810
Restricted stock and restricted stock units	530,279	1,028,899	498,128	995,092
Employee stock purchase plan	13,458	7,953	9,942	11,101
Weighted-average ordinary shares - diluted	34,175,466	33,904,222	34,063,103	33,688,239
Net income per ordinary share:				
Basic	$0.27	$0.73	$0.32	$1.34
Diluted	$0.25	$0.68	$0.31	$1.25

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Options to purchase ordinary shares	471,534	13,081	476,116	42,257
Restricted stock and restricted stock units	893,341	93,002	1,047,630	46,501
Employee stock purchase plan	—	—	17,191	6,714
Early exercised options subject to repurchase	—	—	—	56
	1,364,875	106,083	1,540,937	95,528

12. Income Taxes

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
	(in thousands)			
Income before income taxes	$9,433	$25,048	$10,808	$45,400
Provision for income taxes	801	1,951	393	3,449
Effective tax rate	8.5 %	7.8 %	3.6 %	7.6 %

The increase in the effective tax rate for the three months ended July 31, 2016 compared to the same period of last fiscal year was primarily due to an increase in non-deductible stock-based compensation and the change in the mix of earnings in various geographic jurisdictions between the two periods. The decrease in the effective tax rate for the six months ended July 31, 2016 was primarily due to an approximately $34.6 million decrease in income before income tax as compared to the same period of last fiscal year, and a $1.1 million increase in discrete tax benefits recorded for the six months ended July 31, 2016. The increase in discrete tax benefits recorded was largely related to a change in the U.S. federal tax rate at which the Company’s deferred taxes are expected to reverse and tax benefits from excess stock-based compensation deductions following the Company’s early adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, in the first quarter of fiscal year 2017.

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

The Company is subject to ongoing examinations of its tax returns by the Internal Revenue Service and other tax authorities in various jurisdictions. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. These assessments can require considerable estimates and judgments. As of July 31, 2016, the gross amount of unrecognized tax benefits was approximately $33.6 million. If the estimates of income tax liabilities prove to be less than the ultimate assessment, then a further charge to expense could be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities could result in tax benefits being recognized in the period in which the Company determines the liabilities are no longer necessary. The Company does not anticipate significant changes to its uncertain tax positions during the next twelve months.

13. Commitments and Contingencies

The Company leases its principal facilities and time-based software licenses under operating lease agreements. Net operating lease expenses for the three months ended July 31, 2016 and 2015 were approximately $1.9 million and $1.7 million, respectively. Net operating lease expenses for the six months ended July 31, 2016 and 2015 were approximately $3.6 million, respectively. Future annual minimum payments under these operating leases with initial lease terms in excess of one year are as follows:

Fiscal Year	As of July 31, 2016 (in thousands)
2017	$ 3,533
2018	2,662
2019	1,955
2020	1,531
2021	515
Total future annual minimum lease payments	$ 10,196

Contract Manufacturer Commitments

The Company's components and products are procured and built by independent contract manufacturers based on sales forecasts. These forecasts include estimates of future demand, historical trends, analysis of sales and marketing activities, and adjustment of overall market conditions. The Company regularly issues purchase orders to independent contract manufacturers which are cancelable only upon the agreement between the Company and the third-party manufacturers. As of July 31, 2016 and January 31, 2016, total manufacturing purchase commitments were approximately $31.0 million and $19.7 million, respectively, as a result of seasonal fluctuations.

Indemnification

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

14. Segment Reporting

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

Geographic Revenue

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
	(in thousands)			
Hong Kong	$56,485	$78,628	$104,890	$144,318
Europe	3,282	1,513	8,634	3,703
United States	2,327	1,360	4,174	2,566
Asia Pacific	1,953	832	3,236	1,316
North America other than United States	1,095	1,860	1,365	3,303
Total revenue	$65,142	$84,193	$122,299	$155,206

As of July 31, 2016, substantially all of the Company’s property and equipment, net were located in the United States and Asia Pacific region with approximate net amount of $1.6 million and $1.5 million, respectively.

Major Customers

The customers representing 10% or more of revenue and accounts receivable were Wintech, the Company’s logistics provider, and Chicony, a direct ODM customer, which combined accounted for approximately 84% and 91% of total revenue for the three months ended July 31, 2016 and 2015, respectively. The only customer representing 10% or more of revenue and accounts receivable for the six months ended July 31, 2016 was Wintech, which accounted for approximately 73% of total revenue. The customers representing 10% or more of revenue and accounts receivable for the six months ended July 31, 2015 were Wintech and Chicony, which combined accounted for approximately 91% of total revenue. Accounts receivable with these two customers combined accounted for approximately $28.2 million and

$32.5 million as of July 31, 2016 and January 31, 2016, respectively.

15. Related-Party Transactions

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

The Company leases software licenses with Cadence Design Systems, Inc. ("Cadence"). A member of the Company's Board of Directors is also the Chief Executive Officer, President and a Director of Cadence. As of July 31, 2016, the Company committed to pay an aggregate amount of $1.6 million for these licenses through January 2017. The Company paid $0.7 million and $0.6 million under these agreements for the three months ended July 31, 2016 and 2015, respectively. The Company paid $1.3 million and $1.4 million under these agreements for the six months ended July 31, 2016 and 2015, respectively. License expenses related to these agreements included in research and development expense were approximately $0.7 million for the three months ended July 31, 2016 and 2015, respectively. License expenses related to these agreements included in research and development expense were approximately $1.4 million for the six months ended July 31, 2016 and 2015, respectively.

In addition to the related party transactions noted above, the Company recognized revenue from sales to Wintech, the Company's logistics provider. Wintech, along with an affiliate, owned approximately 4.6% of the Company's voting stock as of January 31, 2013, but has sold such stock and is no longer a significant shareholder of the Company as of July 31, 2016 and January 31, 2016, respectively. The Company recognized revenue from sales to Wintech of approximately $46.8 million and $59.8 million for the three months ended July 31, 2016 and 2015, respectively. The Company recognized revenue from sales to Wintech of approximately $88.9 million and $105.1 million for the six months ended July 31, 2016 and 2015, respectively. As of July 31, 2016 and January 31, 2016, the Company had receivables from Wintech of approximately $20.4 million and $20.6 million, respectively.

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

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

This Quarterly Report on Form 10-Q, including this "Management's Discussion and Analysis of Financial Condition and Results of Operations", includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words "would," "could," "will," "may," "expect," "believe," "shou "anticipate," "outlook," "if," "future," "intend," "plan," "estimate," "predict," "potential," "target," "seek," "project," "forecast similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. Such statements include, but are not limited to, statements concerning our market opportunity, our ability to develop new solutions, our future financial and operating performance, sales and marketing strategy, investment strategy, research and development, customer and supplier relationships and inventory levels, industry trends, our cash needs and capital requirements, expectations about seasonality, economic conditions, taxes, the availability of third-party components and operating expenses. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Quarterly Report on Form 10-Q. These factors include, but are not limited to, the risks described under Item 1A of Part II — "Risk Factors," Item 2 of Part I — "Management's Discussion and Analysis of Financial Condition and Results of Operations," elsewhere in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the SEC. We make these forward-looking statements based upon information available on the date of this Quarterly Report on Form 10-Q, and we have no obligation (and expressly disclaim any such obligation) to update or alter any forward-looking statements, whether as a result of new information or otherwise except as otherwise required by securities regulations.

Overview

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

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

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

Financial Highlights and Trends

- We recorded revenue of $65.1 million and $122.3 million for the three and six months ended July 31, 2016, respectively. This represented decreases of 22.6% and 21.2% for the three and six months ended July 31, 2016, respectively, as compared to the same periods in fiscal year 2016. The decreases were primarily due to significant revenue decline in the wearable sports camera market from a major customer. The decreased revenue from the wearable sports camera market was partially offset by strong growth in the UAV and home security and monitoring markets. In the professional IP security market, we experienced a decline in revenues in the first half of fiscal year 2017, predominantly from customers located in the China region, due to continuing macroeconomic weakness. In the automotive aftermarket, which is dominated by demand from Asia, revenue was down moderately in the first half of fiscal year 2017 primarily due to slowing revenues in China. For the three and six months ended July 31, 2016, the infrastructure market was flat sequentially due to continued weak market conditions in the United States and Europe as system manufacturers continue to delay investment in network upgrades to the new H.265 video compression technology.
- We experienced a moderate adverse impact to our business for the three months ended July 31, 2016 due to the disruption in supply of image sensors from Sony Corporation to our customers resulting from the damage to its production facility caused by the April 2016 earthquake in Kumamoto, Japan. This disruption in image sensor supply impacts our customers' ability to build or launch camera devices and, as a result, impacts the timing and scope of demand for our SoCs. We expect the adverse impact will continue into the fiscal quarter ended October 31, 2016 at similar levels to the quarter ended July 31, 2016.
- We recorded operating income of $9.3 million and $10.6 million for the three and six months ended July 31, 2016, respectively, as compared to $24.9 million and $45.2 million for the three and six months ended July 31, 2015, respectively. The decrease in the first half of fiscal year 2017 was primarily due to decreased revenue, as well as increased research and development costs as a result of timing and number of chips in development.
- We generated cash flows from operating activities of $38.1 million for the six months ended July 31, 2016, as compared to $57.2 million for the six months ended July 31, 2015. The decreased cash flows from operating activities were primarily due to decreased net income as a result of decreased revenue, adjusted for increased non-cash stock-based compensation. The decrease also was attributable to decreased income tax payable as a result of decreased income before income taxes and decreased deferred revenue associated with the timing of inventory shipments by our logistics providers. The decrease was partially offset by increased cash receipt associated with the timing of payments from customers and decreased inventory purchases associated with a decrease in revenue.
- On May 31, 2016, our Board of Directors authorized the repurchase of up to $75.0 million of our ordinary shares over a six-month period. Repurchases may be made from time-to-time through open market purchases or through privately negotiated transactions subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate us to acquire any particular amount of ordinary shares, and it may be suspended at any time at our discretion. The repurchase program is funded using our working capital and any repurchased shares are recorded as authorized but unissued shares and available for general corporate purposes. As of July 31, 2016, we had repurchased a total of 405,089 shares for approximately $20.2 million in cash.

Factors Affecting Our Performance

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

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

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

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

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

Ability to Capitalize on Connectivity Trend. Mobile connected devices are ubiquitous today and play an increasingly prominent role in consumers' lives. The constant connectivity provided by these devices has created a demand for connected electronic peripherals such as video and image capture devices. Our ability to capitalize on these trends by supporting our end customers in the development of connected peripherals that seamlessly cooperate with other connected devices and allow consumers to distribute and share video and images with online media platforms is critical for our success. We have added wireless communication functionality into our solutions for wearable, IP security, UAV and automotive aftermarket cameras. The combination of our compression technology with wireless connectivity enables wireless video streaming and uploading of videos and images to the Internet. Our solutions enable IP security camera systems to stream video content to either cloud infrastructure or connected mobile devices, and our solutions for wearable and UAV cameras allow consumers to quickly stream or upload video and images to social media platforms.

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

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

Results of Operations

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
	(dollars in thousands)			
Revenue	$65,142	$84,193	$122,299	$155,206
Cost of revenue	21,672	29,345	42,122	54,440
Gross profit	43,470	54,848	80,177	100,766
Operating expenses:				
Research and development	23,643	20,840	48,109	37,423
Selling, general and administrative	10,565	9,087	21,458	18,097
Total operating expenses	34,208	29,927	69,567	55,520
Income from operations	9,262	24,921	10,610	45,246
Other income	171	127	198	154
Income before income taxes	9,433	25,048	10,808	45,400
Provision for income taxes	801	1,951	393	3,449
Net income	$8,632	$23,097	$10,415	$41,951

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Revenue	100%	100 %	100%	100 %
Cost of revenue	33	35	34	35
Gross profit	67	65	66	65
Operating expenses:				
Research and development	36			