

ENVIVIO INC
Form 10-K
April 25, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

- ☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended January 31, 2014**
- ☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File No. 001-35205**

ENVIVIO, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

3663
(Primary Standard Industrial

94-3353255
(I.R.S. Employer

incorporation or organization)	Classification Code Number)	Identification Number)
	400 Oyster Point Boulevard, Suite 325	
	South San Francisco, California 94080	
	(650) 243-2700	

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

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

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

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** ☒ **No** ☐

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

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

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

Based on the closing sale price of the Common Stock on the NASDAQ Global Market on July 31, 2013, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately \$57,669,186.

The number of shares of the registrant's Common Stock, \$.001 par value, outstanding on April 15, 2014 was 27,151,150.

Table of Contents**Table of Contents**

	Page
PART I	
ITEM 1 <u>BUSINESS</u>	2
ITEM 1A <u>RISK FACTORS</u>	12
ITEM 1B <u>UNRESOLVED STAFF COMMENTS</u>	37
ITEM 2 <u>PROPERTIES</u>	37
ITEM 3 <u>LEGAL PROCEEDINGS</u>	37
ITEM 4 <u>MINE SAFETY DISCLOSURE</u>	38
PART II	
ITEM 5 <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	39
ITEM 6 <u>SELECTED FINANCIAL DATA</u>	41
ITEM 7 <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	43
ITEM 7A <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	59
ITEM 8 <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	61
ITEM 9 <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	90
ITEM 9A <u>CONTROLS AND PROCEDURES</u>	90
ITEM 9B <u>OTHER INFORMATION</u>	90
PART III	
ITEM 10 <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	91
ITEM 11 <u>EXECUTIVE COMPENSATION</u>	91
ITEM 12 <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	91
ITEM 13 <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	91
ITEM 14 <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	91
PART IV	
ITEM 15 <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	92
<u>SIGNATURES</u>	93
<u>EXHIBIT INDEX</u>	94

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

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

the impact of industry consolidation;

overall demand for communications services and consumer acceptance of new video and data services;

competitive pressures, including pricing pressures;

access to financing;

general economic conditions;

annual capital spending budget cycles of each of the industries that our customers serve;

federal, local and foreign government regulation of telecommunications and television broadcasting;

evolving industry standards and network architectures;

discretionary consumer spending patterns;

delays in the evaluation of new services, standards and system architectures by many operators;

emphasis by operators on generating revenue from existing customers, rather than from new customers through new construction or network upgrades;

a reduction in the amount of capital available to finance projects;

proposed and completed business combinations and divestitures by our customers and the length of regulatory review thereof; and

bankruptcies and financial restructuring of customers.

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

Table of Contents

PART I

**ITEM 1. BUSINESS
OVERVIEW**

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

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

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

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

INDUSTRY BACKGROUND

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

possible for service providers and content providers to deliver video content to a broad array of devices over mobile and broadband networks. This new era of digital TV technology enables service providers and content providers to deliver, and consumers to enjoy, a high-quality video experience anytime, anywhere.

Table of Contents

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

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

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

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

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

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

KEY VIDEO MARKET SEGMENTS

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

Digital Pay-TV (Managed Subscription Video and IPTV) Digital Pay-TV is operated over a managed network and is characterized by a high quality of consumer experience and high standards of security, interactivity and reliability.

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

Over-the-Top Video As more consumers obtain access to broadband connectivity around the world, it is now possible for broadcasters and content publishers, owners, aggregators and licensees to target consumers directly over the open

Internet infrastructure with an acceptable video and service quality. OTT can be delivered through any broadband network, such as cable, DSL, 3G and Wi-Fi. Recently, content providers, such as Hulu and Netflix, have gained broad consumer adoption due to these trends. Many broadcasters and content owners, such as BBC, CBS and ESPN, and sports leagues, such as the NBA and MLB, have each created a very significant video presence online.

Table of Contents

SERVICE PROVIDER AND CONTENT PROVIDER TRENDS

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

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

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

LIMITATIONS OF EXISTING TECHNOLOGIES

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

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

Table of Contents

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

THE ENVIVIO SOLUTION

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

Provides a high-quality video experience We have designed a solution that enables the delivery of video to consumers to traditional TV and multiple screens while maintaining a high-quality video experience, delivered using MPEG-2, MPEG-4 AVC (H.264), HEVC (H.265) and advanced adaptive streaming technologies. Irrespective of whether video is delivered across mobile networks, managed video networks or OTT, our solution enhances the consumer's experience by reducing video artifacts, including re-buffering, blockiness and cut screen. We believe the combination of our technological sophistication and the flexibility of our solution enables both service providers and content providers to deliver a high quality of experience to consumers who demand TV without Boundaries.

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

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

Ingests and delivers video in a broad array of formats Our software-based solution is compatible with all major video formats across all major codecs, resolutions, frame rates, bitrates and transport profiles. We accommodate the transport of video through different networks, such as broadband and mobile networks, or traditional cable and satellite broadcast networks. In

addition, our converged video delivery solution transcodes content into a wide array of professional video formats, such as 3GPP, Adobe HTTP Dynamic Streaming, Apple HTTP Live Streaming, Microsoft Smooth Streaming and MPEG-DASH.

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

Table of Contents

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

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

OUR TECHNOLOGY AND PRODUCTS

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

CORE TECHNOLOGIES

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

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

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

PRODUCTS

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

Table of Contents

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

Envivio Muse Muse is our multi-screen software architecture designed for live or file-based video transcoding and distribution to multiple devices. It is designed to significantly improve efficiency and operations compared to architectures that require separate broadcast and multi-screen headend equipment. We have designed our Muse compression software to optimize live and on-demand workflows for video delivery commensurate with the characteristics of both legacy and current network infrastructures by encoding video input in multiple codecs, resolutions, bit rates and formats. Muse utilizes pre-processing techniques to clean and optimize video sources before encoding, and is designed to perform high-quality compression and content encryption to secure high-value content from the headend to the edge device that meets the requirements of content owners for quality, content protection and digital rights management. Muse is available on industry-standard blade servers or Envivio appliances and enables service providers running large-scale operations to leverage their existing datacenter infrastructure to deliver enhanced video services.

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

Envivio appliances Envivio offers a software-based approach to video compression and media processing, combining our Muse software with the power and performance capabilities of the latest generation Intel-based hardware platforms. Our standards-based appliances deliver video to mobile, PC and TV from a single platform. Various models of appliances are available.

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

SERVICES

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

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

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

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

Table of Contents

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

RESEARCH AND DEVELOPMENT

Our investment in research and development is critical to our business as we seek to develop new video processing and delivery solutions and support emerging technology. Our research and development lab is located in the metropolitan area of Rennes, France, where we believe we have ample access to talented video engineers and can benefit from a cost-effective, stable workforce. We have assembled a team of 60 engineers, substantially all of whom are software engineers, as of January 31, 2014, with expertise in various fields, including video compression, IP video protocols and user interface. Our success in developing new products and solutions depends on a variety of factors, including market demand for new products, product performance, adequate manufacturing processes and effective sales and marketing efforts. Research and development expenses net of French research tax credits totaled \$9.1 million, \$7.6 million and \$6.7 million for fiscal years 2014, 2013 and 2012, respectively.

SALES AND MARKETING

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

Channel sales As part of our sales efforts, we have developed relationships with channel partners, primarily with large Tier-1 systems integrators, including telecommunications equipment manufacturers. As of January 31, 2014, we had over 20 active channel partnerships, including relationships with large telecommunications equipment providers throughout the world. We utilize our channel partners to assist with our sales to Tier-1 customers and to manage our sales into Tier-2 and Tier-3 customers. These channel partners often act as a general contractor for network deployments and will use our products to fulfill the video infrastructure elements of a deployment. We may seek to selectively add distribution partners, particularly in regions outside North America, to complement or expand our business.

Direct sales Our direct sales team sells our products and solutions to service providers and content providers globally. As of January 31, 2014, we had a direct sales force consisting of 23 employees worldwide. Our direct sales force has historically been focused on cultivating and selling into large service providers in major international markets. Even when we are partnering with a systems integrator or other channel partner, our internal sales force directly markets to prospective end-customers and carefully articulates our product benefits as a key component of an end-to-end solution. We maintain meaningful relationships with large service providers and intend to grow our direct sales to become a larger portion of our total sales in the future.

Our marketing efforts are focused on building our brand awareness and qualifying sales leads for new and existing customers. We employ a team of marketing professionals and utilize our network of channel partners for additional marketing efforts. As of January 31, 2014, we had 15 marketing professionals globally. Our marketing team is responsible for branding, product marketing and managing our channel marketing programs. Our marketing team actively contributes to industry-related standards organizations, markets the Envivio brand at industry conferences and contributes to publications and other services to continuously promote our brand and products.

CUSTOMERS AND CHANNEL PARTNERS

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

Table of Contents

broadcasters and other content providers. An end-customer deployment of our solution can involve a varying amount of hardware and software depending on the size and requirements of the network. As of January 31, 2014, we had more than 300 end-customers in over 50 countries. Our customers include the top global service providers, including nine of the top ten global broadband service providers, which include three of the top four U.S. cable service providers, and eight of the top ten global mobile service providers.

In the 2014 fiscal year, one of our customers directly accounted for 18% of our total revenue. In the 2013 fiscal year, none of our customers accounted for more than 10% of our total revenue. In the 2012 fiscal year, one of our customers directly accounted for 19% of our total revenue.

We derived 35%, 13% and 29% of our revenue from sales to customers located in the United States in the fiscal years 2014, 2013 and 2012, respectively, and 65%, 87% and 71% of our revenue from international sales in the fiscal years 2014, 2013 and 2012, respectively. We derived 24%, 28% and 21% of our revenue from sales to customers located in the Asia Pacific region in the fiscal years 2014, 2013 and 2012, respectively. We derived 36%, 51% and 40% of our revenue from sales to customers located in EMEA region in the fiscal years 2014, 2013 and 2012, respectively.

MANUFACTURING, PRODUCTION AND SUPPLIERS

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

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

COMPETITION

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

Technological leadership;

Maintaining a high quality of video across a wide array of networks and devices including mobile, OTT and IPTV;

Product performance, price, reliability and total cost of ownership;

Domain expertise in video and communications, as well as close relationships with service providers;

Interoperability with existing headend products and network infrastructure;

Table of Contents

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

Comprehensive customer support.

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

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

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

INTELLECTUAL PROPERTY

Our intellectual property is a key element to the success of our business. We rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary confidentiality and other contractual protections. As of January 31, 2014, we had eight issued U.S. patents and five issued European patents. Our patents will expire on various dates from 2022 to 2028. In particular, we have patented key technologies related to the implementation of our Envivio appliances. The key patents that protect the optimal implementation of the MPEG-4 algorithms on a generic multi-core computer platform include the following patents that were all issued in the United States: (i) our patent covering image coding or decoding device and method involving multithreading of processing operations over a plurality of processors, and corresponding computer program and synchronization signal, which expires in 2024; (ii) our patent covering image encoding or decoding method and device, with parallelization of processing over several processors and coprocessors, and corresponding computer-readable storage medium, which expires in 2028; (iii) our patent covering multiple-reference motion estimation method and device, coding method and device, computer program products and corresponding storage means, which expires in 2025; and (iv) our patent covering method and device for detecting transitions in a video sequence, method and device for coding, computer program products and corresponding storage means, which expires in 2025. In addition, we have four patent applications pending in the United States and one patent application pending in Europe. We have rights to 12 patents licensed to us by France Telecom. We own the registered trademark for Envivio in the United States, Hong Kong and the European Community and have protection for the Envivio trademark through the Madrid Protocol in China, France, Japan and South Korea. We also have one trademark application pending with the U.S. Patent and Trademark office.

Our core intellectual property is our video processing software platform. Our video processing technology is not materially dependent on any third-party technology. We protect our intellectual property primarily with patents and by generally requiring our employees and independent contractors with knowledge of our proprietary

Table of Contents

information to execute nondisclosure and assignment of intellectual property agreements. However, the steps we have taken to protect our technology may not be successful in preventing misuse by unauthorized parties in the future. In addition, if any of our products, patents or patent applications is found to conflict with any patents held by third parties, we could be prevented from selling our products, our patents may be declared invalid or our patent applications may not result in issued patents.

EMPLOYEES

As of January 31, 2014, our total headcount was 163 full-time employees. We had 60 research and development employees, 79 sales and marketing employees and 24 employees in general administration and human resources. As of January 31, 2014, our headcount was 46 employees in the United States, 96 in France, 11 in China and 10 throughout several other countries around the world.

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

FACILITIES

Our corporate headquarters is located at 400 Oyster Point Boulevard, Suite 325, South San Francisco, California in an office consisting of approximately 10,329 square feet. The lease for this office expires in December 2015. We also have an office in Denver, Colorado consisting of approximately 2,806 square feet. The lease for the Denver office expires in April 2017. In addition, we have a facility in the metropolitan area of Rennes, France consisting of approximately 31,000 square feet used primarily for research and development, sales and support. This lease expires August 31, 2021. We also have a representative office in Beijing, China. Additional sales and support functions are located in regional offices in Tokyo, Japan and Singapore. We believe that our current facilities are suitable and adequate to meet our current needs. We plan to add new facilities or expand our existing facilities as necessary. We do not foresee any issues finding available space to accommodate our future expansion plans.

INSURANCE

From time to time, our products may malfunction or have undetected errors. We have purchased insurance coverage to protect against specific claims related to the use of our products. We believe our current insurance coverage is adequate to protect against claims resulting from federal, state or local laws as well as to protect against shareholder lawsuits and other legal claims that may arise during the ordinary course of business.

LEGAL PROCEEDINGS

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

now pending, and the Thomas case was voluntarily dismissed without prejudice. On February 28, 2014, a complaint was filed in the United States District Court for the Northern District of California entitled Gary Silverberg v. Envivio, Inc. et al., Civil No. 14-cv-00933-PJH. The complaint purports to be on behalf of a class of purchasers of our securities between

Table of Contents

April 25, 2012 and September 7, 2012. It names as defendants the Company and our chief executive officer and chief financial officer, and seeks unspecified damages and other relief for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. We are, at this time, unable to assess whether any loss or adverse effect on our financial condition is probable or remote or to estimate the range of potential loss, if any.

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

ITEM 1A. RISK FACTORS

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

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

A substantial majority of our historical revenue has been derived from sales to telecommunications, cable and satellite service providers, as well as, more recently, 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 a cyclical manner in connection with the construction and upgrade of their architecture and systems, demand for our products depends on the magnitude and timing of capital spending by our customers. The capital spending of our target telecommunications, cable and satellite service provider customers have, in the past, slowed and caused a significant decline in our business levels and financial results. If this slowdown continues, our operating results and financial condition will continue to be negatively impacted in a significant manner. We currently have limited visibility into the spending patterns of our large target customers and cannot predict when these conditions will improve.

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

the impact of industry consolidation;

the overall demand for communications services and consumer acceptance of new video and data services;

competitive pressures, including pricing pressures;

access to financing;

general economic conditions;

the 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.

Table of Contents

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

delays in the evaluation of new services, standards and system architectures by many operators;

emphasis by operators on generating revenue from existing customers, rather than from new customers through new construction or network upgrades;

a reduction in the amount of capital available to finance projects;

proposed and completed business combinations and divestitures by our customers and the length of regulatory review thereof; and

bankruptcies and financial restructuring of customers.

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

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

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

Excluding our fiscal year 2012, when we recorded net income of \$138,000, we have incurred significant losses since our inception, including net losses of \$12.2 million and \$16.9 million during fiscal 2014 and 2013, respectively. As of January 31, 2014, we had an accumulated deficit of \$108.0 million. These losses have resulted principally from lower sales compared to costs incurred in our research and development programs and sales and marketing programs. We may incur operating losses for at least the foreseeable future as a result of the expenses associated with the continued development and expansion of our business. Additionally, now that we are a public company, our general and administrative expenses have begun to 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 sales prices of our products, the costs of our products, and the extent to which we invest in our sales and marketing, research and development, and general and administrative resources. If we are unable to attain profitability, our business would be harmed and our stock price could decline.

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

We generate a significant portion of our revenue through sales to channel partners, principally to assist us with the integration of our software-based solution with other third-party products to provide a tailored solution for the end-customer. Our aggregate revenue through sales to channel partners was \$19.7 million, \$26.8 million and \$26.8 million during the fiscal years 2014, 2013 and 2012, respectively. We expect that sales to channel partners will continue to generate a significant percentage of our revenue in the future. Accordingly, our future success is highly dependent upon establishing and maintaining successful relationships with a variety of channel partners.

We do not have long-term contracts or minimum purchase commitments with any of our channel partners, and our contracts with these parties do not prohibit them from purchasing or offering products or services that

Table of Contents

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

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

The timing of our sales is difficult to predict. Our sales efforts involve educating our customers about the use and benefits of our software-based solution, including the technical capabilities of our products and the potential cost savings achievable by organizations deploying our software-based solution. Customers, particularly in the cable, satellite and telecommunications industries, typically undertake a significant evaluation process, which frequently involves not only our products but also those of our competitors and can result in a lengthy sales cycle. We spend substantial time, effort and money on our sales efforts without any assurance that such efforts will produce any sales. In addition, purchases of our products are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. The length of a customer's deployment period may directly affect the timing of any subsequent purchase of additional products by that customer. In addition, once we deliver our software-based solution to our customers, we may not be able to recognize revenue for the sale until the customer completes its acceptance procedures. If sales expected from a specific customer for a particular quarter are not realized or completed in that quarter or at all, our operating results, financial condition and cash flows could be materially and adversely affected.

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

Our operating results have fluctuated in the past and are likely to continue to fluctuate in the future, on an annual and a quarterly basis, as a result of several factors, many of which are outside of our control. For example, our revenue for the year ended January 31, 2013 was \$39.1 million compared to \$50.6 million for the year ended January 31, 2012 due to a general slowdown in spending by our service provider customers, in particular in North America and Western Europe, as well as challenges in our sales execution in North America.

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

- the level and timing of capital spending of our customers, both in the United States and in foreign markets, due in part to their access to financing, including credit, for capital spending;

- economic and financial conditions specific to the telecommunications, cable and satellite service providers, as well as broadcast, media and Internet content providers;

changes in market demand for our products or our customers' services or products;

the timing and amount of orders, especially from significant customers;

increases and decreases in the number and size of the relatively large transactions, and projects in which we are involved, from quarter to quarter;

Table of Contents

the timing of revenue recognition with respect to certain of our sales arrangements, which may include multiple deliverables and the timing of customer acceptance;

the impact of seasonality in our business, particularly in the first quarter of each fiscal year;

the timing of completion of our customers' projects;

competitive market conditions, including pricing actions by our competitors;

the level and mix of our international revenue;

new product introductions by our competitors or by us;

changes in domestic and international regulatory environments affecting our business;

market acceptance of our new or existing products;

the impact of new revenue recognition accounting standards;

customers' access to licensed content;

the evaluation of new services, new standards and system architectures by our customers;

the cost and availability to us of components and subassemblies;

the mix of our customer base, by industry, 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;