# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, DC 20549**

# FORM 10-Q

**(Mark One)**

☒ **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**

☐ **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- 36069**

# VIOLIN MEMORY, INC.
**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **Delaware**<br>**(State or Other Jurisdiction of Incorporation or Organization)** | **20-3940944**<br>**(I.R.S. Employer Identification No.)** |
| **4555 Great America Parkway**<br>**Santa Clara, California**<br>**(Address of Principal Executive Offices)** | **95054**<br>**(Zip Code)** |

**(650) 396-1500**
**(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 ☒ No ☐

Indicate by checkmark 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 time period that the registrant was required to submit and post such files). Yes ☒ 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ (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 ☒

As of August 31, 2016, 25,178,316 shares of the registrant's common stock were outstanding.

## Table of Contents


| | |
|---|---|
| PART I. FINANCIAL INFORMATION | 2 |
| Item 1. Financial Statements (Unaudited) | 2 |
| Condensed Consolidated Balance Sheets | 2 |
| Condensed Consolidated Statements of Operations | 3 |
| Condensed Consolidated Statements of Comprehensive Loss | 4 |
| Condensed Consolidated Statements of Cash Flows | 5 |
| Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 19 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 29 |
| Item 4. Controls and Procedures | 30 |
| PART II OTHER INFORMATION | 31 |
| ITEM 1. LEGAL PROCEEDINGS | 31 |
| ITEM 1A. RISK FACTORS | 31 |
| ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | 52 |
| ITEM 3. DEFAULTS UPON SENIOR SECURITIES | 52 |
| ITEM 4. MINE SAFETY DISCLOSURES | 52 |
| ITEM 5. OTHER INFORMATION | 52 |
| ITEM 6. EXHIBITS | 53 |
| SIGNATURES | 54 |
| EXHIBIT INDEX | 55 |

Table of Contents

**Part I. FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

**VIOLIN MEMORY, INC.**
**Condensed Consolidated Balance Sheets**
**(In thousands, except per share amounts)**

| | July 31, 2016 | January 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 19,137 | $ 23,921 |
| Restricted cash | 5,000 | 10,000 |
| Short-term investments | 12,290 | 42,058 |
| Accounts receivable, net | 2,567 | 5,308 |
| Inventory | 9,794 | 12,001 |
| Other current assets | 1,417 | 4,170 |
| Total current assets | 50,205 | 97,458 |
| Property and equipment, net | 8,545 | 9,322 |
| Other assets | 5,460 | 6,067 |
| | $ 64,210 | $ 112,847 |
| **Liabilities and Stockholders' Deficit** | | |
| Current liabilities: | | |
| Line of credit | $ 7,073 | $ 13,398 |
| Accounts payable | 2,162 | 3,747 |
| Accrued liabilities | 11,239 | 13,570 |
| Deferred revenue | 11,118 | 13,006 |
| Total current liabilities | 31,592 | 43,721 |
| Convertible senior notes, net | 118,089 | 117,464 |
| Deferred revenue | 4,771 | 6,239 |
| Other long-term liabilities | — | 275 |
| Total liabilities | 154,452 | 167,699 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' deficit: | | |
| Preferred stock, $0.0001 par value, 10,000 shares authorized as of July 31, 2016; no shares issued and outstanding as of July 31, 2016 and January 31, 2016 | — | — |
| Common stock, $0.0001 par value, 250,000 shares authorized as of July 31, 2016; 25,165 and 24,660 shares issued and outstanding as of July 31, 2016 and January 31, 2016, respectively | 3 | 3 |
| Additional paid-in capital | 512,533 | 505,281 |
| Accumulated other comprehensive income | 549 | 456 |
| Accumulated deficit | (603,327) | (560,592) |
| Total stockholders' deficit | (90,242) | (54,852) |
| | $ 64,210 | $ 112,847 |

*See accompanying notes to the condensed consolidated financial statements.*

**VIOLIN MEMORY, INC.**
**Condensed Consolidated Statements of Operations**
**(In thousands, except per share data)**

| | Three Months Ended July 31, 2016 | Three Months Ended July 31, 2015 | Six Months Ended July 31, 2016 | Six Months Ended July 31, 2015 |
|---|---|---|---|---|
| | (Unaudited) | | | |
| Revenue: | | | | |
| Product revenue | $ 2,063 | $ 9,847 | $ 6,220 | $ 16,670 |
| Service revenue | 5,440 | 5,456 | 10,996 | 10,734 |
| Total revenue | 7,503 | 15,303 | 17,216 | 27,404 |
| Cost of revenue: | | | | |
| Cost of product revenue(1) | 4,764 | 5,872 | 7,886 | 10,102 |
| Cost of service revenue (1) | 2,533 | 2,831 | 5,247 | 5,552 |
| Total cost of revenue | 7,297 | 8,703 | 13,133 | 15,654 |
| Gross profit | 206 | 6,600 | 4,083 | 11,750 |
| Operating expenses: | | | | |
| Sales and marketing (1) | 7,516 | 13,655 | 16,548 | 27,095 |
| Research and development (1) | 8,637 | 10,580 | 18,831 | 22,106 |
| General and administrative (1) | 3,236 | 4,708 | 6,648 | 9,859 |
| Restructuring and other charges (recoveries) | (265) | — | 1,470 | — |
| Total operating expenses | 19,124 | 28,943 | 43,497 | 59,060 |
| Loss from operations | (18,918) | (22,343) | (39,414) | (47,310) |
| Other expense, net | (114) | (303) | (308) | (47) |
| Interest and other financing expense | (1,514) | (1,694) | (2,973) | (3,444) |
| Loss before income taxes | (20,546) | (24,340) | (42,695) | (50,801) |
| Income taxes | 30 | 42 | 40 | 83 |
| Net loss | $ (20,576) | $ (24,382) | $ (42,735) | $ (50,884) |
| Net loss per share of common stock, basic and diluted | $ (0.82) | $ (1.01) | $ (1.71) | $ (2.12) |
| Shares used in computing net loss per share of common stock, basic and diluted | 25,061 | 24,147 | 24,919 | 24,011 |
| (1) Includes stock-based compensation expense as follows: | | | | |
| Cost of product revenue | $ 28 | $ 270 | $ 34 | $ 521 |
| Cost of service revenue | 153 | 334 | 354 | 669 |
| Sales and marketing | 661 | 1,475 | 1,310 | 2,280 |
| Research and development | 1,181 | 1,977 | 3,341 | 3,955 |
| General and administrative | 1,091 | 1,902 | 2,130 | 3,794 |

*See accompanying notes to the condensed consolidated financial statements.*

Table of Contents

**VIOLIN MEMORY, INC.**
**Condensed Consolidated Statements of Comprehensive Loss**
**(In thousands)**

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | | | |
| Net loss | $ (20,576) | $ (24,382) | $ (42,735) | $ (50,884) |
| Foreign currency translation adjustments | (3) | 250 | 81 | 244 |
| Unrealized holding gain (loss) on investments, net of tax | 2 | 8 | 12 | (16) |
| Comprehensive loss | $ (20,577) | $ (24,124) | $ (42,642) | $ (50,656) |

*See accompanying notes to the condensed consolidated financial statements.*

**VIOLIN MEMORY, INC.**
**Condensed Consolidated Statements of Cash Flows**
**(In thousands)**

| | Six Months Ended July 31, 2016 | Six Months Ended July 31, 2015 |
|---|---|---|
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | $ (42,735) | $ (50,884) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 4,055 | 4,697 |
| Accretion of debt issuance costs to interest expense | 696 | 878 |
| Loss on disposal of property and equipment | 99 | — |
| Provision for excess and obsolete inventory | 2,940 | |
| Stock-based compensation | 7,165 | 11,219 |
| Changes in operating assets and liabilities, net: | | |
| Accounts receivable | 2,741 | 9,338 |
| Inventory | (1,812) | (2,496) |
| Other assets | 2,743 | 2,058 |
| Accounts payable | (1,297) | (5,597) |
| Accrued liabilities | (3,404) | (3,915) |
| Deferred revenue | (3,356) | (3,112) |
| Net cash used in operating activities | (32,165) | (37,814) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (1,242) | (3,149) |
| Decrease (increase) in restricted cash | 5,000 | (7,700) |
| Purchase of investments | — | (41,139) |
| Proceeds from maturity of investments | 29,780 | 34,915 |
| Net cash provided by (used in) investing activities | 33,538 | (17,073) |
| Cash flows from financing activities: | | |
| Proceeds from line of credit | 12,847 | 17,723 |
| Repayment of line of credit | (19,172) | (14,000) |
| Proceeds from stock plans | 87 | 955 |
| Net cash provided by (used in) financing activities | (6,238) | 4,678 |
| Effect of exchange rates on cash and cash equivalents | 81 | 228 |
| Net decrease in cash and cash equivalents | (4,784) | (49,981) |
| Cash and cash equivalents at beginning of year | 23,921 | 93,432 |
| Cash and cash equivalents at end of period | $ 19,137 | $ 43,451 |
| Supplemental disclosure of other cash flow information: | | |
| Taxes paid | $ 17 | $ 15 |
| Interest paid | 2,550 | 2,668 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Transfer/exchange of inventory to/for property and equipment | 1,878 | 184 |
| Payables outstanding related to purchases of long-term assets | 167 | 391 |

*See accompanying notes to the condensed consolidated financial statements.*

**VIOLIN MEMORY, INC.**
**Notes to Condensed Consolidated Financial Statements**

**1. Organization and Summary of Significant Accounting Policies**

***Description of Business***

Violin Memory, Inc. (the "Company") was incorporated in the State of Delaware on March 9, 2005 under the name Violin Technologies, Inc. The Company re-incorporated as Violin Memory, Inc. in the State of Delaware on April 11, 2007. The Company is a developer and supplier of persistent memory-based storage systems that are designed to bring storage performance in line with high-speed applications, servers and networks. These all-flash arrays are specifically designed at each level of the system architecture, starting with memory and optimized through the array, to leverage the inherent capabilities of flash memory. In February 2015, the Company introduced the Flash Storage Platform, a vertically integrated design of software, firmware and hardware that delivers performance, resiliency and availability at the same cost as legacy enterprise-class primary storage. The Flash Storage Platform runs the Company's Concerto OS 7, a single operating system with integrated data protection, in-line block de-duplication and compression, stretch metro cluster and LUN mirroring as well as its suite of other Enterprise Data Services. The Company sells its products through its direct sales force, resellers and other channel partners. The Company operates as a single operating segment.

***Going Concern***

The Company has incurred significant operating losses and negative cash flows from operations since its inception. As of July 31, 2016, the Company had an accumulated deficit of $603.3 million. During the year ended January 31, 2016, the Company reported a net loss of $99.1 million and negative cash flows from operations of $78.6 million. During the six months ended July 31, 2016, the Company reported a net loss of $42.7 million and negative cash flows from operations of $32.2 million. As of July 31, 2016, the Company had cash, cash equivalents and short-term investments of $31.4 million. The Company currently expects to incur net losses and negative cash flows from operations for at least the next twelve months even though it continues to restructure and reduce its expenses to be more in line with its current revenue expectations. These factors raise substantial doubt about the Company's ability to continue as a going concern. The condensed consolidated financial statements assume the Company will continue as a going concern, with realization of assets and settlement of liabilities in the normal course of business. They do not include any adjustments for the recovery and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's continuation as a going concern depends on its ability to execute its business plan, increase revenue and margins, reduce expenditures and secure additional financing. In March 2016, the Company announced a restructuring plan focused on aligning its expense structure with revenue expectations. The Company has reduced headcount from 318 at its fiscal year end to 235 as of July 31, 2016. In the second quarter, the Company initiated a plan to outsource certain non-core engineering functions to a service provider located in Eastern Europe and expects the transition to be completed by the end of this fiscal year. However, the decline in revenue over the last two quarters has reduced the impact of these reductions in operating expenses, thereby not achieving the expected reduction of quarterly cash burn rate. In addition, these restructuring activities may adversely impact the Company's ability to continue to compete effectively and hinder its efforts to increase its revenue. In the second quarter, the Company filed a shelf registration statement and is currently pursuing all options, including seeking additional financing in order to continue to support its operations.

There is no assurance that the Company will be successful in generating sufficient revenue, increasing gross margins or reducing operating costs. In addition, the Company may not be able to obtain financing. Failure to generate sufficient revenue, increase gross margins, control or reduce operating costs and to raise sufficient funds may result in an inability of the Company to continue as a going concern. Even if the Company raises additional capital, it may also be required to modify, delay or abandon some of its plans and investments, which could have a material adverse effect on the Company's business, operating results and financial condition and the Company's ability to achieve its intended business objectives.

***Basis of Presentation and Consolidation***

The accompanying condensed consolidated balance sheets and the condensed consolidated statements of operations, comprehensive loss and cash flows are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, in the opinion of management, the financial statements include all the normal and recurring adjustments that are necessary to fairly present the results of the interim periods presented. As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2016, filed with the SEC on April 6, 2016. The results of operations for the three months and six months ended July 31, 2016 are not necessarily indicative of the results to be expected for any subsequent interim period, the year ending January 31, 2017 or any other future period.

In July 2016, the Company filed a certificate of amendment to its Articles of Incorporation with the Secretary of State of the State of Delaware in order to effectuate a reverse stock split of the Company's issued and outstanding common stock, par value $0.0001 per share on a 1-for-4 basis effective July 6, 2016. The accompanying consolidated financial statements and notes thereto give retrospective effect of the reverse stock split for all periods presented.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its significant estimates, including those related to estimated selling prices for elements sold in multiple-element revenue arrangements, product warranty, determination of the fair value of stock options, carrying values of inventories, liabilities for unrecognized tax benefits and deferred income tax asset valuation allowances. The Company also uses estimates in determining the useful lives of property and equipment and intangible assets as well as in its provision for doubtful accounts. Actual results could differ from those estimates.

***Summary of Significant Accounting Policies***

The Company's significant accounting policies have been described in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2016 filed with the SEC on April 6, 2016. There have been no changes to the Company's significant accounting policies described in the Annual Report on Form 10-K that have had a material impact on the Company's condensed consolidated financial statements and related notes.

***Recent Accounting Pronouncements***

The following discusses new developments in recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company's consolidated financial statements. The developments disclosed in the Company's 2016 Annual Report on Form 10-K have all been adopted, except for the final two items listed below, which are still pending (ASU 2014-09 and ASU 2014-15).

In August 2016, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* , which addresses presentation and classification for eight specific issues in the statement of cash flows, with the objective of reducing diversity in practice. The new standard provides specific guidance for:

(1) Debt prepayment or debt extinguishment costs;

(2) Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing;

(3) Contingent consideration payments made after a business combination;

(4) Proceeds from the settlement of insurance claims;

(5) Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies,

(6) Distributions received from equity method investees;

(7) Beneficial interests in securitization transactions; and

(8) Separately identifiable cash flows and application of the predominance principle.

The required transition method will use a full retrospective approach for all periods presented with limited exceptions. The standard update is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption (of all the changes) is permitted in any interim or annual period. The adoption of this standard on July 31, 2016 did not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* , which introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new standard requires an entity to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts, in contrast to the current "incurred loss" approach, which delays recognition until it is probable a loss has been incurred. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use this new forward-looking "expected loss" model that generally will result in earlier recognition of allowances for credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as reversible allowances rather than reductions in the amortized cost of the securities. The required transition will use a modified retrospective approach that applies a cumulative-effect adjustment to retained earnings as of the beginning of the first effective reporting period, with certain exceptions. The standard update is effective for fiscal years beginning after December 15, 2019 and interim periods within those years, and early adoption is permitted beginning one year prior to this date. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,* amending the new revenue recognition guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. The update clarifies that a contract is considered complete at transition if substantially all of the revenue has been recognized under legacy GAAP. Entities may apply the modified retrospective transition approach to all contracts, not just those that are incomplete. It also clarifies how to evaluate the collectability threshold and

when an entity can recognized nonrefundable consideration received for arrangements not meeting the standard's contract criteria. A practical expedient will permit a policy election to present revenue net of certain types of taxes collected from the customer (such as sales, use, and value-added). The ASU's effective date and transition requirements are the same as those of the new revenue recognition standard ASU No, 2014-09, which the Company is currently evaluating.

In April 2016, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing* , amending the new revenue recognition guidance on accounting for licenses of Intellectual Property (IP) and identifying performance obligations. The update clarifies how an entity should evaluate the nature of its promise in granting a license of IP, which will determine whether it recognizes revenue over time or at a point in time. It also clarifies whether a promised good or service is distinct within the context of the contract and allows entities to disregard immaterial items. The ASU's effective date and transition requirements are the same as those of the new revenue recognition standard ASU No, 2014-09, which the Company is currently evaluating.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Accounting* , intended to simplify employee shared-based payment accounting. Under the new standard, entities will have an election for accounting for forfeitures of share-based payments either when the forfeitures occur or via an estimate of expected forfeitures, subject to adjustment, as is currently required. Entities will no longer record excess tax benefits and certain tax deficiencies in additional paid -in capital (APIC). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be

eliminated. The standard requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. However, the cash paid to a tax authority when shares are withheld to satisfy employee tax withholding obligations shall be classified as financing on its statement of cash flows, according to the new standard. The standard will increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The standard update is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years, and early adoption is permitted in any interim or annual period. Early adoption requires the adoption of all the amendments in the same period. Various portions of the amendments have differing transition guidance, including a modified retrospective approach (with cumulative-effect adjustment to equity as of the beginning of the first effective period), as well as full retrospective and prospective transition methods. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, *Principal Versus Agent Considerations (reporting Revenue Gross Versus Net)* , intended to clarify the principal versus agent guidance in the new revenue recognition standard. The update specifies how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle, e.g. to service transactions. The ASU's effective date and transition requirements are the same as those of the new revenue recognition standard ASU No, 2014-09, which the Company is currently evaluating.

In February 2016, the FASB issued ASU No. 2016-02, *Leases,* which amends and replaces the lease accounting guidance, requiring entities generally to recognize on the balance sheet both the operating and financing lease liabilities and corresponding right-of-use assets. The new standard will require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. The standard update is effective for fiscal years beginning after December 15, 2018 and interim periods within those years, and early adoption is permitted. The standard is to be applied using a modified retrospective approach and includes a number of optional practical expedients that entities may elect to apply. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and expects that most of its operating lease commitments will be subject to the standard update and recognized as operating lease liabilities and right-of-use assets upon the adoption.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* , intended to enhance the reporting model for financial instruments by amending certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new standard is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early application to financial statements is permitted for reporting the Fair Value change in instrument-specific credit risk if the Company elected the fair value option for its financial liabilities, otherwise, early adoption is not permitted. The standard is to be applied with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* which requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Before this new standard, there was minimal guidance in U.S. GAAP specific to going concern. Under the new standard, disclosures are required when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. The new standard applies to all companies and is effective for the annual period ending after December 15, 2016, and all annual and interim periods thereafter. The Company has determined that this standard is not likely to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* , a converged standard on revenue recognition. While the standard supersedes existing revenue recognition guidance, it closely aligns with current GAAP. Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. In July 2015, the FASB deferred the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. In 2016 the FASB issued three additional final ASUs that provide additional clarifications to the new standard (discussed above), all with the same effective date. The FASB also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is currently evaluating the impact that the adoption of this pronouncement and the three 2016 amendments will have on its consolidated financial statements.

**2. Fair Value Measurements**

***Assets Measured and Recorded at Fair Value on a Recurring Basis***

The Company measures its financial assets and liabilities at fair value. The inputs used in the valuation methodologies in measuring fair value are defined in the fair value hierarchy 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 asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 Inputs are unobservable inputs based on the Company's assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following tables present the fair value of our financial assets and liabilities using the above input categories (in thousands):

| | July 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents: | | | | |
| Money market funds | $ 15,034 | $ — | $ — | $ 15,034 |
| Total cash equivalents | 15,034 | — | — | 15,034 |
| Short-term investments: | | | | |
| Corporate debt securities | — | 9,665 | — | 9,665 |
| U.S. government and agency obligations | 1,503 | 1,122 | — | 2,625 |
| Commercial paper | — | — | — | — |
| Total short-term investments | 1,503 | 10,787 | — | 12,290 |
| | $ 16,537 | $ 10,787 | $ — | $ 27,324 |

| | January 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents: | | | | |
| Money market funds | $ 8,319 | $ — | $ — | $ 8,319 |
| Commercial paper | — | 6,505 | — | 6,505 |
| Total cash equivalents | 8,319 | 6,505 | — | 14,824 |
| Short-term investments: | | | | |
| Corporate debt securities | — | 30,386 | — | 30,386 |
| U.S. government and agency obligations | 1,503 | 8,671 | — | 10,174 |
| Commercial paper | — | 1,498 | — | 1,498 |
| Total short-term investments | 1,503 | 40,555 | — | 42,058 |
| | $ 9,822 | $ 47,060 | $ — | $ 56,882 |

The Company measures its cash equivalents and marketable securities at fair value. Money market funds are valued primarily using quoted market prices utilizing market observable inputs. The Company's investments in commercial paper, U.S. Government and agency obligations and corporate debt securities are classified within Level 2 as the market inputs to value these instruments consist of market yields, reported trades and broker/dealer quotes. There were no transfers between Level 1 and 2 during the six months ended July 31, 2016 and the year ended January 31, 2016.

***Fair Value of Other Financial Instruments***

The carrying amounts of the Company's accounts receivable, accounts payable, accrued liabilities and other liabilities approximate their fair value due to their short-term maturities.

Based on quoted market prices as of July 31, 2016 and January 31, 2016, the fair value of the Convertible Senior Notes (Note 11) was approximately $51.0 million and $61.5 million, respectively, determined using Level 2 inputs as they are not actively traded in markets.

**3. Short-Term Investments**

The following is a summary of short-term investments by type of instrument (in thousands):

| | July 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| Corporate debt securities | $ 9,664 | $ 2 | $ (1) | $ 9,665 |
| U.S. government and agency obligations | 2,622 | 3 | — | 2,625 |
| | $ 12,286 | $ 5 | $ (1) | $ 12,290 |

| | January 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| Commercial paper | $ 1,498 | $ — | $ — | $ 1,498 |
| Corporate debt securities | 30,395 | 4 | (13) | 30,386 |
| U.S. government and agency obligations | 10,173 | 2 | (1) | 10,174 |
| | $ 42,066 | $ 6 | $ (14) | $ 42,058 |

All marketable securities are deemed by management to be available-for-sale and are reported at fair value. Net unrealized gains or losses that are not determined to be other-than-temporary are reported within stockholders' deficit on the Company's condensed consolidated balance sheets as a component of accumulated comprehensive income. Realized gains or losses are recorded based on the specific identification method.

The amortized cost and fair value of short-term investments held as of July 31, 2016 and April 30, 2016, by contractual years-to-maturity, are as follows (in thousands):

| | July 31, 2016 | | January 31, 2016 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due within one year | $ 12,286 | $12,290 | $ 40,564 | $40,555 |
| Due within one to two years | — | — | 1,502 | 1,503 |
| | $ 12,286 | $12,290 | $ 42,066 | $42,058 |

**4. Balance Sheet Components**

***Accounts Receivable, Net***

The following table shows the components of accounts receivable, net (in thousands):

| | July 31, 2016 | January 31, 2016 |
|---|---|---|
| Accounts receivable | $2,771 | $ 5,589 |
| Allowance for doubtful accounts | (37) | (37) |
| Allowance for sales returns | (167) | (244) |
| | $2,567 | $ 5,308 |

***Inventory***

The following table shows the components of inventory (in thousands):

| | July 31, 2016 | January 31, 2016 |
|---|---|---|
| Raw materials | $1,985 | $ 3,785 |
| Finished goods | 7,809 | 8,216 |
| | $9,794 | $ 12,001 |

***Property and Equipment, Net***

The following table shows the components of property and equipment, net (in thousands):

| | July 31, 2016 | January 31, 2016 |
|---|---|---|
| Laboratory equipment | $ 21,658 | $ 20,190 |
| Computer hardware and software | 10,516 | 9,572 |
| Office furniture | 223 | 215 |
| Leasehold improvements | 651 | 651 |
| | 33,048 | 30,628 |
| Less: accumulated depreciation | (24,503) | (21,306) |
| | $ 8,545 | $ 9,322 |

Depreciation expense (including amortization of leasehold improvements and intangibles) was $2.1 million and $2.2 million for the three months ended July 31, 2016 and 2015, respectively and $4.1 million and $4.7 million for the six months ended July 31, 2016 and 2015, respectively.

***Other Assets***

The following table shows the components of other assets (in thousands):

| | July 31, 2016 | January 31, 2016 |
|---|---|---|
| Purchased intellectual property | $4,790 | $ 5,294 |
| Other | 670 | 773 |
| | $5,460 | $ 6,067 |

During the year ended January 31, 2015, the Company capitalized $6.0 million of licensed OEM software, which is being amortized over the greater of an estimated useful life of six years on a straight line basis, or in proportion of the actual revenue to date over the expected revenue from our Flash Storage Platform product over the six year estimated life of the product.

***Accrued Liabilities***

The following table shows the components of accrued liabilities (in thousands):

| | July 31, 2016 | January 31, 2016 |
|---|---|---|
| Compensation and benefits | $ 3,158 | $ 6,161 |
| Purchase commitments | 832 | 117 |
| Restructuring charges | 1,118 | 955 |
| Professional fees | 1,146 | 1,123 |
| Warranty | 875 | 864 |
| Accrued interest | 1,700 | 1,700 |
| Other | 2,410 | 2,650 |
| | $11,239 | $ 13,570 |

Table of Contents

***Accrued Warranty***

The following table is a reconciliation of the changes in the Company's product warranty liability (in thousands):

| | Six Months Ended July 31, 2016 | Six Months Ended July 31, 2015 |
|---|---|---|
| Balance, beginning of year | $ 864 | $ 1,262 |
| Additions | 172 | 325 |
| Settlements | (161) | (641) |
| Balance, end of period | $ 875 | $ 946 |

***Restructuring and Other Charges (Recoveries)***

During the first quarter of fiscal 2017, the Company implemented a strategic restructuring plan that was focused on aligning its expense structure with current revenue expectations. In connection with the restructuring plan, the Company reduced headcount. The Company's restructuring charges consist primarily of severance, facility costs and other related charges. Severance generally includes severance payments and health insurance coverage. Facility costs include rent expense and related common area maintenance charges attributable to a leased facility that will not utilized over the remaining lease term.

A summary of the restructuring activities is as follows (in thousands):

| | Severance and related charges | Excess facility charges | Excess commitments | Other restructuring charges | Total Liability |
|---|---|---|---|---|---|
| Balance January 31, 2016 | $ — | $ 955 | $ — | $ — | $ 955 |
| Restructuring and other charges (recoveries) | 971 | (113) | 396 | 216 | 1,470 |
| Payments, net of receipts and other adjustments | (769) | (266) | (121) | (151) | (1,307) |
| Balance July 31, 2016 | $ 202 | $ 576 | $ 275 | $ 65 | $ 1,118 |

***Accumulated Other Comprehensive Income***

The following table is a reconciliation of the changes in the Company's accumulated other comprehensive income (in thousands):

| | Foreign Currency Translation Adjustments | Net Unrealized Gain (Loss) on Short-Term Investments | Total |
|---|---|---|---|
| Accumulated other comprehensive income as of January 31, 2016 | $ 464 | $ (8) | $456 |
| Other comprehensive income, net of tax, before reclassifications | 81 | 12 | 93 |
| Amounts reclassified, net of tax, from accumulated other comprehensive income | — | — | — |
| Net current-period other comprehensive income, net of tax | 81 | 12 | 93 |
| Accumulated other comprehensive income as of July 31, 2016 | $ 545 | $ 4 | $549 |

## 5. Equity Award and Employee Compensation Plans

***The 2012 Stock Plan***

In November 2012, the Company's stockholders approved the adoption of the 2012 Stock Incentive Plan (the "2012 Plan") as the successor plan to the 2005 Plan, which became effective at the completion of the Company's initial public offering ("IPO"). The 2012 Plan is administered by the Compensation Committee of the Board of Directors (the "Compensation Committee"), and the Compensation Committee may terminate or amend the plan at any time. Unexercised options or restricted stock units under the 2005 Plan that cancel due to a grantee's termination may be reissued under the 2012 Plan. Under the 2012 Plan, stock options, restricted shares, restricted stock units and stock appreciation rights may be granted to employees, outside directors and consultants at not less than 100% of the fair value on the date of grant and generally vest ratably over four years. Options generally expire seven years from the date of grant.

At the June 30, 2016 annual meeting, the stockholders approved a 1-for-4 reverse split, effective with trading on July 6, 2016. Each four shares of the Company's issued and outstanding stock was automatically combined into one issued and outstanding share of common stock. In addition, the authorized shares of the Company's common stock were reduced from one billion to 250 million. The accompanying disclosure in these notes give retrospective effect for the reverse stock split.

As of January 31, 2016, there were 4,088,055 shares authorized under the 2012 Plan. On February 1, 2016, the share reserve increased by 1,233,017 shares to an aggregate of 5,321,072 shares authorized under the plan and will be increased by any shares forfeited under the 2005 Plan.

***Common Stock Options and Inducement Awards***

During fiscal 2015, the Company issued inducement awards totaling 1,000,000 shares outside of the 2012 Plan under the employee inducement award exemption under the New York Stock Exchange Listed Company Manual Rule 303A.08 to the Company's CEO. The following table summarizes the stock option activity related to shares of common stock under the Company's 2005, 2012 Plans as well as the Inducement Award (in thousands, except per share data):

| | | Outstanding Options | | | |
|---|---|---|---|---|---|
| | Shares Available for Grant | Number of Options | Weighted-Average Exercise Prices | Weighted-Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (1) |
| Balances, January 31, 2016 | 452 | 2,850 | $ 13.48 | 6.85 | $ 157 |
| Additional shares authorized | 1,233 | — | | | |
| RSUs granted | (257) | — | | | |
| Recovery of shares from net settlement | 2 | — | | | |
| RSUs cancelled/forfeited | 653 | — | | | |
| Options granted | (623) | 623 | 2.61 | | |
| Options exercised | 50 | (50) | 0.56 | | |
| Options forfeited | 102 | (102) | 4.77 | | |
| Balances, July 31, 2016 | 1,612 | 3,321 | $ 11.82 | 6.59 | $ 25 |
| Options expected to vest - July 31, 2016 | | 892 | $ 8.60 | | $ 16 |
| Options exercisable – July 31, 2016 | | 1,975 | $ 13.47 | | $ 4 |

(1) Aggregate intrinsic value is based on the common stock price at each respective date presented.

The weighted average grant date fair value of options granted during the quarter ended July 31, 2016 was $2.34 per share. The total intrinsic value of options exercised during the quarter ended July 31, 2016 was $41,000.

***Restricted Stock Units***

The table below summarizes the RSU activity under the Company's 2005 and 2012 Plans (in thousands, except per share data):

| | Number of RSUs Outstanding | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (1) |
|---|---|---|---|
| Balance, January 31, 2016 | 2,736 | $ 10.45 | $ 9,741 |
| RSUs granted | 257 | 1.23 | |
| RSUs vested | (423) | 15.34 | |
| RSUs cancelled/forfeited | (653) | 10.48 | |
| Balance, July 31, 2016 | 1,917 | $ 8.13 | $ 3,116 |

(1) Aggregate intrinsic value is based on the common stock price at each respective date presented.

The aggregate intrinsic value of RSUs that vested during the quarter ended July 31, 2016 was $0.4 million.

***Non-employee Stock Options and Awards***

For the three months and six months ended July 31, 2016 and 2015, the Company did not grant any options or restricted shares of common stock to non-employees.

***Employee Stock Purchase Plan***

In November 2012, the Company's stockholders approved the adoption of the 2012 Employee Stock Purchase Plan (the "2012 Purchase Plan"). The 2012 Purchase Plan permits eligible employees to purchase common stock on favorable terms via payroll deductions of up to 15% of the employee's salary, subject to certain share and statutory dollar limits. Two overlapping offering periods commence during each calendar year, on each June 1 and December 1 or such other periods or dates as determined by the Compensation Committee from time to time, and the offering periods last up to 24 months with a purchase date every six months. The price of each share purchased is 85% of the lower of a) the fair value per share of common stock on the last trading day before the commencement of the applicable offering period, or b) the fair value per share of common stock on the purchase date. The 2012 Purchase Plan is administered by the Compensation Committee, and the Compensation Committee may terminate or amend the plan. Upon adoption, a total of 250,000 shares were reserved for issuance under the 2012 Purchase Plan. As of July 31, 2016, pursuant to the provisions of the plan, the share reserve was 549,351 shares.

***Employee 401(k) Plan***

The Company sponsors the Violin Memory, Inc. 401(k) Plan ("401(k) Plan"), which qualifies under Section 401(k) of the Internal Revenue Code and is designed to provide retirement benefits for its eligible employees through tax-deferred salary deductions.

Employees may elect to contribute up to 90% of their eligible compensation to the 401(k) Plan. Employee contributions are limited to a maximum annual amount as set periodically by the Internal Revenue Service ("IRS"). The Company does not currently match employee contributions.

**6. Stock-Based Compensation**

As of July 31, 2016, total stock-based compensation cost related to unvested equity awards not yet recognized, net of estimated forfeitures, totaled $9.4 million for RSUs and $4.0 million for options. There was no capitalized stock-based compensation expense for any period presented.

Stock based compensation associated with non-employee awards was nil and $0.2 million for both the three months and the six months ended July 31, 2016 and 2015, respectively.

**7. Income Taxes**

The Company's quarterly provision for income taxes is based on an estimated effective annual income tax rate. The Company's quarterly provision for income taxes also includes the tax impact of certain unusual or infrequently occurring items, if any, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur.

Income tax expense for the three months ended July 31, 2016 and 2015 was $30,000 and $42,000 respectively, and $40,000 and $83,000 for the six months ended July 31, 2016 and 2015, respectively. As of July 31, 2016, the income tax rate varies from the United States statutory income tax rate primarily due to valuation allowances in the United States and taxable income generated by the Company's foreign wholly owned subsidiaries.

The Company has a full valuation allowance against its net operating loss carryforwards and research and development credits for both federal and state purposes. Utilization of the net operating loss carry forwards and credits may be subject to substantial annual limitations due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations may result in the expiration of net operating loss carryforwards and credits before utilization.

The Company reviews the likelihood that it will realize the benefit of its deferred tax assets and, therefore, the need for valuation allowances on a quarterly basis. There is no corresponding income tax benefit recognized with respect to losses incurred and no corresponding income tax expense recognized with respect to earnings generated in jurisdictions with a valuation allowance. This causes variability in the Company's effective tax rate. The Company intends to maintain the valuation allowances until it is more likely than not that the net deferred tax assets will be realized.

As of July 31, 2016, the Company had no unrecognized tax benefits that would affect the Company's effective tax rate if recognized.

## 8. Commitments and Contingencies

***Litigation***

The Company assesses its potential liability by analyzing specific litigation and regulatory matters using reasonably available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies.

Beginning on November 26, 2013, four putative class action lawsuits were filed in the United States District Court for the Northern District of California naming the Company and a number of our present or former directors and officers, and the underwriters of the Company's September 27, 2013 initial public offering (the "IPO"). The four complaints were consolidated into a single, putative class action, and on March 28, 2014, the plaintiffs filed a consolidated complaint purporting to assert claims under the federal securities laws, based upon seven categories of alleged omissions, on behalf of purchasers of the Company's common stock issued in the IPO.

On July 28, 2016, the court issued an order granting final approval of class settlement, judgment and order of dismissal with prejudice. The class settlement included, among other things, the establishment of a settlement fund of $7.5 million, which was disbursed as provided in the settlement agreement and the court's orders. The settlement fund was paid by the Company's insurance carrier and did not result in incurring any additional expense in the current quarter.

A putative stockholder derivative action is pending before the same court as the putative class action. In the derivative action, the plaintiffs allege that certain of the Company's current and former officers and directors breached their fiduciary duties to the Company by violating the federal securities laws and exposing the Company to possible financial liability. The parties have submitted to the court a motion for preliminary approval of a settlement of the derivative action. The settlement includes the Company's agreement to certain governance changes relating to: evaluation of stockholder proposals; board independence; board competence; formalizing the operation of its management's disclosure committee; the functioning of the audit committee of its board of directors; performance goals for its chief executive officer; and certain modifications to its compliance functions and corporate governance policies. The Company can make no assurance that the proposed settlement will be approved by the court.

The Company believes the ultimate outcome of the current legal proceedings, individually and in the aggregate, will not have a material adverse effect on its financial position, results of operations or cash flows. However, because of the inherent uncertainties surrounding litigation, should the outcome of these actions be unfavorable, the Company's business, financial condition, results of operations or cash flows could be materially and adversely affected.

***Indemnification***

The Company indemnifies certain of its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company's request in such capacity. The Company's certificate of incorporation and bylaws require that it indemnify its officers and directors against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising out of their services to the Company. In addition, the Company has entered into separate indemnification agreements with each of its directors and executive officers, which provide for indemnification of these individuals under certain circumstances. The maximum amount of potential future indemnification is unlimited; however, the Company has a Directors and Officers insurance policy that enables the Company to recover a portion of any future amounts paid. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these obligations on the condensed consolidated balance sheets as of July 31, 2016.

The Company may, in the ordinary course of business, agree to defend and indemnify some customers against legal claims that the Company's products infringe on certain U.S. patents or copyrights. The terms of such obligations may vary. To date, the Company has not been required to make any payments resulting from such infringement indemnifications and no amounts have been accrued for such matters.

***Operating Lease Commitments***

The Company leases office space under various non-cancelable operating leases that expire at various dates until February 2017. The Company expects to make approximately $2.3 million in minimum lease payments under its operating leases as of July 31, 2016 during the remainder of fiscal year 2017, and none thereafter.

***Purchase Commitments***

The Company depends upon one contract manufacturer to manufacture its products and provide test services. Due to the lengthy lead times, the Company must order from its contract manufacturer well in advance and is obligated to pay for materials when received by the contract manufacturer and services once they are completed. As of July 31, 2016, the Company had approximately $2.8 million of outstanding purchase commitments to such contract manufacturer and other vendors.

***Advertising Commitment***

In June 2012, the Company entered into an agreement with the Forty Niners SC Stadium Company LLC, which was amended in April 2014. As part of the amended agreement, the Company will receive advertising and related benefits at the stadium in Santa Clara, California. The Company recognized $0.3 million in advertising expenses related to this agreement for each of the three months ended July 31, 2016 and 2015 and $0.6 million for each of the six months ended July 31, 2016 and 2015. As of July 31, 2016, the Company had approximately $14.0 million of outstanding commitments under this arrangement.

***Other Contingencies***

From time to time, the Company may become involved in legal proceedings or other claims and assessments arising in the ordinary course of business. The Company is not currently a party to any litigation matters, except as discussed above, which, individually or in the aggregate, are expected to have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

**9. Segment Information and Customer Concentration**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, the Company's chief executive officer. The Company's chief executive officer reviews financial information presented on a consolidated basis, accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. The Company has one business activity, and there are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated unit level. Accordingly, the Company considers itself to have a single reportable segment and operating unit structure.

Revenue by geography is based on the billing address of the customer. The following tables set forth revenue and property and equipment, net by geographic area (in thousands):

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| ***Revenue:*** | 2016 | 2015 | 2016 | 2015 |
| Americas: | | | | |
| United States | $ 5,721 | $ 9,857 | $ 12,487 | $ 18,031 |
| Other Americas | 25 | 29 | 53 | 61 |
| | 5,746 | 9,886 | 12,540 | 18,092 |
| Europe: | | | | |
| United Kingdom | 476 | 1,602 | 911 | 2,701 |
| Other Europe | 805 | 1,680 | 1,845 | 2,187 |
| | 1,281 | 3,282 | 2,756 | 4,888 |
| Asia Pacific: | 476 | 2,135 | 1,920 | 4,424 |
| | $ 7,503 | $ 15,303 | $ 17,216 | $ 27,404 |

| ***Property and Equipment, Net:*** | July 31, 2016 | January 31, 2016 |
|---|---|---|
| United States | $ 8,398 | $ 9,091 |
| Europe | 71 | 107 |
| Asia Pacific | 76 | 124 |
| | $ 8,545 | $ 9,322 |

***Customer Concentration***

For the three months ended July 31, 2016, one customer represented 21% of total revenue. For the six months ended July 31, 2016, one customer represented 14% of total revenue, and another customer represented 11%. For the three months ended July 31, 2015 one customer represented 30% of total revenue. For the six months ended July 31, 2015 one customer represented 18% of total revenue.

Revenue from the Company's five largest customers for the three months ended July 31, 2016 and 2015 was 36% and 48%, respectively, and 34% and 36% for the six months ended July 31, 2015 and 2015, respectively. As a consequence of the limited number of customers and the concentrated nature of our sales, the Company's revenue, gross margin and operating results may fluctuate significantly from period to period and are difficult to estimate.

As of July 31, 2016, three customers represented 18%, 14% and 10% of the accounts receivable balance. As of January 31, 2016, three customers represented 20%, 20% and 10% of the accounts receivable balance.

**10. Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options and warrants, to the extent dilutive. Basic and diluted net loss per share was the same for each period presented as the inclusion of all potential common shares outstanding would have been anti-dilutive. The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share data):

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Net loss | $ (20,576) | $ (24,382) | $ (42,735) | $ (50,884) |
| Denominator: | | | | |
| Weighted-average shares used to compute net loss per share, basic and diluted | 25,061 | 24,147 | 24,919 | 24,011 |
| Net loss per share, basic and diluted | $ (0.82) | $ (1.01) | $ (1.71) | $ (2.12) |

Since the Company experienced losses for all periods presented, basic net loss per share is the same as diluted net loss per share for all periods. The following potential common stock equivalents that could potentially dilute net loss per share in the future were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive for the periods presented (in thousands):

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Convertible senior notes (on an as converted basis) | 5,338 | 5,338 | 5,338 | 5,338 |
| Common stock warrants | 41 | 41 | 41 | 41 |
| Shares subject to outstanding common stock options and restricted stock units | 5,238 | 5,235 | 5,238 | 5,235 |
| | 10,617 | 10,614 | 10,617 | 10,614 |

**11. Convertible Senior Notes and Line of Credit**

***Convertible Senior Notes***

On September 19, 2014, the Company issued $120 million aggregate principal amount of Convertible Senior Notes (the "Notes"), which included $15 million issued pursuant to an over-allotment option granted to the initial purchasers. The aggregate principal amount of the Notes is due on October 1, 2019, unless earlier repurchased, redeemed or converted. The Company received net proceeds of $115.4 million after deducting offering costs.

Interest on the outstanding Notes accrues at a rate of 4.25% per annum and is payable semi-annually on April 1 and October 1 of each year. The Notes are unsecured senior obligations of Violin and were offered and sold only to qualified institutional investors, as defined in Rule 144 under the Securities Act of 1933 as amended ("Securities Act"). The Notes and the shares of the Company's common stock issuable upon conversion of the Notes have not been registered under the Securities Act.

The Company used the net proceeds to repay all amounts outstanding and owed under its credit agreement with Silicon Valley Bank (SVB) discussed below, and intends to use the remaining net proceeds for general corporate purposes, including working capital. The Company may redeem the Notes, at its option, in whole or in part on or after October 1, 2017, if the last reported sale price per share of its common stock equals or exceeds 130% of the applicable conversion price for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on the trading day immediately prior to the date on which the Company delivers notice of the redemption.

Holders of the Notes may convert all or any portion of their Notes, in multiples of $1,000 principal amount, at their option at any time prior to the close of business on the business day immediately preceding the maturity date. The Notes are convertible at an initial conversion rate of 44.4840 shares of the Company's common stock per $1,000 principal amount of Notes. This is equivalent to an initial conversion price of approximately $22.48 per share of the Company's common stock, subject to adjustment upon the occurrence of certain dilutive events, or, if the Company obtains the required consent from its stockholders, into shares of the Company's common stock, cash or a combination of cash and shares of its common stock, at the Company's election. The conversion rate will be increased in the case of corporate events that constitute a "Make-Whole Fundamental Change" (as defined in the indenture governing the Notes). As of July 31, 2016, the Notes were not convertible.

The holders of the Notes will have the ability to require the Company to repurchase the Notes in whole or in part upon the occurrence of an event that constitutes a "Fundamental Change" (as defined in the indenture governing the Notes including such events as a "change in control" or "termination of trading"). In such case, the repurchase price would be 100% of the principal amount of the Notes plus accrued and unpaid interest, if any. Certain events are also considered "Events of Default," which may result in the acceleration of the maturity of the Notes, as described in the indenture governing the Notes, including, among other events, the Company's failure to timely file with the SEC the reports required pursuant to Section 13 or 15(d) of the Securities Exchange of 1934, as amended. There were no "Fundamental Changes" or "Events of Default" that occurred during the quarter ended July 31, 2016. The Company was in compliance with its covenants under the Notes as of July 31, 2016.

During the time that the Notes are outstanding, the Company may not at any time incur any indebtedness other than permitted debt, which is defined as: (a) revolving debt secured by the Company's accounts receivable and the proceeds therefrom in a principal amount not to exceed $50 million; (b) unsecured indebtedness (including the Notes) in a principal amount not to exceed (when combined with any indebtedness incurred under clause (c) below) $150 million; (c) secured indebtedness secured by the Company's intellectual property in a principal amount not to exceed (when combined with any indebtedness incurred under clause (b) above) $150 million; and (d) unsecured subordinated indebtedness in a principal amount not to exceed $50 million. Furthermore, the Company may incur indebtedness if (a) the Company is not in default and such additional debt would not put it into default and (ii) the consolidated leverage ratio, as defined, after taking the additional debt into account does not exceed 5:1.

The conversion option of the Notes cannot be settled in cash prior to obtaining the necessary approval of the Company's stockholders. In accordance with guidance in ASC 470-20, *Debt with Conversion and Other Options* and ASC 815-15, *Embedded Derivatives* , the Company determined that until stockholder approval that allows for settlement by issuing shares of the Company's common stock, cash or a combination of cash and shares of its common stock, the embedded conversion components of the Notes do not require bifurcation and separate accounting. The $120 million principal amount of the Notes has been recorded as debt on the Company's accompanying condensed consolidated balance sheet.

The deferred debt issuance costs have been recorded as a direct deduction from the Notes' carrying amount in accordance with ASU No. 2015-03 – *Simplifying the Presentation of Debt Issuance Costs* , and are being amortized to interest and other financing expense using the effective interest method over the Notes' five-year term.

***Silicon Valley Bank Credit Agreement***

In October 2014, the Company entered into a $20.0 million secured revolving line of credit with SVB. The line of credit was set to expire on October 24, 2016, subject to acceleration upon certain specified events of defaults. In April 2016, the Company amended its secured revolving line of credit with SVB, to extend its term through May 1, 2017, modify the financial covenants and lower the commitment to $10 million. The Company's obligations under the agreement are collateralized by a first priority security interest in the Company's accounts receivable and the proceeds therefrom.

Borrowings under this facility will bear interest at a rate per annum of either (a) the sum of (i) the Eurodollar rate plus (ii) 5.00%, or (b) the sum of (i) ABR plus (ii) 2.00%. The Company had $7.1 million and $13.4 million outstanding on this facility at July 31, 2016 and January 31, 2016, respectively.

The credit agreement contains financial covenants, including covenants requiring the Company to maintain a minimum cash balance, a minimum consolidated adjusted quick ratio and achieve a certain level of revenue relative to its operating plan. In addition, the credit agreement contains certain negative covenants, including restrictions on liens, indebtedness, fundamental changes, dispositions, restricted payments and investments. The Company was not in compliance with the covenants under this agreement as of July 31, 2016. In August 2016, the Company terminated this facility.

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

*The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended January 31, 2016 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on April 6, 2016 (File No. 001-36069). In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Form 10-Q. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements unless required by law.*

### Overview

We were incorporated in 2005 with the goal of bringing storage performance in line with advancements in server and network technologies. Since our inception, we have pioneered a new class of persistent flash-based storage solutions designed to bring storage performance in line with high-speed applications, servers and networks. Our Flash Storage Platform™ is specifically designed at each level of the system architecture to leverage the inherent capabilities of flash memory and meet the sustained high-performance requirements of business-critical applications, virtualized environments and Big Data - data sets that are so large or complex that traditional processing applications are inadequate - solutions in the cloud and in enterprise data centers. Our solutions enable customers to realize significant capital expenditure and operational cost savings by simplifying their data center environments.

In February 2015, we introduced the Flash Storage Platform, the industry's first vertically integrated design of software, firmware and hardware that delivers the highest performance, resiliency and availability at the same cost as legacy enterprise-class primary storage. The Flash Storage Platform runs our Concerto™ OS 7, a single operating system with integrated data protection, in-line block de-duplication and compression, stretch metro cluster and LUN mirroring as well as our suite of other Enterprise Data Services. With our Flash Storage Platform, all active data (Tiers 0, 1, and 2) can be consolidated onto a single tier, simplifying storage administration. Additionally, with our release of Symphony™ Management Suite Version 3.0, the entire software functionality can all be controlled in 1, 2 or 3 clicks, with management of the entire storage estate through a single pane of glass.

We primarily market and sell our products and services through our direct sales force and global channels network to provide a high level of end-customer engagement. As of July 31, 2016, we had 78 sales and marketing employees worldwide as well as over 100 channel partners, including Arrow, Commtech Innovative Solutions, OnX, Mainline Information Systems and WWT, covering over 30 countries. As of July 31, 2016, we believe our all-flash arrays had been deployed by over 350 end-customers. We and our authorized service providers also sell support services to our end-customers.

A limited number of customers have accounted for a substantial majority of our revenue, and the composition of the group of our largest customers has changed from period to period. Some of our end-customers make periodic purchases of our system solutions in large quantities to complete or upgrade specific large-scale storage installations. Purchases are typically made on a purchase order basis rather than pursuant to long-term contract. Revenue from our five largest customers was 36% and 48% for the three months ended July 31, 2016 and 2015, respectively, and 34% and 36% for the six months ended July 31, 2016 and 2015, respectively. As a consequence of these concentrated purchases by a shifting customer base, we believe that revenue may fluctuate in future periods, and period-to-period comparisons of revenue and operating results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Our sales are principally denominated in U.S. dollars. Revenue from customers with a bill-to location in the United States accounted for 76% and 64% for the three months ended July 31, 2016 and 2015, respectively, and 73% and 66% for the six months ended July 31, 2016 and 2015, respectively

We outsource the manufacturing of our hardware products to Flextronics. We believe this arrangement makes our operations more efficient and flexible. We procure the flash memory components used in our products directly from Toshiba. Flextronics procures, on our behalf, the remaining components used in our products. To date, we have not experienced a material shortage of supply of any components. However, because we only have one manufacturer qualified to manufacture our products and some of our components, such as flash memory, are procured from a single-source supplier, we could face product shortages and component shortages, which could prevent us from fulfilling customer orders.

In December 2015, we announced a plan to review our strategic alternatives and hired an investment banker, Jefferies LLC, to assist with the process. In March 2016, we announced that the review of strategic alternatives did not result in an acquisition of Violin, but identified a few global technology companies that were interested in pursuing technology and go-to-market collaboration. To date, we have been unable to develop these relationships to a point where we derive revenue.

We have incurred significant operating losses and negative cash flows from operations since its inception. As of July 31, 2016, we had an accumulated deficit of $603.3 million. During the year ended January 31, 2016, we reported a net loss of $99.1 million and negative cash flows from operations of $78.6 million. During the six months ended July 31, 2016, we reported a net loss of $42.7 million and negative cash flows from operations of $32.2 million. As of July 31, 2016, we had cash, cash equivalents and short-term investments of $31.4 million. We currently expect to incur net losses and negative cash flows from operations for at least the next twelve months even though we continue to restructure and reduce our operating expenses to be more in line with our current revenue expectations. These factors raise substantial doubt about our ability to continue as a going concern.

Continuing as a going concern depends on our ability to execute our business plan, increase revenue and margins, reduce expenditures and secure additional financing. In March 2016, we announced a restructuring plan focused on aligning our expense structure with revenue expectations. We have reduced headcount from 318 at our fiscal year end to 235 as of July 31, 2016. In the second quarter, we also initiated a plan to outsource certain non-core engineering functions to a service provider located in Eastern Europe and expect the transition to be completed by the end of this fiscal year. However, the decline in revenue over the last two quarters has reduced the impact of these reductions in operating expenses, thereby not achieving the expected reduction of quarterly cash burn rate. In addition, these restructuring activities may adversely impact our ability to continue to compete effectively and hinder our efforts to increase our revenue. In the second quarter, we filed a shelf registration statement and are currently pursuing all options, including seeking additional financing in order to continue to support our operations.

There is no assurance that we will be successful in generating sufficient revenue, increasing gross margins or reducing operating costs. In addition, we may not be able to obtain financing. Failure to generate sufficient revenue, increase gross margins, control or reduce operating costs and to raise sufficient funds may result in an inability to continue as a going concern. Even if we raise additional capital, we may also be required to modify, delay or abandon some of our plans and investments, which could have a material adverse effect on our business, operating results and financial condition and our ability to achieve our intended business objectives.

**Components of Condensed Consolidated Statements of Operations**

***Revenue***

We derive revenue primarily from the sale of our all flash array products, software and related support and services. We sell our products on a purchase order basis directly to end-customers and through channel partners, including distributors and resellers. Our mix of sales between end-customers and channel partners impacts the average selling price of our products. We derive support services revenue from the sale of our premium support services. These support services are provided pursuant to support terms that generally are for either one- or three-year durations. Support services are typically billed in advance on an annual basis or at the inception of a multiple year support contract, and revenue is recognized ratably over the support period.

***Cost of Revenue***

Cost of revenue consists primarily of component costs, amounts paid to our contract manufacturer to assemble our products, provisions for excess and obsolete inventory, shipping and logistics costs and estimated warranty obligations. The largest portion of our cost of revenue consists of the cost of flash memory components. Neither our contract manufacturer nor we enter into supply contracts with fixed pricing for our product components, including our flash memory, which can cause our cost of revenue to fluctuate from quarter to quarter. We may not be able to pass flash or component cost increases to our customers immediately or at all resulting in lower gross margins. Cost of revenue is recorded when the related product revenue is recognized. Cost of revenue also includes personnel expenses related to customer support.

***Operating Expenses***

Operating expenses consist primarily of sales and marketing, research and development and general and administrative expenses. The largest component of our operating expenses is personnel costs, consisting of salaries, benefits and incentive compensation for our employees, including stock-based compensation.

### *Sales and Marketing*

Sales and marketing expenses consist primarily of personnel costs, incentive compensation, marketing programs, travel-related expenses, consulting expenses associated with sales and marketing activities and allocated facilities costs. Our sales personnel are typically not immediately productive, and therefore, the increase in sales and marketing expenses is not immediately offset by increased revenue and may not result in increased revenue over the long-term. The timing of our hiring of new sales personnel and the rate at which they generate incremental revenue could cause our future period-to-period financial performance to fluctuate. We have generated a larger percentage of our sales from direct sales or through resellers with whom we will be directly involved in the sales process with the end-customer.

### *Research and Development*

Research and development expenses consist primarily of personnel costs, prototype expenses, software tools, consulting services and allocated facilities costs. Consulting services generally consist of contracted engineering consulting for specific projects on an as-required basis. We recognize research and development expense as incurred. We expect to continue to devote substantial resources to the development of our products including the development of new software capabilities. We believe that these investments are necessary to maintain and improve our competitive position. During the second quarter of fiscal 2017, we initiated a plan to outsource certain non-core functions to a service provider in Eastern Europe. We expect the transition will be complete by the end of our fiscal year. We believe our current level of personnel is sufficient to develop our products in the near term.

### *General and Administrative*

General and administrative expenses consist primarily of personnel costs, legal expenses, consulting and professional services, insurance and allocated facilities costs for our executive, finance, human resources and legal organizations. While we expect personnel costs to be the primary component of general and administrative expenses, we also incur significant legal and accounting costs related to compliance with rules and regulations implemented by the SEC and the NYSE, as well as additional insurance, investor relations and other costs associated with being a public company.

### *Restructuring and Other Charges (Recoveries)*

Restructuring and Other Charges consist of the provision for severance and related charges, excess facilities charges, asset impairments and other charges under a strategic restructuring plan approved by Company management. To the extent later developments permit reduction in the liability, the adjustment or recovery is taken to the same restructuring expense caption.

### *Other Expense, Net*

Other expense, net generally consists of interest income and foreign currency gains and losses.

### *Interest and Other Financing Expense*

Interest and other financing expense consists of interest related to convertible notes and debt as well as amortization of deferred debt issuance costs associated with the securities.

### *Provision for Income Taxes*

From inception through July 31, 2016, we incurred operating losses and, accordingly, have not recorded a provision for U.S. federal income taxes but have recorded provisions for foreign income and state taxes. As of January 31, 2016, we had approximately $319.0 million and $103.2 million of net operating loss carry forwards available to offset future taxable income for both Federal and State purposes, respectively. If not utilized, these carry forward losses will expire in various amounts for Federal and State tax purposes beginning in 2025 and 2015, respectively.

Table of Contents

***Results of Operations***

The following table summarizes our condensed consolidated statements of operations data for the periods shown (in thousands, except per share data):

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | | | |
| Revenue: | | | | |
| Product revenue | $ 2,063 | $ 9,847 | $ 6,220 | $ 16,670 |
| Service revenue | 5,440 | 5,456 | 10,996 | 10,734 |
| Total revenue | 7,503 | 15,303 | 17,216 | 27,404 |
| Cost of revenue: | | | | |
| Cost of product revenue (1) | 4,764 | 5,872 | 7,886 | 10,102 |
| Cost of service revenue (1) | 2,533 | 2,831 | 5,247 | 5,552 |
| Total cost of revenue | 7,297 | 8,703 | 13,133 | 15,654 |
| Gross profit | 206 | 6,600 | 4,083 | 11,750 |
| Operating expenses: | | | | |
| Sales and marketing (1) | 7,516 | 13,655 | 16,548 | 27,095 |
| Research and development (1) | 8,637 | 10,580 | 18,831 | 22,106 |
| General and administrative (1) | 3,236 | 4,708 | 6,648 | 9,859 |
| Restructuring and other charges (recoveries) | (265) | — | 1,470 | — |
| Total operating expenses | 19,124 | 28,943 | 43,497 | 59,060 |
| Loss from operations | (18,918) | (22,343) | (39,414) | (47,310) |
| Other expense, net | (114) | (303) | (308) | (47) |
| Interest and other financing expense | (1,514) | (1,694) | (2,973) | (3,444) |
| Loss before income taxes | (20,546) | (24,340) | (42,695) | (50,801) |
| Income taxes | 30 | 42 | 40 | 83 |
| Net loss | $ (20,576) | $ (24,382) | $ (42,735) | $ (50,884) |
| Net loss per share of common stock, basic and diluted | $ (0.82) | $ (1.01) | $ (1.71) | $ (2.12) |
| Shares used in computing net loss per share of common stock, basic and diluted | 25,061 | 24,147 | 24,919 | 24,011 |
| (1) Includes stock-based compensation expense as follows: | | | | |
| Cost of product revenue | $ 28 | $ 270 | $ 34 | $ 521 |
| Cost of service revenue | 153 | 334 | 354 | 669 |
| Sales and marketing | 661 | 1,475 | 1,310 | 2,280 |
| Research and development | 1,181 | 1,977 | 3,341 | 3,955 |
| General and administrative | 1,091 | 1,902 | 2,130 | 3,794 |
| | $ 3,114 | $ 5,958 | $ 7,169 | $ 11,219 |

**Comparison of the Three Months Ended July 31, 2016 and 2015**

***Revenue***

| | Three Months Ended July 31, 2016 | Three Months Ended July 31, 2015 | Change $ | Change % |
|---|---|---|---|---|
| | (Unaudited) | | | |
| Product revenue | $ 2,063 | $ 9,847 | $(7,784) | (79%) |
| Service revenue | 5,440 | 5,456 | (16) | (0%) |
| Total revenue | $ 7,503 | $ 15,303 | $(7,800) | (51%) |

Total revenue decreased $7.8 million to $7.5 million for the three months ended July 31, 2016 from $15.3 million for the three months ended July 31, 2015. The decrease was primarily related to a decline in the sale of our 6000 Series products as we continued to transition our customers to our new FSP product line. Growth in FSP product revenue has progressed at a much slower pace as compared to decline in sales of our legacy 6000 Series products and, together with customers' concerns around our ability to continue as a going concern, resulted in a $7.8 million decrease in product revenue. Service revenue decreased only slightly due to the strength of our installed base. Revenue from our five largest customers for the three months ended July 31, 2016 and 2015 was 36% in both periods.

***Cost of Revenue and Gross Margin***

| | Three Months Ended July 31, 2016 | Three Months Ended July 31, 2015 | Change $ | Change % |
|---|---|---|---|---|
| | (Unaudited) | | | |
| Cost of revenue: | | | | |
| Cost of product revenue | $ 4,764 | $ 5,872 | $(1,108) | (19%) |
| Cost of service revenue | 2,533 | 2,831 | (298) | (11%) |
| Total cost of revenue | 7,297 | 8,703 | (1,406) | (16%) |
| Gross profit | $ 206 | $ 6,600 | $(6,394) | (97%) |
| Product gross margin | -131% | 40% | | |
| Service gross margin | 53% | 48% | | |
| Total gross margin | 3% | 43% | | |

Cost of revenue decreased $1.4 million to $7.3 million for the three months ended July 31, 2016 from $8.7 million for the three months ended July 31, 2015, primarily due to lower revenue, but partially offset by a provision for excess and obsolete inventory of $2.9 million recorded in the second quarter of fiscal 2017. Product gross margin declined from 40% in the second quarter of fiscal 2016 to a negative 131% in the second quarter of fiscal 2017 primarily due to the sharper decline in product revenue relative to product costs and the write-down of inventory in the second quarter of fiscal 2017.

Service gross margin increased from 48% in the second quarter of fiscal 2016 to 53% in the second quarter of fiscal 2017 primarily due to the decrease in support costs on almost unchanged service revenue.

***Operating Expenses***

| | Three Months Ended July 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| | (Unaudited) | | | |
| Operating expenses: | | | | |
| Sales and marketing | $ 7,516 | $ 13,655 | $(6,139) | (45%) |
| Research and development | 8,637 | 10,580 | (1,943) | (18%) |
| General and administrative | 3,236 | 4,708 | (1,472) | (31%) |
| Restructuring and other charges (recoveries) | (265) | — | (265) | * |
| Total operating expenses | $ 19,124 | $ 28,943 | $(9,819) | (34%) |

* Not meaningful

Sales and marketing expenses decreased $6.2 million to $7.5 million for the three months ended July 31, 2016 from $13.7 million for the three months ended July 31, 2015. The reduction was primarily due to a decrease in personnel-related expenses, including commissions and stock-based compensation, of $3.9 million and travel-related expenses of $0.7 million primarily due to a decrease in sales and marketing employees from 148 as of July 31, 2015 to 78 as of July 31, 2016. Outside services and marketing communications each decreased by $0.5 million with another $0.4 million decrease in other expenses.

Research and development expenses decreased by $1.9 million to $8.6 million for the three months ended July 31, 2016 from $10.5 million for the three months ended July 31, 2015. The decrease was primarily due to lower personnel-related costs of $1.9 million, including stock-based compensation, as headcount decreased from 127 as of July 31, 2015 to 99 as of July 31, 2016. Equipment and software increased by $0.2 million, offset by a $0.2 million decrease in travel expenses.

General and administrative expenses decreased $1.5 million to $3.2 million for the three months ended July 31, 2016 from $4.7 million for the three months ended July 31, 2015. Personnel-related expense, including stock-based compensation, decreased by $0.9 million, partly due to non-recurrence of the $0.3 million expensing of the CEO's sign-on bonus in the prior year. In addition, headcount decreased from 27 as of July 31, 2105 to 21 as of July 31, 2016. Outside services, including legal fees, decreased by approximately $0.7 million, partly offset by a $0.2 million increase in other expenses.

During the second quarter for fiscal 2017, we recorded a credit adjustment to restructuring charges of $0.3 million related to cash received greater than our estimate for sublease income related to a facility restructured out of our operations in fiscal 2015.

**Interest and Other Financing Expense**

Interest and other financing expense for the three months ended July 31, 2016 consists primarily of interest on our Notes of $1.3 million and amortization of debt issuance costs of $0.3 million. This compares to interest and other financing expense for the three months ended July 31, 2015 that consisted of interest on our Notes of $1.3 million and amortization of debt issuance costs of $0.4 million.

**Comparison of the Six Months Ended July 31, 2016 and 2015**

***Revenue***

| | Six Months Ended July 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| | (Unaudited) | | | |
| Product revenue | $ 6,220 | $ 16,670 | $(10,450) | (63%) |
| Service revenue | 10,996 | 10,734 | 262 | 2% |
| Total revenue | $ 17,216 | $ 27,404 | $(10,188) | (37%) |

Total revenue decreased $10.2 million to $17.2 million for the six months ended July 31, 2016 from $27.4 million for the six months ended July 31, 2015. The decrease was primarily related to a decline in the sale of our 6000 Series products as we continued to transition our customers to our new FSP product line. Growth in FSP product revenue has progressed at a much slower pace as compared to the decline in sales of our legacy 6000 Series products and, together with customers' concerns around our ability to continue as a going concern, resulted in a $10.5 million decrease in product revenue. Service revenue increased slightly due to the strength of our installed base. Revenue from our five largest customers for the six months ended July 31, 2016 and 2015 was 34% and 36% of total revenue, respectively.

***Cost of Revenue and Gross Margin***

| | Six Months Ended July 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| | (Unaudited) | | | |
| Cost of revenue: | | | | |
| Cost of product revenue | $ 7,886 | $ 10,102 | $(2,216) | (22%) |
| Cost of service revenue | 5,247 | 5,552 | (305) | (5%) |
| Total cost of revenue | 13,133 | 15,654 | (2,521) | (16%) |
| Gross profit | $ 4,083 | $ 11,750 | $(7,667) | (65%) |
| Product gross margin | -27% | 39% | | |
| Service gross margin | 52% | 48% | | |
| Total gross margin | 24% | 43% | | |

Cost of revenue decreased $2.5 million to $13.1 million for the six months ended July 31, 2016 from $15.6 million for the six months ended July 31, 2015, primarily due to lower revenue, but partially offset by provision for excess and obsolete inventory of $2.9 million recorded in the second quarter of fiscal 2017. Product gross margin declined from 39% for the first six months of fiscal 2016 to a negative 27% for the first six months of fiscal 2017 primarily due to the sharper decline in product revenue relative to product costs and the write-down of inventory in the second quarter of fiscal 2017.

Service gross margin increased from 48% for the first six months of fiscal 2016 to 52% for the first six months of fiscal 2017 primarily due to the increase in revenue while our support costs declined.

***Operating Expenses***

| | Six Months Ended July 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| | (Unaudited) | | | |
| Operating expenses: | | | | |
| Sales and marketing | $ 16,548 | $ 27,095 | $(10,547) | (39%) |
| Research and development | 18,831 | 22,106 | (3,275) | (15%) |
| General and administrative | 6,648 | 9,859 | (3,211) | (33%) |
| Restructuring and other charges (recoveries) | 1,470 | — | 1,470 | * |
| Total operating expenses | $ 43,497 | $ 59,060 | $(15,563) | (26%) |

* Not meaningful

Sales and marketing expenses decreased $10.6 million to $16.5 million for the six months ended July 31, 2016 from $27.1 million for the six months ended July 31, 2015 The reduction was primarily due to a decrease in personnel-related expenses including commissions and stock-based compensation of $5.9 million and travel-related expenses of $1.0 million primarily due to a decrease in sales and marketing employees from 148 as of July 31, 2015 to 78 as of July 31, 2016. Marketing communications expenses decreased by $1.5 million with additional expense reductions in outside services, depreciation, other expenses, equipment and facilities expenses of $0.6 million, $0.4 million, $0.4 million, $0.1 million and $0.1 million, respectively.

Research and development expenses decreased by $3.3 million to $18.8 million for the six months ended July 31, 2016 from $22.1 million for the six months ended July 31, 2015. The decrease was primarily due to lower personnel-related costs including stock-based compensation of $3.3 million and travel-related expenses of $0.2 million, due to a decrease in the headcount from 127 as of July 31, 2015 to 99 as of July 31, 2016. Depreciation and facility expenses decreased by $0.2 million and $0.1 million, respectively, offset by an increase in equipment and software increased of $0.5 million and outside services of $0.4 million.

General and administrative expenses decreased $3.2 million to $6.6 million for the six months ended July 31, 2016 from $9.8 million for the six months ended July 31, 2015. Personnel-related expense, which includes stock-based compensation, decreased $2.4 million partly due to non-recurrence of the expensing of $1.0 million of the CEO's sign-on bonus in the prior year. In addition, headcount decreased from 27 as of July 31, 2105 to 21 as of July 31, 2016. Outside services, including legal fees, decreased by approximately $0.9 million, offset by a $0.3 million increase in other expenses.

During the first quarter of fiscal 2017, we implemented a strategic restructuring plan focused on aligning our expense structure with current revenue expectations. In connection with the restructuring plan, we reduced headcount, space requirements and software licenses and incurred restructuring and other charges of $1.5 million.

**Interest and Other Financing Expense**

Interest and other financing expense for the six months ended July 31, 2016 consists primarily of interest on our Notes of $2.6 million and amortization of debt issuance costs of $0.7 million. This compares to interest and other financing expense for the six months ended July 31, 2015 that consisted of interest on our Notes of $2.6 million and amortization of debt issuance costs of $0.8 million.

**Liquidity and Capital Resources**

***Primary Sources of Liquidity***

As of July 31, 2016, our principal sources of liquidity were our cash, cash equivalents and short-term investments of $31.4 million and accounts receivable of $2.6 million. Historically, our primary sources of liquidity have been from the issuance of common stock, convertible notes and convertible preferred stock. In October 2013, we completed our IPO, in which we issued and sold 18,000,000 shares and received net proceeds of $145.8 million.

In September 2014, we issued $120.0 million of convertible senior notes, or the Notes, which included $15.0 million of principal amount issued pursuant to an over-allotment option granted to the initial purchasers, and received net proceeds of $115.4 million.

In October 2014, we entered into a $20.0 million secured revolving credit facility with Silicon Valley Bank, or SVB. Our obligations under the agreement are secured by a first priority security interest in our accounts receivable and the proceeds therefrom. Borrowings under this facility will bear interest at a rate per annum of either (a) the sum of (i) the Eurodollar rate plus (ii) 5.00%, or (b) the sum of (i) ABR plus (ii) 2.00%. In April 2016, we amended our secured revolving line of credit with SVB, to extend the term through May 1, 2017, modify the financial covenants and lower the commitment to $10 million. As of July 31, 2016, we had $7.1 million outstanding on the line of credit; and we were not in compliance with the financial covenants. In August 2016, we repaid all amounts outstanding and terminated the facility.

Refer to "Going Concern and Future Capital Requirements" below for discussion of going concern issues.

***Cash Flow Analysis***

| | Six Months Ended July 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net cash provided by (used in): | | |
| Operating activities | $ (32,165) | $ (37,814) |
| Investing activities | 33,538 | (17,073) |
| Financing activities | (6,238) | 4,678 |

***Operating Activities***

Our operating cash flow primarily depends on the timing and amount of cash receipts from our customers, inventory purchases and payments for operating expenses. Our largest use of cash is for personnel costs.

Our net cash used in operating activities for the six months ended July 31, 2016 was $32.2 million. For the six months ended July 31, 2016, our operating cash flow consisted primarily of our net loss of $42.7 million offset by depreciation and amortization of $4.1 million, stock-based compensation of $7.2 million, and an adjustment of $2.9 million for excess and obsolete inventory and commitments. Inventory increased by $1.8 million, reflecting inventory build for transfer to fixed assets, and other assets decreased $2.7 million due to amortization of prepaids. Accounts receivable decreased $2.7 million due to collection of prior period receivables and lower sales. Accounts payable decreased by $1.3 million due to lower purchase activity and accrued liabilities decreased by $3.4 million due bonus payments and the reduction in force resulting in lower personnel-related accruals. Deferred revenue decreased by $3.4 million due to the lower booking of maintenance renewals in the quarter and recognition of previously deferred amounts to revenue.

Our net cash used in operating activities for the six months ended July 31, 2015 was $37.8 million. For the six months ended July 31, 2015, our operating cash flow consisted primarily of our net loss of $50.9 million offset by depreciation and amortization of $4.7 million and stock-based compensation of $11.2 million. Inventory increased by $2.5 million due to purchases in contemplation of our 7000 Series launch while accounts payable and accruals decreased by $5.6 million and $3.9 million, respectively, due to settlement of various liabilities including a last time buy of raw materials, bonuses and interest on the convertible note. Deferred revenue decreased by $3.1 million due to lower sales in the quarter and recognition of previously deferred amounts to revenue. Accounts receivable decreased $9.3 million due lower sales and revenue being more linear in the second quarter of fiscal 2016, while other assets decreased $2.1 million due to amortization of prepaids and deferred debt issuance costs.

***Investing Activities***

Cash provided by investing activities for the six months ended July 31, 2016 was $33.5 million attributable to maturity of short-term investments of $29.8 million, decrease in restricted cash of $5.0 million, offset by purchases of property and equipment of $1.2 million.

Cash used in investing activities for the six months ended July 31, 2015 was $17.1 million attributable to purchases of short-term investments of $41.1 million offset by maturities of short-term investments of $34.9 million. In addition, we purchases property and equipment of $3.1 million and increased restricted cash balances by $7.7 million.

***Financing Activities***

Cash flows used in financing activities for the six months ended July 31, 2016 was $6.2 million, primarily including net payments on the Company’s line of credit of $6.3 million.

Cash flows provided by financing activities for the six months ended July 31, 2015 was $4.7 million, primarily attributable to net proceeds on the Company’s line of credit of $3.7 million and the proceeds from exercise of common stock options of 1.0 million.

***Going Concern and Future Capital Requirements***

Since our inception, we have incurred significant operating losses and negative cash flows from operations. As of July 31, 2016, we had an accumulated deficit of $603.3 million. During the year ended January 31, 2016, we reported a net loss of $99.1 million and negative cash flows from operations of $78.6 million. During the six months ended July 31, 2016, we reported a net loss of $42.7 million and negative cash flows from operations of $32.2 million. As of July 31, 2016, we had cash, cash equivalents and short-term investments of $31.4 million. We currently expect to incur net losses and negative cash flows from operations for at least the next twelve months even though we continue to restructure and reduce our operating expenses to be more in line with our current revenue expectations. These factors raise substantial doubt about our ability to continue as a going concern.

Continuing as a going concern depends on our ability to execute our business plan, increase revenue and margins, reduce expenditures and secure additional financing. In March 2016, we announced a restructuring plan focused on aligning our expense structure with revenue expectations. We have reduced headcount from 318 at our fiscal year end to 235 as of July 31, 2016. In the second quarter, we also initiated a plan to outsource certain non-core engineering functions to a service provider located in Eastern Europe and expect the transition to be completed by the end of this fiscal year. However, the decline in revenue over the last two quarters has reduced the impact of these reductions in operating expenses, thereby not achieving the expected reduction of quarterly cash burn rate. In addition, these restructuring activities may adversely impact our ability to continue to compete effectively and hinder our efforts to increase our revenue. In the second quarter, we filed a shelf registration statement and currently pursuing all options, including seeking additional financing in order to continue to support our operations.

There is no assurance that we will be successful in generating sufficient revenue, increasing gross margins or reducing operating costs. In addition, we may not be able to obtain financing. Failure to generate sufficient revenue, increase gross margins, control or reduce operating costs and to raise sufficient funds may result in an inability to continue as a going concern. Even if we raise additional capital, we may also be required to modify, delay or abandon some of our plans and investments, which could have a material adverse effect on our business, operating results and financial condition and our ability to achieve our intended business objectives.

In September 2014, we completed a $120 million convertible senior note offering, or the Notes (due on October 1, 2019), and received net proceeds of $115.4 million. With respect to the Notes, the credit agreement contains a covenant that prohibits us from paying cash upon conversion (other than cash in lieu of fractional shares), redemption, repurchase or other payment in respect of the principal amount of any of the Notes. The credit agreement also contains certain affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Noncompliance with one or more of the covenants and restrictions could result in the amounts borrowed under the agreement becoming immediately due and payable.

During the time that the Notes are outstanding, we may not at any time incur any indebtedness other than permitted debt, which is defined as: (a) revolving debt secured by our accounts receivable and the proceeds therefrom in a principal amount not to exceed $50 million; (b) unsecured indebtedness (including the Notes) in a principal amount not to exceed (when combined with any indebtedness incurred under clause (c) below) $150 million; (c) secured indebtedness secured by our intellectual property in a principal amount not to exceed (when combined with any indebtedness incurred under clause (b) above) $150 million; and (d) unsecured subordinated indebtedness in a principal amount not to exceed $50 million. Furthermore, we may incur indebtedness if (a) we are not in default and such additional debt would not put us into default and (ii) the consolidated leverage ratio, as defined, after taking the additional debt into account does not exceed 5:1. We were in compliance with these covenants as of July 31, 2016.

### Off-Balance Sheet Arrangements

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

### Contractual Obligations

The following summarizes our contractual obligations as of July 31, 2016 (in thousands):

| | Total | Less than 1 year | 2 to 3 years | 4 to 5 years | After 5 years |
|---|---|---|---|---|---|
| Convertible senior notes, including interest (1) | $137,850 | $ 5,100 | $10,200 | $122,550 | $ — |
| Purchase commitments (2)(3) | 17,665 | 5,415 | 3,500 | 3,500 | 5,250 |
| Facility operating lease commitments | 2,254 | 2,254 | — | — | — |
| | $157,769 | $ 12,769 | $13,700 | $126,050 | $5,250 |

(1) The convertible senior notes reflected above include projected interest payments over the term of the notes as of July 31, 2016, assuming interest rates in effect for the borrowings as of July 31, 2016 and redemption of the borrowings on October 31, 2019 in accordance with the terms of the notes.

(2) Purchase obligations include non-cancelable purchase orders for raw materials inventory and others. Purchase obligations under purchase orders or contracts that we can cancel without a significant penalty, such as routine purchases for operating expenses, are not included in the above table.

(3) In June 2012, we entered into an agreement with the Forty Niners SC Stadium Company LLC, or the Team, which was amended in April 2014. As part of the amended agreement, we will receive advertising during home games and the ability to meet with potential and existing partners and customers at sporting and other events at the stadium in Santa Clara, California. We committed to make payments to the Team of $1.75 million per year through fiscal year 2024.

### Critical Accounting Policies and Significant Judgments and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates, assumptions and judgments that can have significant impact on the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. These estimates and assumptions are often based on judgments that we believe to be reasonable under the circumstances at the time made, but all such estimates and assumptions are inherently uncertain and unpredictable. Actual results may differ from these estimates and assumptions, and it is possible that other professionals, applying their own judgment to the same facts and circumstances, could develop and support alternative estimates and assumptions that would result in material changes to our operating results and financial condition. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

Historically, our estimates, assumptions and judgments relative to our critical accounting policies have not differed materially from actual results. There have been no material changes to our critical accounting policies and significant judgments and estimates as compared to the critical accounting policies and significant judgments and estimates as described in our Annual Report on Form 10-K filed on April 6, 2016, with the SEC under the Securities Act under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### *Recent Accounting Pronouncements*

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our condensed consolidated financial statements, see Note 1 "Organization and Summary of Significant Accounting Policies – Recent Accounting Pronouncements" in the notes to condensed consolidated financial statements.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk in the ordinary course of business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates, foreign currency exchanges rates and inflation rate, as well as risk relating to changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks, we monitor the financial condition of our large customers and limit credit exposure by setting credit limits as we deem appropriate. In addition, our investment strategy has been to invest in financial instruments that are highly liquid and readily convertible into cash.

### *Interest Rate Fluctuation Risk*

Our cash and cash equivalents consist of cash and short-term money market funds held by large United States commercial banks. Due to the short-term nature of these instruments, the fair value of our portfolio is relatively insensitive to interest rate changes. Declines in interest rates, however, would reduce future interest income. During the three months and six months ended July 31, 2016 and 2015, a hypothetical 10% change in interest rates would not have had a material impact on our results of operations.

On September 19, 2014, we issued $120.0 million of convertible senior notes at a rate of 4.25% per annum due October 1, 2019. We carry this instrument at face value on our balance sheet. Since this instrument bears interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these instruments fluctuates when interest rates change, and in the case of convertible notes, when the market price of our stock fluctuates.

The primary objective of our investment activities is to preserve principal and maintain liquidity while maximizing income without significantly increasing risk. We determined that the increase in yield from potentially investing our cash and cash equivalents in longer-term investments did not warrant a change in our investment strategy. In future periods, we will continue to evaluate our investment policy in order to ensure that we continue to meet our overall objectives.

### *Foreign Currency Exchange Risk*

The information in this section should be read in conjunction with the information related to changes in the currency exchange rates in "Part II Item 1A. Risk Factors." Changes in currency exchange rates could materially adversely affect our results of operations or financial condition.

Our sales transactions are primarily denominated in U.S. dollars and therefore substantially all of our revenue is not subject to foreign currency risk. However, certain of our operating expenses are incurred outside the United States and are dominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pounds, Chinese Yuan, Euro, Japanese Yen and Singapore Dollar. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we have experienced and will continue to experience fluctuations in our net loss as a result of transaction gains or losses related to revaluing certain cash balances, trade accounts payable, current liabilities and intercompany balances that are denominated in currencies other than the U.S. dollar, we believe a 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our results of operations.

### *Inflation Risk*

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

## Item 4. Controls and Procedures.

***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our chief executive officer ("CEO") and chief financial officer ("CFO"), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon the controls evaluation, our CEO and CFO have concluded that as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC and to ensure that material information relating to us and our consolidated subsidiaries is made known to management, including our CEO and CFO.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed such that information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the three months ended July 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting means a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

***Inherent Limitations of Internal Controls***

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

# PART II
# OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Beginning on November 26, 2013, four putative class action lawsuits were filed in the United States District Court for the Northern District of California naming us and a number of our present or former directors and officers, and the underwriters of our September 27, 2013 initial public offering (the "IPO"). The four complaints were consolidated into a single, putative class action, and on March 28, 2014, the plaintiffs filed a consolidated complaint purporting to assert claims under the federal securities laws, based upon seven categories of alleged omissions, on behalf of purchasers of our common stock issued in the IPO.

On July 28, 2016, the court issued an order granting final approval of class settlement, judgment and order of dismissal with prejudice. The class settlement included, among other things, the establishment of a settlement fund of $7.5 million, which was disbursed as provided in the settlement agreement and the court's orders. The settlement fund was paid by our insurance carrier and did not result in any additional expense to us in the current period.

A putative stockholder derivative action is pending before the same court as the putative class action. In the derivative action, the plaintiffs allege that certain of our current and former officers and directors breached their fiduciary duties to us by violating the federal securities laws and exposing us to possible financial liability. The parties have submitted to the court a motion for preliminary approval of a settlement of the derivative action. The settlement includes our agreement to certain governance changes relating to: evaluation of stockholder proposals;, board independence; board competence; formalizing the operation of our management's disclosure committee; the functioning of the audit committee of our board of directors; performance goals for our chief executive officer; and certain modifications to our compliance functions and corporate governance policies. We can make no assurance that the proposed settlement will be approved by the court.

## ITEM 1A. RISK FACTORS

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q before making a decision to invest in our common stock. The description below includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 31, 2016, filed with the SEC on April 6, 2016. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.*

### Risks Related to Our Business

***We have a history of losses and may not be able to achieve profitability or continue as a going concern.***

We have incurred recurring operating losses and negative cash flows from operating activities since inception through July 31, 2016, and we have an accumulated deficit of $603.3 million and cash, cash equivalents and short-term investments of $31.4 million as of July 31, 2016. During the six months ended July 31, 2016, we reported a net loss of $42.7 million and negative cash flows from operations of $32.2 million. During the year ended January 31, 2016, we reported a net loss of $99.1 million and negative cash flows from operations of $78.6 million. These factors raise substantial doubt about our ability to continue as a going concern. Furthermore, we expect to incur net losses for at least the next twelve months even though we continue to restructure and reduce our expenses to be more in line with our current revenue expectations. Through July 31, 2016, we have relied primarily on the proceeds from equity offerings and debt financing to fund our operations. If our revenue does not increase substantially, we will not be profitable. Even if we achieve profitability, we may not be able to sustain it. Our ability to continue as a going concern is dependent upon us successfully addressing viability concerns by our customers, achieving profitability and obtaining the necessary financing to fund our operations until profitability is reached.

***We require additional capital to support our business and this capital might not be available on acceptable terms, or at all.***

Our ability to support our business while we attempt to reach profitability requires us to seek additional funds. Additional capital through equity markets, debt markets or other financing arrangements may or may not be available to us.

If we issue additional equity or convertible debt securities, our stockholders could suffer additional significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. For example, if we issue preferred stock to raise capital, the holders of preferred stock may have liquidation rights senior to our holders of common stock, which would allow them to receive proceeds from a sale of our Company at a preferred rate over our common holders. Any additional debt financing could involve restrictive covenants, which may restrict our flexibility in operating our business and make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing on terms satisfactory to us, our ability to continue to support our business and to respond to business challenges could be significantly limited, and our business, operating results, financial condition and prospects, including our ability to continue as a going concern, could be adversely affected.

***We were notified by the New York Stock Exchange (the "NYSE") that we were not in compliance with certain NYSE continued listing requirements. Our disclosure of the notice of non-compliance could have a material, adverse effect on our business, operating results and financial condition.***

We disclosed publicly that, on January 8, 2016, we received a notice from the NYSE that we were not in compliance with an NYSE continued listing standard because the average closing price of our common stock was less than $1.00 per share over the consecutive 30-day trading period ended January 6, 2016 (the "Share Price Listing Requirement"). We also disclosed that, on April 27, 2016, we received a notice from the NYSE that we are not in compliance with an NYSE continued listing standard because, as of April 22, 2016, our average global market capitalization over a thirty trading-day period was below the NYSE requirement of $50 million and, as of January 31, 2016, our stockholder's equity deficit was below the NYSE's requirement of $50 million (the "Market Capitalization Listing Requirement").

On June 30, 2016, our stockholders approved a reverse stock split with a ratio within a range of 1-for-2 and 1-for-10 and a reduction in the number of our authorized shares of common stock from 1,000,000,000 to 250,000,000. Our board determined the reverse stock split ratio to be 1-for-4, and the reverse stock split was effective on July 5, 2016. On July 11, 2016, we were notified by the NYSE that we had achieved compliance with the Share Price Listing Requirement and that we remained non-compliant with the Market Cap Listing Requirement. However, there can be no assurance that we will be able to remain in compliance with the Share Price Listing Requirement. Our failure to do so will result in a suspension by the NYSE of trading in our common stock and the initiation of procedures to delist our common stock. In addition, the reverse stock split has adversely affected and could continue to adversely affect our stock price.

Our non-compliance with the Market Capitalization Listing Requirement could adversely affect our relationships with our business partners and suppliers and customers' and potential customers' decisions to purchase our products and services and could have a material, adverse impact on our business, operating results and financial condition.

***If we do not regain compliance with the Market Capitalization Listing Requirement, our common stock will be subject to the NYSE's suspension and delisting procedures. The suspension of trading in or the delisting of our common stock would have a material, adverse effect on our business, operating results, financial condition, prospects and common stock.***

We timely submitted to the NYSE a plan of definitive action we are taking which we believe will bring us into compliance with the Market Capitalization Listing Requirement. On July 21, 2016, we were notified by the NYSE that the NYSE's Listings and Compliance Committee accepted our plan and that NYSE Regulation senior management has acknowledged the acceptance. The NYSE will closely monitor our attempt to implement our plan over the next 18 months and our failure to achieve the initiatives and goals included in the plan will result in our being subject to an NYSE trading suspension at the time any initiative or goal is not met. In order to regain compliance with the Market Capitalization Listing Requirement, we will have to maintain the required $50 million global market capitalization for a 180-day period within the plan period. Our failure to do so will result in a suspension by the NYSE of trading in our common stock and the initiation of procedures to delist our common stock.

In addition, if our average global market capitalization over a consecutive thirty trading-day period is less than $15 million, the NYSE will promptly initiate suspension and delisting procedures and, under the NYSE's continued listing standards, we will not have any opportunity to regain compliance and our common stock will be delisted.

A suspension or delisting would adversely affect our relationships with our business partners and suppliers and customers' and potential customers' decisions to purchase our products and services, and would have a material, adverse impact on our business, operating results and financial condition. In addition, a suspension or delisting would impair our ability to raise additional capital through equity or debt financing and our ability to attract and retain employees by means of equity compensation.

In the event of a delisting, our common stock could be traded on the over-the-counter bulletin board, or in the so-called "pink sheets." In the event of such trading, it is highly likely that there would be: significantly less liquidity in the trading of our common stock; decreases in institutional and other investor demand for our common stock, coverage by securities analysts, market making activity and information available concerning trading prices and volume; and fewer broker-dealers willing to execute trades in our common stock. The occurrence of any of these events could result in a further decline in the market price of our common stock. The occurrence of any of these events could impair our ability to retain and attract employees and members of management.

***A suspension or delisting of our common stock could result in a default of our obligations under the indenture governing our Convertible Senior Notes ("Notes").***

A suspension or delisting of our common stock could result in a demand by the holders of our Notes that we repurchase the Notes pursuant to the terms and conditions of the indenture. In that event, we may not be able to repurchase our Notes, which could result in a default under the indenture. In the event of a default, our Notes would become immediately due and payable. If we are unable to pay our Notes, the holders, among other things, could pursue legal action against us.

A default under the indenture likely would have a material adverse impact upon our business, operating results, and financial condition and prospects, and likely would adversely affect our ability to continue as a going concern.

***Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.***

Our ability to make scheduled payments of the principal amount of, to pay interest on or to refinance our indebtedness, including our Notes, depends upon our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and other fixed charges, fund working capital needs, and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at the time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

***We may not have the ability to raise the funds necessary to pay interest on our Notes, to repurchase the Notes upon a fundamental change or to settle conversions of the Notes in cash.***

Our Notes bear interest semi-annually at a rate of 4.25% per year. In addition, in certain circumstances, we are obligated to pay additional interest or special interest on the Notes. If a "fundamental change" occurs, holders of the Notes may require us to repurchase all or a portion of their Notes in cash. Furthermore, if we obtain stockholder approval, upon conversion of any Notes, unless we elect to deliver solely shares of our common stock to settle the conversion (excluding cash in lieu of delivering fractional shares of our common stock), we must make cash payments in respect of the Notes. Any of the cash payments described above could be significant, and we may not have enough available cash or be able to obtain financing so that we can make such payments when due or to repay the indebtedness under our then outstanding credit facilities in order to be permitted to make such cash payments. Our existing credit agreement prohibits us from making any optional prepayments with respect to the Notes, which may potentially restrict our ability to make any cash payments upon conversion, and the events that would trigger a fundamental change would be default under the credit agreement, which could prohibit us from repurchasing the Notes. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. If we fail to pay interest on the Notes, repurchase the Notes when required or deliver the consideration due upon conversion, we will be in default under the indenture. A default under the indenture would be a default under our credit agreement and could lead also to a default under the agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversion of the Notes. Our inability to do so could result in a default on our debt obligations.

***Our future operating results will depend upon our ability to increase our revenue.***

Revenue has been decelerating for the past five quarters. Our total revenue was $15.3 million, $12.5 million, $10.9 million for the second, third and fourth quarters of fiscal 2016, respectively, and $9.7 million and $7.5 million for the first and second quarters of fiscal 2017, respectively.

To increase our revenue, we believe we must effectively, among other things:

- maintain and extend our leadership in the development of the all flash array market;
- compete effectively in the primary storage market with our Flash Storage Platform, including our Concerto OS 7 operating system software;
- maintain our direct sales force as well as grow and expand our relationships with key customers, systems vendors and technology partners;
- expand our channel relationships and successfully execute our channel strategy;
- forecast and control expenses;
- recruit, hire, train and manage additional research and development, and sales and marketing personnel;
- expand our customer support capabilities on a global basis;
- enhance and expand our distribution and supply chain infrastructure;
- manage inventory levels, including trial deployments of systems;
- enhance and expand our international operations; and
- implement and improve our administrative, financial and operational systems, procedures and controls.

We expect that our efforts to increase revenue will continue to place a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to increase revenue, our business, operating results, financial condition and prospects, and our ability to continue as a going concern will be adversely affected.

***Our customers' and potential customers' decisions to purchase our products and services may be influenced by our financial results.***

Our customers and potential customers may consider our financial results in deciding whether to purchase our products and services. To the extent that customers and potential customers view our financial results negatively, they may decide not to purchase our products and services, or to purchase less, or to delay their purchases, or to demand terms that are not favorable to us, any of which would adversely affect our business, operating results and financial condition.

***The public announcement of our engagement of a financial advisor to assist us in exploring strategic alternatives and the conclusion of that process whereby there were no buyers of the Company has and could continue to adversely affect our business, financial condition and results of operations.***

Our public announcement that we retained a financial advisor to assist us in exploring strategic alternatives has and could further disrupt our business and create uncertainty about our prospects as a stand-alone entity. Furthermore, our announcement that this process did not yield any buyers for the Company has adversely affected and could continue to adversely affect our business. Such disruption or uncertainty has and could further have a material adverse effect on our business, financial condition and results of operations. The risks to our business include:

- diversion of substantial management time and resources to address note holder and stockholder concerns;
- difficulties in developing and maintaining relationships with customers and business partners;
- our inability to conclude any of the go-to-market and technology relationship opportunities that we are pursuing; and
- impairment of our ability to attract and retain key managers and other employees.

***We compete with large data storage providers and expect competition to intensify in the future from established companies and new market entrants.***

The market for primary data storage products is highly competitive, and we expect competition to continue to intensify in the future. Our products compete with various high-performance array-based storage approaches employed by next-generation datacenters. Our competitors include incumbent primary storage vendors, such as EMC, HP, Hitachi, IBM and NetApp, which typically sell centralized storage products as well as high-performance storage approaches utilizing solid state drives, or SSDs, as well as vertically integrated appliance vendors such as Oracle. In addition, a number of privately-held and newly public companies are attempting to enter our market, some of which may become significant competitors in the future.

Many of our current competitors have, and some of our potential competitors could have, longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we have. Potential customers may prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. New start-up companies continue to innovate and may invent similar or superior products and technologies that may compete with our products and technology. Some of our competitors have made and are continuing to make acquisitions of other competitors and other businesses that may allow them to offer more directly competitive and comprehensive solutions than they had previously offered. In addition, some of our competitors, including our systems vendor customers, may develop competing technologies and sell at zero or negative margins, through product bundling, closed technology platforms or otherwise, to gain business. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties. In addition, consolidations among systems vendors, which can occur unexpectedly, can significantly impact our sales efforts to systems vendors. As a result, there can be no assurance that our products will compete favorably, and any failure to do so could seriously harm our business, operating results and financial condition. Our competitors may attempt to use certain information, such as the pending securities litigation and changes in our management, against us, which could delay or prevent future business.

Competitive factors could make it more difficult for us to sell our products, resulting in increased pricing pressure, reduced gross margins, increased sales and marketing expenses, longer customer sales cycles and failure to increase, or the loss of, market share, any of which could seriously harm our business, operating results and financial condition. Any failure to meet and address competitive challenges could materially and adversely our business, operating results and financial condition.

***If our Flash Storage Platform products are not successful, our business could be materially and adversely affected.***

Our ability to compete effectively in the primary storage market is dependent upon the success of a single line of products — our Flash Storage Platform 7300, 7300E, 7600 and 7700 products. If our Flash Storage Platform products are not successful, it will be difficult for us to compete in the primary storage market with our current products at margins that enable us to achieve and maintain profitability. We have faced and could continue to face increased pricing pressure, reduced gross margins, increased sales and marketing expenses, longer customer sales cycles and the loss of market share. In addition, if we have to compete in the primary storage market with our 6000 Series products, we could be forced to modify substantially our cost structure and business strategy, which could have a material adverse effect on our business and operating results.

***We expect large and concentrated purchases by a limited number of customers to continue to represent a majority of our product revenue, and any loss of, or delay or reduction in purchases by a small number of customers could adversely affect our operating results.***

Historically, large purchases by a relatively limited number of customers have accounted for a majority of our product revenue, and the composition of the group of our largest customers has changed from period to period. These concentrated purchases are made on a purchase order basis rather than pursuant to long-term contracts. Total revenue from our five largest customers for the years ended January 31, 2016, 2015 and 2014 were 26%, 30% and 35%, respectively. Total revenue from our five largest customers for the three months ended July 31, 2016 and 2015 were 36% and 48%, respectively, and 34% and 36% for the six months ended July 31, 2016 and 2015, respectively. As a consequence of our limited number of customers, the concentrated nature of their purchases and the timing of purchases from these large customers, our quarterly revenue and operating results may fluctuate from quarter to quarter and are difficult to estimate. Any acceleration or delay in anticipated product purchases or the acceptance of shipped products by our larger customers could materially impact our revenue and operating results in any quarterly period. We cannot provide any assurance that we will be able to offset the discontinuation or reduction of concentrated purchases by our larger customers with purchases by other new or existing customers. We expect that sales of our products to a limited number of customers will continue to contribute materially to our revenue for the foreseeable future. The loss of, or a significant delay or reduction in purchases by, a small number of customers could materially and adversely our business, operating results and financial condition.

***Toshiba is our sole supplier for flash memory. Any disruption in our relationship with Toshiba could have a material adverse effect on our business.***

The most significant component that we use in our products is flash memory. Although we have an agreement with Toshiba, the sole supplier of our flash memory components, we may experience a shortage of flash memory if Toshiba is not able to meet our demand. Toshiba may not be able to meet our demand for a variety of reasons, including our inability to forecast our future needs accurately to Toshiba or a shortfall in production by Toshiba for reasons unrelated to us. In addition, our agreement with Toshiba does not provide us with fixed pricing for flash memory, which subjects us to fluctuations in pricing. Our agreement with Toshiba also requires us to purchase 70% of our annual requirement for flash memory from Toshiba, subject to specified conditions, and to design our products to be substantially compatible with Toshiba flash memory. If Toshiba increases the price of its flash memory, we may not be able to implement a corresponding increase in the price of our products and our revenue and gross margins would be materially adversely affected. In addition, if the flash memory we purchase from Toshiba is not competitive with the performance of other flash memory in the market, the competitiveness of our products may be adversely affected and our business could suffer. For example, the introduction of three dimensional, or 3D, flash memory allows for improved economics. We will need to find supply in a timely manner in order to develop future generations of product. We do not currently have any agreement in place with other flash memory providers in the event that Toshiba cannot meet our demand or we are unable to renew our contract with Toshiba. If we cannot obtain sufficient supply of flash memory at an acceptable price to us, our ability to respond to our customer demand and grow our business could be significantly harmed.

***Our products are highly technical and may contain undetected defects, which could cause data unavailability, loss or corruption that might, in turn, result in liability to our customers and harm to our reputation and business.***

Our all flash array products, including our Flash Storage Platform and Concerto OS 7 operating system software, and related software are highly technical and complex and are often used to store information critical to our end-customers' business operations. Our products may contain undetected errors, defects or security vulnerabilities that could result in data unavailability, loss or corruption or other harm to our end-customers. Some errors in our products may only be discovered after they have been installed and used by end-customers. Any errors, defects or security vulnerabilities discovered in our products after commercial release, or any perception of the same in the marketplace, could result in a loss of revenue or delay in revenue recognition, injury to our reputation, a loss of end-customers or increased service and warranty costs, any of which could adversely affect our business. In addition, we could face claims for product liability, tort or breach of warranty. Many of our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may be difficult to enforce. Defending a lawsuit, regardless of its merit, would be costly and might divert management's attention and adversely affect the market's perception of us and our products. In addition, our business liability insurance coverage could prove inadequate or could be subject to coverage exclusions or deductibles with respect to a claim and future coverage may be unavailable on acceptable terms or at all. These product-related issues could result in claims against us and our business could be adversely impacted.

***Our operating results may fluctuate significantly, which could make our future results difficult to predict and could cause our operating results to fall below expectations.***

Our operating results have fluctuated and may continue to fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. If our revenue or operating results fall below expectations, the price of our common stock would likely decline.

Factors that are difficult to predict and that could cause our operating results to fluctuate include:

- the timing and magnitude of orders, shipments and acceptance of our products in any quarter, including orders from large customers;
- a postponement or cancellation of significant orders;
- cost and timing of trial deployments;
- product mix;
- mix of sales between end-customers and channel partners;
- availability of, and our ability to control the costs of, the components we use in our hardware products, specifically flash memory;
- reductions in customers' budgets for information technology purchases;
- additional restrictions on our ability to export our products;
- delays in end-customers' purchasing cycles or deferments of end-customers' product purchases in anticipation of new products or product enhancements from us or our competitors;
- any change in the competitive dynamics of our markets, including actions by large storage providers who may discount product prices or bundle storage products to provide lower overall systems costs;
- fluctuations in demand and prices for our products;
- changes in standards in the data storage industry;
- our ability to develop, introduce and ship in a timely manner new products and product enhancements that meet end-customer requirements;
- our ability to control costs, including our operating expenses; and
- future accounting pronouncements and changes in accounting policies.

The occurrence of any one of these risks could negatively affect our operating results in any particular quarter and cause the price of our common stock to decline.

***Our success depends upon our ability to effectively plan and manage our resources and restructure our business in response to changing market conditions and market demand for our products, and such actions may have an adverse effect on our financial and operating results.***

Our ability to successfully offer our products and services in a rapidly evolving market requires an effective planning, forecasting and management process to enable us to effectively scale and adjust our business in response to fluctuating market opportunities and conditions.

In response to changes in market conditions and market demand for our products, we have in the past undertaken cost savings initiatives. For example, in March 2016, we announced a restructuring plan focused on aligning our expense structure with revenue expectations. In connection with the restructuring plan, we reduced headcount by approximately 25% from that as of October 31, 2015. We may in the future undertake initiatives that may include restructuring, disposing of, and/or otherwise discontinuing certain products, or a combination of these actions. Rapid changes in the size, alignment or organization of our workforce, including sales account coverage, could adversely affect our ability to develop, sell and deliver products and services as planned or impair our ability to realize our current or future business and financial objectives. Any decision to take these actions may result in charges to earnings associated with, among other things, inventory or other asset reductions (including, without limitation, impairment charges) and workforce and facility reductions. Charges associated with these activities would harm our operating results. In addition, if we continue to reduce the size of our workforce, our ability to compete effectively and increase our revenue may be adversely affected. We may not realize any of the anticipated benefits of the underlying restructuring activities.

***Our sales cycles can be long and unpredictable, particularly with respect to large orders and establishing technology and systems integrator relationships that require considerable time and expense. As a result, it can be difficult for us to predict when, if ever, a particular customer will choose to purchase our products, which may cause our operating results to fluctuate significantly.***

Our sales efforts include convincing end-customers of our products' reliability and interoperability with their existing network infrastructure. Customers often undertake a trial deployment to evaluate and test our products, which can result in a lengthy sales cycle. We spend substantial time and resources on our sales efforts without any assurance that our efforts will produce any sales. In

addition, product purchases are frequently subject to budget constraints, vendor certification, multiple approvals and unplanned administrative, processing and other delays. Additionally, a significant portion of our sales personnel have been with us for less than a year, which could further extend the sales cycle as these new personnel typically require a significant amount of training and experience until they are productive. These factors, among others, result in long and unpredictable sales cycles, particularly with respect to large orders and the establishment of technology and systems integrator relationships. Further, we may invest significant management attention and expense in building relationships that do not ultimately result in successful sales.

We also sell to technology and systems integrators that incorporate our products into their solutions, which can require an extended evaluation and testing process before our product is approved for inclusion in one of their solutions. We also may be required to customize our product to interoperate with an integrator's solution, which could further lengthen the sales cycle for sales to them. The length of our sales cycle makes us susceptible to the risk of delays or termination of orders if end-customers decide to delay or withdraw funding for datacenter projects, which could occur for various reasons, including global economic cycles and capital market fluctuations. In addition, as a result of the lengthy and uncertain sales cycles of our products, it is difficult for us to predict when customers may purchase products from us and as a result, our business, operating results and financial condition may vary significantly and be materially and adversely affected.

***Ineffective management of product transitions or our inventory levels, including inventory used in trial deployments, could adversely affect our operating results.***

If we are unable to properly forecast, monitor, control and manage our inventory and maintain appropriate inventory levels and mix of products to support our customers' needs, we may incur increased and unexpected costs. Sales of our products are generally made through individual purchase orders and some of our customers place large orders with short lead times, which make it difficult to predict demand for our products and the level of inventory that we need to maintain in order to satisfy customer demand. If we build our inventory in anticipation of future demand that does not materialize, or if a customer cancels or postpones outstanding orders, we could experience an unanticipated increase in the inventory level of our finished products which would cause us to incur manufacturing costs in a period that are not offset by sales of finished products. In addition, our inability to manage inventory levels in connection with future product transitions may materially and adversely affect our business, operating results and financial condition.

For example, in the fourth quarter of fiscal 2015, we incurred a provision for excess and obsolete inventory of $17.6 million and an increase in accrued liabilities of $2.3 million for non-cancellable purchase orders when we transitioned from our 6000 Series All Flash Array to our Flash Storage Platform. Again, in the second quarter of fiscal 2017, we incurred a provision for excess and obsolete inventory and related commitments of $2.9 million as we failed to meet our sales forecasts. Alternatively, we could carry insufficient inventory, and we may not be able to satisfy demand, which could have a material adverse effect on our customer relationships or cause us to lose potential sales

We typically provide trial deployments to potential customers and maintain the classification of these products in the field as inventory. We may not be able to convert these trial deployments into sales, which could lead to higher levels of inventory, lost or damaged units, risk of obsolescence and excessive wear making them unsaleable or saleable only at low margin or at a loss. Although our sales contracts typically provide that we are not obligated to accept product returns, except for warranty claims, for purchased products, in limited circumstances, we may determine that it is in our best interest to accept returns or exchange products in order to maintain good relationships with customers. Product returns or exchanges would increase our inventory and reduce our revenue. If we are unable to sell our inventory in a timely manner, we could incur additional carrying costs, reduced inventory turns and potential write-downs due to obsolescence, particularly in periods of product transition.

The occurrence of any of these risks related to inventory could adversely affect our business, operating results and financial condition.

***Our gross profit may vary and such variation may make it more difficult to forecast our earnings.***

Our gross profit has been and may continue to be affected by a variety of factors, including:

- demand for our products and related services;
- discount levels and price competition;
- average order size and customer mix;
- product mix;
- the provision for excess or obsolete inventory;

- the cost and availability of components;
- an increase in warranty expense or part replacement;
- level of costs for providing customer support;
- the mix of services or software as a percentage of revenue;
- new product introductions and enhancements; and
- geographic sales mix.

Any of these factors could adversely affect our gross profit and operating results compared to prior periods or future expectations from us or analysts who have issued research reports about us.

***The use of flash memory in storage products is rapidly evolving, which makes it difficult to forecast customer adoption rates and demand for our products.***

The market for flash memory in storage products is rapidly evolving. Accordingly, our future financial performance will depend in large part on growth in this market and on our ability to adapt to trends in this market as they develop and evolve. Sales of our products are dependent in large part upon our ability to penetrate the primary storage market in addition to markets that require high-performance data storage solutions, such as business-critical applications, virtualization and Big Data. It is difficult to predict with any precision customer adoption rates, end-customer demand for our products or the future growth rate and size of our market. The rapidly evolving nature of the technology in the data storage products market, as well as other factors that are beyond our control, reduce our ability to accurately predict our future performance. Our products may never gain broad adoption, and changes or advances in technologies could adversely affect the demand for our products. Further, although flash-based data storage products have a number of advantages compared to other data storage alternatives, flash-based storage devices have certain disadvantages as well, including increased utilization of host system resources than traditional storage, and in some circumstances may require end-customers to modify or replace network systems originally installed for traditional storage media. A reduction in demand for flash-based data storage caused by lack of end-customer acceptance, technological challenges, competing technologies and products or otherwise would result in a lower revenue growth rate or decreased revenue, either of which would materially and adversely affect our business, operating results and financial condition.

***We have derived substantially all of our revenue from a single line of products, and a decline in demand for these products would cause our revenue to grow more slowly or to decline.***

Our all flash array product line has accounted for substantially all of our revenue and is expected to comprise a significant portion of our revenue for the foreseeable future. As a result, our revenue could be reduced by:

- the failure of our Flash Storage Platform products to achieve broad market acceptance;
- any decline or fluctuation in demand for our products, whether as a result of product obsolescence, technological change, customer budgetary constraints or other factors;
- any constraint on our ability to meet demand for our products, whether as a result of component supply constraint or the inability or unwillingness of our contract manufacturer to timely deliver products;
- pricing pressures;
- the introduction of products and technologies by competitors that serve as a replacement or substitute for, or represent an improvement over, these products;
- an order resulting from a judgment of patent infringement or otherwise, that restricts our ability to market and sell our products; and
- our inability to release enhanced versions of our products, including any related software or future generations of products, on a timely basis.

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

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. To compete successfully, we must design, develop, market and sell new or enhanced products that provide increasingly higher levels of performance, capacity and reliability and meet the cost expectations of our customers. The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies, or the emergence of new

industry standards could render our existing or future products obsolete. Our failure to anticipate or timely develop new or enhanced products or technologies in response to technological shifts could result in decreased revenue and harm our business. If we fail to introduce new or enhanced products that meet the needs of our customers or penetrate new markets in a timely fashion, we will lose market share and our operating results will be adversely affected.

In order to maintain or increase our gross margins, we need to continue to create valuable software solutions to be integrated with our products. Any new feature or application that we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to increase our overall gross margins. If we are unable to successfully develop or acquire, and then market and sell future generations of our products, our ability to increase our revenue and gross margin will be materially and adversely affected.

***Our products must interoperate with network interfaces, such as operating systems, software applications and hardware developed by others, and if we are unable to ensure that our products interoperate with such software and hardware, we may fail to increase, or we may lose, market share and we may experience reduced demand for our products.***

Our storage products comprise only a part of a datacenter's infrastructure. Accordingly, our products must interoperate with our end-customers' existing infrastructure, specifically their networks, servers, software and operating systems, which are typically manufactured by a wide variety of systems vendors. When new or updated versions of these software operating systems or applications are introduced, we must sometimes develop updated versions of our software so that our products interoperate properly. We may not accomplish these development efforts quickly, cost-effectively or at all. These development efforts require capital investment and the devotion of engineering resources. If we fail to maintain compatibility with these applications, our end-customers may not be able to adequately utilize the data stored on our products, and we may, among other consequences, fail to increase, or we may lose, market share and experience reduced demand for our products, which would adversely affect our business, operating results and financial condition.

***We rely on our key engineering, technical, sales and management employees to grow our business, and the loss of one or more key employees or the inability to attract and retain qualified personnel could harm our business.***

Our success and future growth depend to a significant degree on the skills and continued services of many of our engineering, technical, sales and management employees. In addition, we are highly dependent on the services of our CEO, Kevin A. DeNuccio. We also are very dependent on the services of our senior vice presidents. We could experience difficulty in integrating and retaining members of our senior management team. We do not have "key person" life insurance policies that cover any of our officers or other key employees. The loss of the services of any of our key employees could disrupt our operations, delay the development and introduction of our products, and negatively impact our business, prospects and operating results.

In the longer term, we expect to hire personnel in all areas of our business, particularly in sales and research and development. Competition for these types of personnel is intense. There can be no assurance that we will be able to successfully attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could adversely affect our business, operating results and financial condition.

***Our strategic relationship with GlobalLogic is subject to material risks and uncertainties.***

We have disclosed publicly that we have entered into a strategic relationship with GlobalLogic, Inc. (GlobalLogic") in connection with our research and product development efforts, that GlobalLogic currently is working with us on software quality assurance matters, and that our relationship with GlobalLogic may expand into other areas of product development in time. In the event that the strategic relationship is not successful, we would be required to make other arrangements for the research and product development efforts being handled by GlobalLogic, which could involve considerable expense and which could result in material delays in our product development efforts or affect our ability to support our customers in a timely fashion. If we were to incur such expense and experience such delays, our business, operating results and financial could be materially and adversely affected.

In addition, at this time, GlobalLogic's research and development work for us is being conducted in Kiev, Ukraine. Ukraine recently has been subject to armed conflict, civil unrest and government instability. A continuation or worsening of any of these conditions could require us to make arrangements with GlobalLogic to provide its services at other locations, which could result in our incurring considerable expense and delays in our research and product development efforts. Such expense and delays could materially and adversely affect our business, operating results and financial condition.

***Our research and development efforts may not produce successful products that result in significant revenue in the near future, if at all.***

Developing our products and related enhancements is expensive. Our investments in research and development may not result in marketable products or may result in products that are more expensive than anticipated, take longer to generate revenue or generate less revenue, if at all, than we anticipate. Our future plans include significant investments in research and development and related

product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, we may not receive significant revenue from these investments in the near future, if at all, which could adversely affect our business, operating results and financial condition.

***Developments or improvements in storage system technologies may materially adversely affect the demand for our products.***

Significant developments in data storage systems, such as advances in solid state storage drives or improvements in non-volatile memory, may materially and adversely affect our business and prospects in ways we do not currently anticipate. For example, improvements in existing data storage technologies, such as a significant increase in the speed of traditional interfaces for transferring data between storage and a server or the speed of traditional embedded controllers, could emerge as preferred alternatives to our products, especially if they are sold at lower prices. This could be the case even if such advances do not deliver all of the benefits of our products. Any failure on our part to demonstrate the benefits of our products would result in lost sales. In addition, any failure by us to develop new or enhanced technologies or processes, or to react to changes or advances in existing technologies, including the development of the new 3D flash memory technology, could materially delay our development and introduction of new products, which could result in the loss of competitiveness of our products, decreased revenue and a loss of market share to competitors.

***Our ability to sell our products is highly dependent on the quality of our customer support and services, and any failure to offer high-quality support and services would harm our business, operating results and financial condition.***

Once our products are deployed, our customers depend on our support organization to resolve any issues relating to our products. Our products provide business-critical services to our customers and a high level of customer support is necessary to maintain our customer relationships. We rely on authorized service providers in certain locations in the United States to install our products and deliver initial levels of on-site customer support and services. While we attempt to carefully identify, train and certify our authorized service providers, we may not be successful in ensuring the proper delivery and installation of our products or the quality or responsiveness of the support and services being provided.

As we grow our business, our ability to provide effective customer support and services will be largely dependent on our ability to attract, train and retain qualified direct customer service personnel and our ability to maintain and grow our network of authorized service providers. Additionally, as we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English, as well as identifying, training and certifying international authorized service providers to support products we may deploy in geographical areas in which we may not currently have authorized service providers.

Any failure to maintain high-quality customer support and services, or a market perception that we do not maintain high-quality customer support and services, could harm our reputation, adversely affect our ability to sell our products to existing and prospective customers, and could harm our business, operating results and financial condition.

***In certain markets, we rely on resellers and distributors to sell our products in markets where we do not have a direct sales force, and on authorized service providers to service and support our products in markets where we do not have direct customer service personnel. Any disruptions to, or failure to develop and manage, our relationships with resellers, distributors and authorized service providers could have an adverse effect on our customer relationships and on our ability to increase revenue.***

Our future success is highly dependent upon our ability to establish and maintain successful relationships with a variety of resellers, distributors and authorized service providers in markets where we do not have a direct sales force or direct customer service personnel. We currently have direct sales personnel covering over 15 countries as of July 31, 2016. In other markets, we rely and expect to continue to rely on establishing relationships with systems vendors, resellers and authorized service providers. Our ability to maintain or grow our international revenue will depend, in part, on our ability to carefully select, manage and expand our network of resellers, distributors and authorized service providers. We also have agreements with authorized service providers that deliver and install our products, as well as provide post-sale customer service and support, on our behalf in their local markets. In markets where we rely on resellers, distributors and authorized service providers, we have less contact with our customers and less control over the sales process and their responsiveness. As a result, it may be more difficult for us to ensure the proper delivery and installation of our products or the quality or responsiveness of the support and services being offered. Any failure on our part to effectively identify and train our systems vendor partners, resellers and authorized service providers and to monitor their sales activity as well as the customer support and services being provided to our customers in their local markets could harm our business, operating results and financial condition.

Identifying, training, and retaining qualified resellers and authorized service providers require significant time and resources. In order to maintain and expand our network of resellers, distributors and authorized service providers, we must continue to scale and improve the systems, processes and procedures that support them, which will require continuing investment in our information technology infrastructure and dedication of significant training resources. As we grow our business and support organization, these systems, processes and procedures may become increasingly complex, difficult and expensive to manage, particularly as the geographic scope of our customer base expands globally.

We typically enter into non-exclusive agreements with our resellers, distributors and authorized service providers. These agreements generally have a one-year, self-renewing term, have no minimum sales commitment and do not prohibit our resellers, distributors and authorized service providers from offering products and services that compete with ours. Accordingly, our resellers, distributors and authorized service providers may choose to discontinue offering our products and services or may not devote sufficient attention and resources toward selling our products and services. Additionally, our competitors may provide incentives to our existing and potential resellers, distributors and authorized service providers to use, purchase or offer their products and services, which may prevent or reduce sales of our products and services. The occurrence of any of these events could harm our business, operating results and financial condition.

***If our third-party hardware repair service fails to timely and correctly resolve hardware failures experienced by our end-customers, our reputation will suffer, our competitive position will be impaired and our expenses could increase.***

We and our authorized service providers rely upon third-party hardware maintenance providers, which specialize in providing vendor-neutral support of storage equipment, network devices and peripherals, to provide repair services to our end-customers. If our third-party repair service fails to timely and correctly resolve hardware failures, our reputation will suffer, our competitive position will be impaired and our expenses could increase. In April 2015, we entered into a three-year agreement with DecisionOne Corporation for our call center support and onsite maintenance services. Either party may terminate the agreement for any reason by providing the other party 120-day notice of termination. In addition, either party may immediately terminate the agreement for a material default by the other party that is not cured within 30 days. If our relationship with our third-party repair service were to end, we would have to engage a new third party provider of hardware support, and the transition could result in delays in effecting repairs and damage our reputation and competitive position as well as increase our operating expenses.

***We rely on a single contract manufacturer to manufacture our products, and our failure to accurately forecast demand for our products or successfully manage our relationship with our contract manufacturer could negatively impact our ability to sell our products.***

We rely on Flextronics International Ltd. (“Flex”) to manufacture all of our products, manage our supply chain and, alone or together with us, negotiate component costs. We purchase our flash components directly from a single-source supplier and consign these components to Flex. Our reliance on our contract manufacturer reduces our control over the assembly process, quality assurance, production costs and product supply. If we fail to manage our relationship with our contract manufacturer or if our contract manufacturer experiences delays, disruptions, capacity constraints or quality control problems in its operations, our ability to ship products to our customers could be impaired and our competitive position and reputation could be harmed. If we or our contract manufacturer are unable to negotiate with suppliers for reduced component costs, our business, operating results and financial condition could be materially and adversely affected.

If we are required to change to a new contract manufacturer, qualify an additional contract manufacturer or assume internal manufacturing operations for any reason, including financial problems of our contract manufacturer, reduction of manufacturing output made available to us, or the termination of our contract, we may lose revenue, incur increased costs and damage our customer relationships. Our contract manufacturer may terminate our agreement with them with prior notice to us or for reasons such as we fail to perform a material obligation under our agreements with them. Qualifying a new contract manufacturer and commencing volume production is expensive and time-consuming.

We are required to provide forecasts to our contract manufacturer regarding product demand and production levels. We provide our contract manufacturer with purchase orders for products they manufacture for us, and these orders may only be rescheduled or cancelled under certain limited conditions. If we inaccurately forecast demand for our products, we may have excess or inadequate inventory or incur cancellation charges or penalties, which could adversely impact our operating results.

We intend to introduce new products and product enhancements, which could require us to achieve volume production rapidly by coordinating with our contract manufacturer and component suppliers. We may need to increase our component purchases, contract manufacturing capacity and internal test and quality functions if we experience increased demand for our products. Our orders may represent a relatively small percentage of the overall orders received by our contract manufacturer from their customers. As a result, fulfilling our orders may not be considered a priority in the event our contract manufacturer is constrained in its ability to fulfill all of

its customer obligations in a timely manner. If our contract manufacturer is unable to provide us with adequate supplies of high-quality products, or if we or our contract manufacturer is unable to obtain adequate quantities of components, it could cause a delay in our order fulfillment, in which case our business, operating results and financial condition could be materially and adversely affected.

***We rely on a limited number of suppliers, and in some cases single-source suppliers, and any disruption or termination of these supply arrangements could delay shipments of our products and could materially and adversely affect our relationships with current and prospective customers.***

We rely on a limited number of suppliers, and in some cases single-source suppliers, for several key components of our products, and neither our contract manufacturer nor we have entered into agreements for the long-term purchase of these components. This reliance on a limited number of suppliers and the lack of any guaranteed sources of supply exposes us to several risks, including:

- the inability to obtain an adequate supply of key components in a timely manner, including flash memory and field programmable gate arrays;
- price volatility for the components of our products;
- failure of a supplier to meet our quality, yield or production requirements;
- failure of a key supplier to remain in business or adjust to market conditions; and
- consolidation among suppliers, resulting in some suppliers exiting the industry or discontinuing the manufacture of components.

If our supply of certain components is disrupted or delayed, or if we need to replace one or more of our existing suppliers, there can be no assurance that additional supplies or components will be available when required or that supplies will be available on terms that are favorable to us, which could extend our lead times, increase the costs of our components and materially adversely affect our business, operating results and financial condition. If we are successful in growing our business, we may not be able to continue to procure components at acceptable prices, which would require us to enter into longer term contracts with component suppliers to obtain these components at competitive prices. In addition, errors or defects may arise in some of our components supplied by third parties that are beyond our detection or control, which could lead to additional customer returns or product warranty claims. If any of these were to occur, our costs would increase and our gross margins would decrease, and our business, operating results and financial condition could be materially and adversely affected.

***Our products incorporate components that are subject to supply and pricing volatility, and, as a result, our ability to respond in a timely manner to customer demand and our cost structure are sensitive to such volatility in the supply and market prices for these components.***

We do not enter into long-term supply contracts for the components we use in our products, but instead generally we, or our contract manufacturer on our behalf, purchase these components pursuant to individual purchase orders. In addition, it is common in the storage and networking industries for component vendors to discontinue the manufacture of certain types of components from time to time due to evolving technologies and changes in the market. If we are required to make significant "last time" purchases of components that are being discontinued and do not purchase enough components, we may experience delayed shipments, order cancellations or otherwise be required to purchase more expensive components to meet customer demand, which could negatively impact our revenue, gross margins and operating results. If we purchase too many such components, we could be subject to inventory write-offs adversely affecting our operating results.

A portion of our expenses are directly related to the pricing of components utilized in the manufacture of our products, such as field programmable gate arrays, memory chips and central processing units, or CPUs. In some cases, our contract manufacturer purchases these components in a competitive-bid purchase order environment with suppliers or on the open market at spot prices. As a result, our cost structure is affected by price volatility in the marketplace for these components, especially for field programmable gate arrays, memory chips and CPUs. This volatility makes it difficult to predict expense levels and operating results, and may cause our expense levels and operating results to fluctuate significantly. Furthermore, these components can be subject to limits on supply or other supply volatility, which may negatively impact our ability to obtain quantities necessary at reasonable prices to grow our business and respond to customer demand for our products.

***Third-party claims that we are infringing the intellectual property rights of others, whether successful or not, could subject us to costly and time-consuming litigation, require us to acquire expensive licenses, prohibit us from selling products and harm our business.***

The storage and networking industries are characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have in the past received and may in the future receive inquiries from other intellectual property holders and may become subject to claims

that we infringe their intellectual property rights, particularly as we expand our presence in the market and face increasing competition. The costs associated with any actual, pending or threatened litigation could negatively impact our operating results regardless of outcome.

We currently have a number of agreements in effect pursuant to which we have agreed to defend, indemnify and hold harmless our customers, suppliers and channel partners from damages and costs which may arise from the infringement by our products of third-party patents, trademarks or other proprietary rights. The scope of these indemnity obligations varies, but may, in some instances, include indemnification for damages and expenses, including attorneys' fees. Our insurance may not cover intellectual property infringement claims. A claim that our products infringe a third party's intellectual property rights could harm our relationships with our customers, may deter future customers from purchasing our products and could expose us to costly litigation and settlement expenses. Even if we are not a party to any litigation between a customer and a third party relating to infringement by our products, an adverse outcome in any such litigation could make it more difficult for us to defend our products against intellectual property infringement claims in any subsequent litigation in which we are a named party. Any of these results could harm our brand and operating results.

Any intellectual property rights claim against us or our customers, suppliers and channel partners, with or without merit, could be time-consuming, expensive to litigate or settle, divert management resources and attention and force us to acquire intellectual property rights and licenses, which may involve substantial royalty payments. Further, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. An adverse determination also could invalidate our intellectual property rights and prevent us from offering our products to our customers and may require that we procure or develop substitute products that do not infringe, which could require significant effort and expense. We may have to seek a license for the technology, which may not be available on reasonable terms or at all, may significantly increase our operating expenses or require us to restrict our business activities in one or more respects. Any of these events could seriously harm our business, operating results and financial condition. In addition, parties to intellectual property litigation often announce the results of hearings, motions or other interim developments, and if securities analysts or investors perceive these results to be negative, it could have a material and adverse effect on the price of our common stock.

***The success of our business depends in part on our ability to protect and enforce our intellectual property rights.***

We rely on a combination of patent, copyright, service mark, trademark, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. There can be no assurance that any patents will issue with respect to our pending patent applications in a manner that gives us the protection that we seek, if at all, or that any patents issued to us will not be challenged, invalidated or circumvented. Our issued patents and any patents that may be issued in the future with respect to pending or future patent applications may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. Because of various reasons, we may not be able to enforce or maintain our intellectual property rights. We cannot be certain that the steps we have taken will prevent unauthorized use of our technology or reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive with ours or that design around our intellectual property. Although we endeavor to sign confidentiality agreements with our employees and others who may have access to our trade secrets, we cannot guarantee that we have entered into these agreements with all such parties, nor that the agreements we have entered will not be breached.

Protecting against the unauthorized use of our intellectual property, products and other proprietary rights is expensive and difficult. Litigation may be necessary in the future to enforce or defend our intellectual property rights or to determine the validity and scope of the proprietary rights of others. There can be no assurance that we will have the financial resources to conduct such litigation. Any such litigation could result in substantial costs and diversion of management resources, either of which could materially and adversely affect our business, operating results and financial condition. In addition, many of our current and potential competitors have the ability to dedicate substantially greater resources to defending intellectual property infringement claims and to enforcing their intellectual property rights than we have. As a result, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our products are available.

An inability to adequately protect and enforce our intellectual property and other proprietary rights could seriously harm our business, operating results and financial condition.

***Adverse economic conditions and reduced information technology spending could have an adverse impact on our revenue, revenue growth rates and operating results.***

Our business depends on the overall demand for information technology, and in particular for storage infrastructure, and on the capital spending budgets and financial health of our current and prospective customers. The purchase of our products is often discretionary and may require our customers to make significant initial commitments of capital. A general economic downturn, such as the

slowdown that began in 2008, could dramatically reduce business spending on technology infrastructure. In response to a global economic slowdown, including a deterioration in their own financial condition, or an inability to obtain financing for capital investments, our customers and customer prospects could reduce or defer their spending on storage infrastructure, which could result in lost opportunities, declines in bookings and revenue, order cancellations or indefinite shipping delays.

***We expect to face numerous challenges as we transact business internationally.***

Our business has developed internationally. As of July 31, 2016, we had 78 sales and marketing employees worldwide as well as over 100 channel partners in over 30 countries. Although we expect a portion of our future revenue growth will be from channel partners and end-customers located outside of the United States, we may not be able to increase international market demand for our products.

We expect to face numerous challenges as we attempt to grow our operations, channel partner relationships and end-customer base internationally, including attracting and retaining distributors and resellers with international capabilities or distributors and resellers located in international markets. Our revenue and expenses could be adversely affected by a variety of factors associated with international operations, some of which are beyond our control, including:

- difficulties of managing and staffing international offices, and the increased travel, infrastructure and legal compliance costs associated with international locations;
- difficulty in collecting accounts receivable and longer collection periods;
- difficulty in contract enforcement;
- regulatory, political or economic conditions in a specific country or region;
- compliance with local laws and regulations and unanticipated changes in local laws and regulations, including tax laws and regulations;
- compliance with local privacy laws and regulations and unanticipated changes as country or region-specific privacy laws and regulations are enacted or expanded;
- export and import controls, trade protection measures, FCPA compliance and other regulatory requirements;
- economic sanctions enacted by the United States against certain countries, companies, and individuals, including those sanctions enacted in 2014 against entities located in Russia and Ukraine;
- effects of changes in currency exchange rates;
- potentially adverse tax consequences;
- service provider and government spending patterns;
- reduced protection of our intellectual property and other assets in some countries;
- greater difficulty documenting and testing our internal controls;
- differing employment practices and labor issues; and
- acts of terrorism and international conflicts.

***We are exposed to the credit risk of some of our customers and to credit exposure in weakened markets, which could result in material losses.***

Most of our sales are on an open credit basis, which subjects us to the risk of loss resulting in nonpayment or nonperformance by our customers. Although we have programs in place that are designed to monitor and mitigate our customers' credit risks, we cannot assure you these programs will be effective in reducing our credit risks, especially as we expand our business internationally. If we are unable to adequately control these risks, our business, operating results and financial condition could be harmed.

***Our use of open source and third-party software could impose unanticipated conditions or restrictions on our ability to commercialize our products.***

We incorporate open source software into our products. Although we monitor our use of open source software closely, we cannot guarantee that we are aware of all the open source software included in our products. Moreover, the terms of many open source licenses have not been interpreted by courts in or outside of the United States, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our products. In this event, we could be

required to seek licenses from third parties in order to continue offering our products, to make generally available, in source code form, proprietary code that links to certain open source modules, to re-engineer our products, or to discontinue the sale of our products if re-engineering could not be accomplished on a timely basis, any of which could materially and adversely affect our business, operating results and financial condition.

We also incorporate proprietary third-party technologies, including software programs, into our products. We rely on license agreements to gain access to these third-party technologies and may need to enter into additional license agreements in the future. However, licenses to relevant third-party technology may not be or remain available to us on commercially reasonable terms, or at all. Therefore, we could face delays in product releases until equivalent technology can be identified, licensed or developed, and integrated into our current products. These delays, if they occur, could materially and adversely affect our business, operating results and financial condition.

***The accounting method for convertible notes that may be settled in cash if stockholder approval is obtained, could have a material effect on our reported financial results.***

In May 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (including Partial Cash Settlement)* , which has subsequently been codified as Accounting Standards Codification 470-20, *Debt with Conversion and Other Options* , or ASC 470-20. ASC 470-20 requires an entity to separately account for the liability and equity components of convertible debt instruments whose conversion may be settled entirely or partially in cash (such as our Notes if we obtain stockholder approval) in a manner that reflects the issuer's economic interest cost for non-convertible debt. The liability component of the Notes would initially be valued at the fair value of a similar debt instrument that does not have an associated equity component and would be reflected as a liability in our consolidated balance sheet. The equity component of the Notes would be included in the additional paid-in capital section of our stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component. This original issue discount would be amortized to non-cash expense over the term of the Notes, and we would record a greater amount of non-cash interest expense in current periods as a result of this amortization. Accordingly, we would report lower net income in our financial results because ASC 470-20 would require the interest expense associated with the Notes to include both the then current period's amortization of the debt discount and the Notes' coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments whose conversion may be settled entirely or partly in cash (such as our Notes if we obtain stockholder approval) are currently accounted for using the treasury stock method. Under this method, the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share unless the conversion value of the Notes exceeds their principal amount, then, for diluted earnings per share purposes, the Notes are accounted for as if the number of shares of common stock that would be necessary to settle the excess, if we elected to settle the excess in shares, are issued. The accounting standards in the future may not continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares, if any, issuable upon conversion of the Notes, then our diluted earnings per share could be adversely affected.

***If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.***

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) requires that we evaluate and determine the effectiveness of our internal control over financial reporting and provide a management report on the internal control over financial reporting. If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal control over financial reporting are effective, or if our independent registered public accounting firm, when required, is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

***We may acquire or make investments in other companies, each of which may divert our management's attention, and result in additional dilution to our stockholders and consumption of resources that are necessary to sustain and grow our business.***

Our business strategy may, from time to time, include acquiring other complementary products, technologies or businesses. We also may enter into strategic relationships with other businesses in order to expand our product offerings, which could involve preferred or

exclusive licenses, additional channels of distribution or discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to third-party or governmental approvals. Consequently, we can make no assurance that these transactions, once undertaken and announced, will close. Acquisitions or investments may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired business choose not to work for us, and we may have difficulty retaining the customers of any acquired business. Acquisitions may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for development of our business. Any acquisition or investment could also expose us to unknown liabilities.

Moreover, we cannot assure you that we would realize the anticipated benefits of any acquisition or investment. In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur significant charges or substantial liabilities, encounter difficulties integrating diverse business cultures, and become subject to adverse tax consequences, substantial depreciation or deferred compensation charges. These challenges related to acquisitions or investments could materially and adversely affect our business, operating results and financial condition.

***Our business is subject to the risks of earthquakes and other natural catastrophic events, and to interruption by man-made problems such as computer viruses or terrorism.***

Our sales headquarters, corporate headquarters and our current contract manufacturer are located in the San Francisco Bay area, which has a heightened risk of earthquakes. We may not have adequate business interruption insurance to compensate us for losses that may occur from a significant natural disaster, such as an earthquake, which could have a material adverse impact on our business, operating results and financial condition. In addition, acts of terrorism or malicious computer viruses could cause disruptions in our or our customers' businesses or the economy as a whole. To the extent that these disruptions result in delays or cancellations of customer orders or the deployment of our products, our business, operating results and financial condition would be adversely affected.

***Our results of operations could be affected by natural catastrophes in locations in which our customers, suppliers or contract manufacturers operate.***

Several of our customers, suppliers and our contract manufacturer have operations in locations that are subject to natural disasters, such as severe weather and geological events, which could disrupt the operations of those customers, suppliers and our contract manufacturer. Some of our customers and suppliers, including our sole flash memory supplier, Toshiba, are located in Japan and they have experienced, and may experience in the future, shutdowns as a result of these events, and their operations may be negatively impacted by these events. Our customers affected by a natural disaster could postpone or cancel orders of our products, which would negatively impact our business. In addition, a natural disaster could delay or prevent our contract manufacturer in the manufacture of our products, and we may need to qualify a replacement manufacturer. Moreover, should any of our key suppliers fail to deliver components to us as a result of a natural disaster, we may be unable to purchase these components in the necessary quantities or may be forced to purchase components in the open market at significantly higher costs. We may also be forced to purchase components in advance of our normal supply chain demand to avoid potential market shortages. In addition, if we are required to obtain one or more new suppliers for components or use alternative components in our solutions, we may need to conduct additional testing of our solutions to ensure those components meet our quality and performance standards, all of which could delay shipments to our customers and adversely affect our financial condition and results of operations.

***The conditional conversion feature of our Notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of our Notes is triggered, holders of the notes will be entitled to convert the Notes at any time during specified periods at their option. Even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

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

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this

periodic report, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below market expectations, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventory valuation, product warranty, stock-based compensation, and deferred income tax valuation allowances.

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

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

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

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

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

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

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

Because we incorporate encryption technology into our products, our products are subject to United States export controls and may be exported outside the United States only with the required level of export license or through an export license exception. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to introduce products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies affected by such regulations, could result in decreased use of our products by, or an inability to export or sell our products to, existing or prospective customers with international operations and harm our business. In addition, any failure by us to comply with these rules and regulations could subject us to significant fines and penalties.

***Failure to comply with governmental laws and regulations could harm our business.***

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, operating results and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could materially harm our business, operating results and financial condition.

***We are subject to environmental, health and safety laws and regulations pursuant to which we may incur substantial costs or liabilities, which could harm our business, operating results or financial condition.***

We are subject to various state, federal, local and international laws and regulations relating to the environment or human health and safety, including those governing the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. These laws and regulations have been enacted in several jurisdictions in which we sell our products, including the European Union, or EU, and certain of its member countries. For example, the EU has enacted the Restriction on Hazardous Substances, or RoHS, and Waste Electrical and Electronic Equipment, or WEEE, directives. RoHS prohibits the use of certain substances, including lead, in certain products, including hard drives, sold after July 1, 2006. The WEEE directive obligates parties that sell electrical and electronic equipment in the EU to put a clearly identifiable mark on the equipment, register with and report to EU member countries regarding distribution of the equipment and provide a mechanism to take back and properly dispose of the equipment. There is still some uncertainty in certain EU countries as to which party involved in the manufacture, distribution and sale of electronic equipment will be ultimately responsible for registration, reporting and disposal. Similar legislation may be enacted in other locations where we sell our products. We will need to ensure that we comply with these laws and regulations as they are enacted, and that our component suppliers also comply with these laws and regulations. If we or our component suppliers fail to comply with the legislation, our customers may refuse or be unable to purchase our products, which could harm our business, operating results and financial condition.

Pursuant to such laws and regulations, we could incur substantial costs and be subject to disruptions to our operations and logistics or other liabilities. For example, if we were found to be in violation of these laws or regulations, we could be subject to governmental fines or other sanctions and liability to our customers. In addition, we have to make significant expenditures to comply with such laws and regulations. Any such costs or liabilities pursuant to environmental, health or safety laws or regulations could have a material adverse effect on our business, operating results or financial condition.

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

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

***If our security measures are breached or unauthorized access to our data is otherwise obtained, our products may be perceived as not being secure, customers may reduce the use of or stop using our solutions and we may incur significant liabilities.***

Security breaches could result in the loss of information, litigation, indemnity obligations and other liability. While we have security measures in place, our systems and networks are subject to ongoing threats and therefore these security measures may be breached as a result of third-party action, including cyber-attacks or other intentional misconduct by computer hackers, employee error, malfeasance or otherwise. This could result in one or more third parties obtaining unauthorized access to our data, including intellectual property and other confidential business information. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Third parties may also attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data, including intellectual property and other confidential business information. If an actual or perceived breach of our security occurs, the market perception of the security of our products could be harmed, we could lose potential sales and existing customers or we could incur other liability.

***We have been, and may in the future be, the subject of actions taken by "activist" stockholders, which may cause us to incur additional costs which could harm our business and which could adversely affect our operating results and financial condition.***

We have been, and may in the future be, the subject of actions taken by "activist" stockholders. For example, in early 2016, we were advised by certain activist stockholders that they intended to nominate three directors for election to our board of directors at our 2016 annual meeting of stockholders. Although the activist stockholders ultimately did not pursue a proxy contest, we incurred additional expense in preparing our proxy materials for our 2016 annual meeting. Any future proxy contests could be costly and time-consuming, and could interfere with the ability of our Board and senior management to devote all of their attention to our business, which could adversely affect our operations. In addition, any perceived instability in the composition of our Board may create uncertainty in the marketplace about our business and stability and may be exploited by our competitors or cause concern to our customers which may result in the loss of potential business opportunities. The election of persons to our Board who do not agree with our business strategy could adversely affect the ability of our Board to function efficiently and could materially and adversely affect our ability to implement our business strategy, our business, operating results, and financial condition.

In addition activist stockholders could take other actions, including, but not limited to, making public demands that we consider certain strategic alternatives for the Company and, engaging in public campaigns to attempt to influence our corporate governance and/or our management. Such actions could cause us to incur substantial costs, including legal and other professional fees and expenses, may materially harm our relationships with current and potential customers, current and potential investors, current and potential lenders, and others, may otherwise materially harm our business, and may materially and adversely affect our operating results and financial condition.

**Additional Risks Related to Our Common Stock**

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

Our common stock is currently traded on the NYSE, but we can provide no assurance that there will be active trading on that market or any other market in the future, especially in the event there is a suspension of trading in or a delisting of our common stock or a default under our credit facilities or the indenture governing our Notes. If there is not an active trading market or if the volume of trading is limited, the price of our common stock could decline and holders of our common stock may have difficulty selling their shares. In addition, the trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Effective July 6, 2016 our shares were subject to a 1-for-4 reverse split. Adjusting for this change, our shares were sold in our IPO in September 2013 at $36.00 per share, and our stock price has ranged from $1.12 to $31.92 per share through July 31, 2016. Some of the factors affecting our volatility include:

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

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

***Litigation could cause us to incur substantial costs and divert our attention and resources.***

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Companies such as ours in the high technology industry are particularly vulnerable to this kind of litigation due to the high volatility of their stock prices. We and a number of our current and former officers and directors and others are or have been defendants in putative class and derivative action litigation, which is discussed below in the Section entitled "Legal Proceedings." Any litigation to which we are a party may result in the diversion of management attention and resources from our business and business goals. In addition, any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal and that may require us to make payments of substantial monetary damages or fines, or we may decide to settle lawsuits on similarly unfavorable terms, which could materially and adversely affect our business, financial condition or results of operations.

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

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

***The issuance of our Notes could affect the market price of our common stock.***

The market price of our common stock could be adversely affected by possible sales of common stock by investors who view our Notes as an attractive means of equity participation in us and by hedging or arbitrage activity involving our common stock.

***Conversion of our Notes may affect the market price of our common stock.***

If we do not obtain stockholder approval and satisfy our conversion obligation by delivering shares of common stock, or if we obtain stockholder approval and elect to satisfy our conversion obligation by paying cash and delivering shares of common stock, the issuance of additional shares will dilute the ownership of stockholders. In addition, any sales in the public market of shares of common stock that we issue upon conversion could materially and adversely affect the price of our common stock.

***Certain provisions in the indenture governing our Notes could delay or prevent an otherwise beneficial takeover or other takeover attempt of us.***

Certain provisions in our Notes and the indenture could make it more difficult or more expensive for a third party to acquire us. For example, if a takeover would constitute a fundamental change, holders of the Notes will have the right to require us to repurchase their notes in cash. In addition, if a takeover constitutes a make-whole fundamental change, we may be required to increase the conversion rate for holders who convert their notes in connection with such takeover. In either case, and in other cases, our obligations under the Notes and the indenture could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management.

***Anti-takeover provisions in our charter documents and under Delaware law could discourage, delay or prevent a change in control and may affect the trading price of our common stock.***

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors or the chief executive officer;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;

- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and
- require a super-majority of votes to amend certain of the above-mentioned provisions.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. Section 203 generally prohibits us from engaging in a business combination with an interested stockholder subject to certain exceptions.

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

We have not paid cash dividends on any of our classes of capital stock to date, have contractual restrictions against paying cash dividends, and currently intend to retain our future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock would be the sole source of gain for the foreseeable future.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

**Unregistered Sales of Equity Securities**

None

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable.

Table of Contents

**ITEM 6. EXHIBITS**

| Number | Exhibit Title | Incorporated by Reference | | | Filed Herewith |
|---|---|---|---|---|---|
| | | Form | Exhibit No. | Filing Date | |
| 10.1 | Master Services Agreement between GlobalLogic, Inc. and Violin Memory, Inc., dated June 17, 2016. | | | | X |
| 31.1 | Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 31.2 | Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* | | | | X |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* | | | | X |
| 101.INS | XBRL Instance Document. | | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema Document. | | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. | | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. | | | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. | | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. | | | | X |

* The certification furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIOLIN MEMORY, INC.

Dated: September 14, 2016 By: /s/ Kevin A. DeNuccio

**Kevin A. DeNuccio**
**President, Chief Executive Officer and Director**
**(Principal Executive Officer)**

Dated: September 14, 2016 By: /s/ Cory J. Sindelar

**Cory J. Sindelar**
**Chief Financial Officer**
**(Principal Financial Officer and Principal Accounting Officer)**

## EXHIBIT INDEX

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Exhibit 10.1

# MASTER SERVICES AGREEMENT

This Master Services Agreement (the "Agreement") is made and entered into as of June 17, 2016 (the "Effective Date"), by and between GlobalLogic Inc., a Delaware corporation, with offices at 1741 Technology Drive, 4th Floor, San Jose, California 95110, USA ("GlobalLogic") and Violin Memory Inc., with offices at 4555 Great America Parkway, Santa Clara, CA 95054, USA ("Client" or "Violin Memory"), (each a "Party" and collectively the "Parties"). All exhibits or attachments hereto, including the General Terms and Conditions (and all exhibits thereto) are hereby made a part of this Agreement.

Client Information

| Administrative Contact: | | Point of Contact for Notices: | |
|---|---|---|---|
| Name: | | Name: | Gary Lloyd |
| Title: | | Title: | General Counsel |
| Phone: | | Phone: | +1 650 396-1523 |
| Fax: | | Fax: | |
| Email: | | Email: | garylloyd@vmem.com |

GlobalLogic Information

Point of Contact for Notices:

ATTN: Legal Department

Email: legalnotice@globallogic.com

Phone: 408-273-8900

IN WITNESS WHEREOF, the duly authorized representatives of the Parties execute this Agreement as of the Effective Date.

| GlobalLogic Inc. | | Client: Violin Memory, Inc. | |
|---|---|---|---|
| Signature: | /s/ Zaheer Allam | Signature: | /s/ Gary Lloyd |
| Name: | Zaheer Allam | Name: | Gary Lloyd |
| Title: | CDO, Engineering | Title: | VP, General Counsel & Secretary |

**GlobalLogic Inc.**
**GENERAL TERMS AND CONDITIONS**

## I. DEFINITIONS

**1.1 *"Confidential Information"*** means all information disclosed by a party (the "Disclosing Party") to the other party (the "Receiving Party") relating to the Disclosing Party's (including it's parent, subsidiary and affiliate's) products, services, trade secrets, technical information, marketing plans, recruitment processes, customers, personnel information, financial data, proprietary information, business forecasts and strategies, transactions, computer programs, manuals, source code, object code, technical drawings and algorithms, supplier or potential supplier names, customer or potential customer names, business contacts, employee and contractor information, know-how, formulae, methods of doing business, proprietary processes, ideas, inventions, (whether patentable or not), schematics and other technical, business, Client and product development plans, forecasts, strategies and information).

**1.2 *"Change Order"*** means a mutually agreed written amendment to a Statement of Work, which is executed and dated by the parties and effective from such date of execution.

**1.3** " ***Client Work Product*** " means, collectively, all Deliverables (as defined below), exclusive of any Reserved Technologies, GlobalLogic Retained IP and/or GlobalLogic Velocity Toolset, embodied therein or practiced thereby.

**1.4** " ***Deliverables*** " mean any preliminary, interim or final software program, item, material, report, system to be provided by GlobalLogic to Client under the terms and conditions of this Agreement. Deliverables shall also include source code pertaining to the items in this Section.

**1.5 " *GlobalLogic Retained IP* "** means the following: (i) 'Goliath': Reference architecture and reference implementation(s) of a general-purpose framework for IoT applications; (ii) 'Nautilus': Reference architecture, design and implementation of a hypervisor-based automotive software platform; and (iii) 'Android OS Proactive Port': Porting of Android operating system to specific processor architecture(s).

**1.6 " *GlobalLogic Velocity Toolset* "** means GlobalLogic's pre-existing proprietary toolset (including any updates, upgrades or other modifications) operated by GlobalLogic and made available to Client to facilitate management of Agile product development.

**1.7 " *Intellectual Property Rights*** " means all (i) copyrights and other rights associated with works of authorship, including without limitation all exclusive exploitation rights, moral rights and mask-works, (ii) trademarks, trade names, logos and service marks, (iii) trade secrets and know-how, (iv) patents, designs and algorithms, (v) all other intellectual property and proprietary rights of every kind and nature now or hereafter recognized in any country or jurisdiction in the world and however designated, whether arising by operation of law, contract, license or otherwise, (vi) with respect to any particular information, all rights in such information under applicable law, including, without limitation, all of the foregoing Intellectual Property Rights and rights under any other law that gives a person, independent of contract, a right to control or preclude another person's use of or access to the information on the basis of the rights holder's interest in the information; and (vii) all registrations, applications, renewals, extensions, continuations, divisions or reissues of any of the foregoing, now or hereafter recognized in any country or jurisdiction in the world.

**1.8** " ***Pre-Existing Materials*** *"* means any materials, methodology, process, technique, code, information, inventions, procedures, technology and know-how created, developed, licensed, or otherwise acquired by GlobalLogic independent of this Agreement and the Services to be rendered hereunder which are not based upon and do not incorporate any Client Confidential Information or any Intellectual Property Rights of Client.

**1.9 " *Reserved Technology*** " means all (i). Pre-Existing Materials developed by GlobalLogic that do not embody in any manner and are not derived from Client's Confidential Information or Intellectual Property, and (ii), developed by GlobalLogic outside the scope and independently of this Agreement and are not derived from Client's Confidential Information or Intellectual Property.

**1.10** " ***Services*** " means the services to be performed or which are actually performed by GlobalLogic under this Agreement.

**1.11 " *Statement of Work* "** means written work orders which contain terms including but not limited to requirements and specifications, delivery and performance schedules, fees and expenses, Deliverables, and Parties' technical points of contact for Services on an ongoing basis. Upon mutual, written acceptance of a work order by Parties, such work order will be a "Statement of Work or SOW".

## 2. PERFORMANCE OF SERVICES

**2.1 Performance of Services.** GlobalLogic will perform Services in a professional and workmanlike manner in accordance with commercially reasonable industry standards and the terms of this Agreement and each Statement of Work. Except as otherwise expressly set forth in a Statement of Work, GlobalLogic will provide, at its own expense, a place of work and all equipment and tools stated to be free of charge in Exhibit F .

**2.2 Changes to Services.**

**2.2.1 Change Proposals.** Upon the receipt of a proposal from Client to change the terms of a Statement of Work (a " ***Change Proposal*** "), GlobalLogic will promptly provide (a) an impact analysis of such Change Proposal and (b) its financial impact (if any) and (c) GlobalLogic's written acceptance or rejection of the proposal. Client understands and agrees that GlobalLogic has no obligation to accept any Change Proposal materially altering the original terms and conditions of the Statement of Work or are otherwise commercially unreasonable.

**2.2.2 Change Orders.** If a Change Proposal is mutually agreed upon by Parties, it shall be signed by Parties in the form of a Change Order as defined in Section 1.2.

**2.3 Team Performance Standards** . Services rendered by GlobalLogic on a time and materials basis by the Lab team, as defined below, will comply in all material respects with a Service Level Agreement (" ***SLA*** ") as mutually agreed upon in writing by the Parties. The SLA adopted by the Parties shall be appended to this Agreement as Exhibit E . With respect to Services rendered by GlobalLogic on a time and materials basis only, a "Material Performance Deficiency" means a failure to comply with SLA commitments. Client may report a Material Performance Deficiency within thirty (30) days of such Material Performance Deficiency, by sending a Notice in the manner described in Section 10.6, which Notice shall specify the nature, time, and impact of any purported Material Performance Deficiency. In the event of a Material Performance Deficiency, GlobalLogic shall, acting in good faith, reduce payments to the extent of the impact of a material deficiency on the product's functionality. More than three (3) Material Performance Deficiencies within a two (2) month period shall be deemed a material breach of the Agreement.

**2.4 Personnel.** With respect to any employees or subcontractors who perform the Services on behalf of GlobalLogic, GlobalLogic will comply with the requirements set forth in the attached Exhibit H with respect to such employees or subcontractors.

**3 COMPENSATION; FINANCIAL TERMS**

**3.1 Fees.** Subject to the terms and conditions of this Agreement, Client will pay GlobalLogic the undisputed fees for the resources engaged pursuant to the plan set forth in Exhibit B or as specified in a Statement of Work, as applicable (" ***Fees*** "). GlobalLogic's applicable pricing and reimbursement policies are set forth in Exhibit A and Exhibit D , respectively, as such Exhibit may be updated from time to time by GlobalLogic with at least sixty (60) days prior written notice to Client.

**3.2 Expenses.** Unless expressly provided otherwise in Exhibit D or an applicable Statement of Work, GlobalLogic will be solely responsible for all expenses incurred by any of its employees or agents in connection with performing the Services or otherwise performing its obligations under this Agreement.

**3.3 Invoicing.** Unless otherwise expressly provided in the applicable Statement of Work, (a) GlobalLogic will submit invoices to Client on a monthly basis, generally on the last day of each calendar month, for Services performed during the applicable period (b) payment to GlobalLogic of Fees and expenses will be due forty-five (45) calendar days from the date of the invoice for such Fees and expenses. In the event Client disputes any Fees or expenses, Client shall provide written notice to GlobalLogic of such dispute within fifteen (15) days of the invoice date, which notice shall specify the disputed items and Client's basis for its dispute.

**3.4 Payment.** Payment may be made either by bank wire transfer to GlobalLogic's bank in the United States of America or by bank draft made payable to GlobalLogic. In the case of payment by wire transfer, the wire instructions are as follows:

| | |
|---|---|
| Bank Name: | Bank of America N.A. |
| Bank account name: | GlobalLogic |
| Account No.: | 1499982858 |
| Payment by ACH.: | ABA is 12200030 |
| Payment by wire.: | ABA is 026009593 |
| Swift code.: | BOFAUS3N |
| Comments: | [Please Reference GlobalLogic and Invoice Number] |

**3.5 Taxes.** All amounts payable under this Agreement shall exclude all applicable sales, use and other taxes and all applicable export and import fees, customs duties and similar charges arising out of the performance of the Services. Client will be responsible for payment of all such taxes (other than taxes based on GlobalLogic's income or employment taxes), fees, duties and charges, and any related penalties and interest, arising from the payment of any Fees under this Agreement or the delivery of any Services under this Agreement. Client will make all payments required under this Agreement to GlobalLogic free and clear of, and without any reduction for, any withholding taxes. Any such taxes imposed on any payments to GlobalLogic under this Agreement will be Client's sole responsibility, and Client will, upon GlobalLogic's request, provide GlobalLogic with official receipts issued by the appropriate taxing authority, or such other evidence and GlobalLogic may reasonably request, to establish that such taxes have been paid.

**3.6 Late Payments; Interest.** Any outstanding balance of any fee or other amount payable under this Agreement unpaid when due will accrue interest at one percent (1.0%) per month or the maximum rate permitted by applicable law, whichever is less, from the due date until paid.

**3.7 Client Representation** . Client represents that it has the financial viability to fulfill its obligations under this Agreement. In the event Client is no longer a publicly traded entity, GlobalLogic reserves the right to request financial statements of Client no more than on a half yearly basis and with forty-five (45) days' notice.

**3.8 Special terms Related to Services Provided on a "Time and Materials" Basis.** The following terms shall apply only to Services provided on a "time and materials" basis.

**3.8.1 Annual Review of Relationship.** All billing rates established herein or in a Statement of Work are subject to an annual increase of four point twenty-five percent (4.25%), effective on each yearly anniversary of the effective date of this Agreement or Statement of Work, as applicable, and as mutually agreed upon by the Parties. The rate changes will first be reflected in invoices for the month following each such anniversary.

**3.8.2 Promotion and Seniority of Team Members.** GlobalLogic, with sixty (60) days' notice to Client, may increase the billing rate in the event of a promotion or seniority change to any team member that places such team member into a different billing bracket. However, notwithstanding the foregoing, Violin shall be given a thirty (30) day grace period in which the higher billing bracket shall not apply in the event GlobalLogic promotes or makes a seniority change to more than twenty (20%) of the dedicated team members consistent with the Resourcing Plan. In lieu of paying the increased rate for a team member under this Section 3.8.2, Client may instead elect to adjust the team composition to maintain a team experience and billing level approximately constant.

**3.8.3 Lab Team Ramp-Up; Ramp-Down; Transfer**

**A. Ramp-Up.** The minimum anticipated headcount for the Lab is set forth in the Resourcing Plan attached as Exhibit B .

**B. Ramp-Down.** If Client elects to reduce the team size set forth in Exhibit B or in any Statement of Work, Client shall provide a "ramp-down" Notice in writing to GlobalLogic in the manner described in the table below; provided that, except for a termination of the Agreement pursuant to Section 9.3, Client shall not have the right to decrease the size of the Lab team until the one-year anniversary of the Effective Date:

| Number of individuals the team is being reduced by | Corresponding Ramp down Notice Period (Calendar Days) |
|---|---|
| 1 – 5 | 30 |
| 6 – 20 | 60 |
| 20+ | 90 |

Client may give Notice simultaneously in each bracket, to reduce the team gradually over time. In the event such Notice is not provided, and the team is reduced immediately, Client will be invoiced for 75% of what the billing for these individuals would be under the Statement of Work and for the duration of the Notice period. Except in the case of simultaneous Notices as permitted in this paragraph, Client may only provide one "ramp-down" notice in any given thirty (30) day period.

**3.9 Insurance.** During the term of this Agreement, GlobalLogic agrees to keep in full force and effect: (a) comprehensive general liability insurance in an amount not less than $2,000,000 per occurrence for bodily injury, death, and property damage and (b) workers' compensation insurance in an amount no less than that required by applicable law. Upon Client's request, GlobalLogic shall give Client certificates or other evidence of such insurance. GlobalLogic will also maintain insurance in a form and amount prudent for its business and to adequately cover the any damage or loss to any tangible Client Materials in GlobalLogic's possession. GlobalLogic shall promptly notify Client if there is a material reduction in Global Logic's insurance.

## 4. CONFIDENTIALITY

**4.1 Use and Disclosure .** During the term of this Agreement, each Receiving Party will (a) hold all Confidential Information of the Disclosing Party in strict trust and confidence, (b) refrain from using or permitting others to use such Confidential Information in any manner or for any purpose not expressly permitted or required by this Agreement, (c) refrain from disclosing or permitting others to disclose any such Confidential Information to any third party without obtaining the Disclosing Party's express prior written consent on a case-by-case basis, and (d) limit disclosure of the Confidential Information to employees or agents of the Receiving Party who have a reasonable need to have such Confidential Information in connection with the performance of the Services. To the extent a Party has disclosed information that constitutes a trade secret under law; the Receiving Party agrees to protect such trade secret for so long as the information qualifies as a trade secret under applicable law, notwithstanding the expiration of the foregoing.

**4.2 Exceptions.** The obligations set forth in Section 4.1 will not apply with respect to any Confidential Information that: (a) the Receiving Party lawfully knew prior to the Disclosing Party's first disclosure to the Receiving Party, (b) a third party rightfully disclosed to the Receiving Party free of any confidentiality duties or obligations, (c) is, or through no fault of the Receiving Party has become, generally available to the public, or (d) is independently developed by the Receiving Party without use of or reference to the Disclosing Party's Confidential Information. Additionally, the Receiving Party will be permitted to disclose Confidential Information to the extent that such disclosure is expressly approved in writing by the Disclosing Party, or is required by law, subpoena, or court order, provided that the Receiving Party immediately notifies the Disclosing Party in writing of such required disclosure, if legally permitted to do so, and cooperates with the Disclosing Party, at the Disclosing Party's reasonable request and expense, in any lawful action to contest or limit the scope of such required disclosure, including filing motions and otherwise making appearances before a court. Furthermore,

either party may provide a copy of this Agreement or otherwise disclose its terms in connection with any legal or regulatory requirement, financing transaction, or due diligence inquiry.

**4.3 Return.** Upon the Disclosing Party's request and upon any termination or expiration of this Agreement, the Receiving Party will promptly (a) return to the Disclosing Party or, if so directed by the Disclosing Party, destroy all tangible embodiments of the Confidential Information (in every form and medium), (b) permanently erase all electronic files containing or summarizing any Confidential Information except for those files residing in a Party's archives or backup tapes kept in the ordinary course of business (which shall be subject to the ongoing confidentiality obligations of this Agreement), and (c) certify to the Disclosing Party in writing that the Receiving Party has fully complied with the foregoing obligations.

**4.4 Cooperation.** Each Receiving Party will notify and cooperate with the Disclosing Party in enforcing the Disclosing Party's rights if the Receiving Party becomes aware of a threatened or actual violation of the Disclosing Party's confidentiality requirements by a third party. Upon reasonable request by the Disclosing Party, the Receiving Party will provide copies of the confidentiality agreements entered into with its agents or independent contractors, which shall be no less restrictive than the confidentiality obligations between Parties under this Agreement.

**4.5 Remedies.** The Receiving Party acknowledges that monetary damages may not be a sufficient remedy for unauthorized disclosure of Confidential Information and that the Disclosing Party shall be entitled, without waiving any other rights or remedies, to such injunctive or equitable relief as may be deemed proper by a court of competent jurisdiction, without the need to post a bond.

## 5. INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

**5.1 Ownership of Deliverables.** Upon payment to GlobalLogic and subject to the terms and conditions of this Agreement, ownership and all right, title and interest in and to all Client Work Product will be transferred to Client. Subject to the terms and conditions of this Agreement, and to the extent permitted by applicable law, all such Client Work Product shall be considered "works for hire," provided that, to the extent that any of the foregoing may not be deemed a "work for hire," or in the event that Client may not, by operation of law, be deemed to own any such Client Work Product, GlobalLogic agrees to assign to Client, and to the extent permitted by applicable law does hereby assign to Client, all right, title and interest in and to such Client Work Product and all Intellectual Property Rights embodied therein or practiced thereby.

**5.2 Ownership of Client Materials.** Any and all technology, code, information, documentation, or materials provided by Client to GlobalLogic in connection with GlobalLogic's performance of the Work, including, without limitation, product materials, product and business information of Client, and software programs (collectively, " **Client Materials** "), together with all Intellectual Property Rights therein, are and shall be owned by, and shall be the sole and exclusive property of, Client.

**5.3 License to Client Materials.** Client hereby grants to GlobalLogic a worldwide, royalty-free, nonexclusive, limited license to use the Client Materials for the sole purpose of GlobalLogic's performance of the Services pursuant to a Statement of Work. Except as is expressly permitted in a Statement of Work to produce Deliverables, GlobalLogic shall not directly or indirectly (a) use any of the Client Materials to develop any software or documentation that is similar to (or replicates the functionality of) any Client Materials, (b) disassemble, decompile, reverse engineer, modify, translate or otherwise make any attempt to discover any Client source code or underlying organization, structures, ideas or algorithms of Client software (except and only to the extent these restrictions are expressly prohibited by applicable law), (c) encumber, rent, lease, sublicense, distribute or transfer any Client Materials, (d) copy, adapt, combine, create derivative works of, translate, localize, port or otherwise modify any Client Materials, (e) use the Client Materials, or allow the transfer, transmission, export or re-export of all or any part of the Client Materials or any product thereof, in violation of the provisions of Section 10.12 of this Agreement, or (f) permit any third party to do or attempt to do any of the foregoing.

**5.3 Reserved Technologies.**

**5.3.1 License to Reserved Technologies.** Subject to the terms and conditions of this Agreement, GlobalLogic hereby grants to Client, under all of GlobalLogic's Intellectual Property Rights in the Reserved Technologies used in the Services provided under this Agreement, a non-exclusive, perpetual, irrevocable, worldwide, fully paid, royalty free license in and to all Reserved Technologies to the extent embodied in, practiced by and used in conjunction with any Deliverables provided under this Agreement. For the sake of clarity, the foregoing license shall include the rights to use, reproduce, publicly display, publicly perform, distribute copies of, prepare derivative works based upon and, if applicable, to make, have made, offer to sell or rent, sell, rent, import and/or practice any and all such Reserved Technologies to the extent embodied in or practiced by any Deliverable provided under this Agreement, which rights shall be fully sub-licensable by Client in its discretion. Any rights granted to Client under this Section are also subject to §43a of the Lanham Act.

**5.3.2 Reservation of Certain Intellectual Property Rights.** Subject to the license granted by the preceding paragraph, GlobalLogic reserves all rights that are not expressly granted in this Agreement with respect to the Reserved Technologies and all Intellectual Property Rights associated with the Reserved

Technologies. Client acknowledges that the foregoing license is strictly non-exclusive and that GlobalLogic may use the Reserved Technologies for any purpose in GlobalLogic's discretion.

## 6 REPRESENTATIONS AND WARRANTIES

**6.1 General.** GlobalLogic represents, warrants, and covenants that:

(a) GlobalLogic has full right, power, and authority to enter into and perform this Agreement without the consent of any third party, including the right to grant all licenses granted by GlobalLogic in this Agreement; and

(b) GlobalLogic will comply with all laws, regulations, and ordinances applicable to GlobalLogic's performance of the Services and its other obligations under this Agreement, including export control laws, and has obtained (or before performing the Services will obtain) all governmental permits and licenses required for GlobalLogic to perform the Services and its other obligations under this Agreement; and

(c) GlobalLogic will make ensure that all deliverables are free of harmful viruses, time bombs, and other disruptive mechanisms. Additionally, GlobalLogic will perform the Services under this Agreement in a timely, professional, and workmanlike manner in accordance with the standards of the industry; and

(d). All Services will be rendered by professionals who possess the required qualifications to perform work outlined in the applicable Statement of Work;

(e) GlobalLogic will perform the Services in compliance with the Statement(s) of Work; and

(f) Client understands that Services do not include patent searches or other intellectual property review of Client specifications, instructions or Deliverables. No Deliverable shall, to GlobalLogic's knowledge and based on the foregoing, constitute an infringement or misappropriation of any third party's Intellectual Property Rights (except patents).

**6.2 Disclaimer of Warranty.** EXCEPT FOR THE EXPRESS WARRANTIES SET FORTH IN SECTION 6.1 ABOVE, NEITHER PARTY MAKES ANY REPRESENTATIONS AND GRANTS NO WARRANTIES, EXPRESS OR IMPLIED, EITHER IN FACT OR BY OPERATION OF LAW, BY STATUTE OR OTHERWISE, AND BOTH PARTIES SPECIFICALLY DISCLAIM ANY OTHER WARRANTIES, WHETHER WRITTEN OR ORAL, OR EXPRESS OR IMPLIED.

**6.3 Essential Basis.** The parties acknowledge and agree that the disclaimers, exclusions and limitations of liability set forth in Sections 6 and 7 form an essential basis of this Agreement, and that, absent any of such disclaimers, exclusions or limitations of liability, the terms of this Agreement, including without limitation the economic terms, would be substantially different.

## 7 LIMITATION OF LIABILITY

IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR LOST PROFITS, LOSS OF DATA, OR FOR ANY SPECIAL, INDIRECT, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, HOWEVER CAUSED, ON ANY THEORY OF LIABILITY AND WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, ARISING UNDER ANY CAUSE OF ACTION AND ARISING OUT OF THIS AGREEMENT OR UNDER ANY STATUTE OR LAW CONNECTED INDEPENDENTLY OF THIS AGREEMENT TO SUCH CAUSE OF ACTION. THIS LIMITATION UPON DAMAGES AND CLAIMS IS INTENDED TO APPLY WITHOUT REGARD TO WHETHER OTHER PROVISIONS OF THIS AGREEMENT HAVE BEEN BREACHED OR HAVE PROVEN INEFFECTIVE. NEITHER PARTY'S TOTAL CUMULATIVE LIABILITY IN CONNECTION WITH THIS AGREEMENT, WHETHER IN CONTRACT, TORT, STATUTE OR OTHERWISE, WILL EXCEED THE AGGREGATE AMOUNT OF FEES PAID OR PAYABLE BY CLIENT TO GLOBALLOGIC FOR THE SERVICES GIVING RISE TO THE CAUSE OF ACTION. THE FOREGOING LIMITATION SHALL NOT APPLY TO A PARTY'S BREACH OF SECTION 4, SECTION 8, OR GLOBALLOGIC'S BREACH OF SECTION 5.3.

## 8 INDEMNIFICATION

**8.1 By GlobalLogic.** GlobalLogic will indemnify and hold harmless Client and its affiliates, employees, directors, officers, and agents from and against any and all liabilities, losses, damages, costs, and other expenses (including attorneys' and expert witnesses' costs and fees) arising from or relating to any third party claim caused by (a) intentional misconduct of GlobalLogic or any of its employees, agents, or subcontractors in performing the Services, or (b) subject to 6.1(f) above, the alleged breach or infringement of any intellectual property right of a third party (other than patents), by the Deliverables or by Client's use thereof as contemplated in this Agreement.

**8.2 By Client.** Client will indemnify GlobalLogic and its affiliates, employees, and agents from and against any and all liabilities, losses, damages, costs, and other expenses finally awarded (including reasonable attorneys' fees) arising from or relating to any third party claim caused by (a) intentional misconduct of Client or any of its employees, agents, or subcontractors (excluding GlobalLogic) in connection with the Services, or (b) the alleged breach of any intellectual property right of a third party (other than patents) by GlobalLogic's use as expressly permitted under this Agreement of any Client's Intellectual Property Rights; provided, however, that no such obligation by Client shall arise if the claim arises from GlobalLogic's Reserved Technology, Retained IP, or Velocity Toolset, or any other GlobalLogic Intellectual Property Rights.

**8.3 Procedures.** In the event of any third-party claim, demand, suit, or action (a **"Claim"** ) for which an indemnified party (or any of its affiliates, employees, or agents) is or may be entitled to indemnification hereunder, such indemnified party may, at its option, require the indemnifying party to defend such Claim at such indemnifying party's sole expense. The indemnified party shall provide prompt written notice of any Claim to the indemnifying party. The indemnifying party may not agree to settle any such Claim without the indemnified party's express prior written consent which shall not be unreasonably withheld. Without limiting the foregoing, the indemnified party shall be permitted, at its own expense, to participate in the defense of any claim under this Agreement by counsel of its own choice.

**9 TERM; TERMINATION**

**9.1 Term.** This Agreement shall commence on the Effective Date and shall continue in full force and effect for a period of three (3) years thereafter, unless terminated earlier as provided in Sections 9.2 or 9.3 below. The Agreement shall thereafter automatically renew for successive one (1) year terms, unless either Party provides written notice of its intent not to renew at least sixty (60) days prior to the end of the then current term, or unless terminated earlier as provided herein (the period during which this Agreement remains in effect, the "Term").

**9.2 Termination at Will.** Either party may terminate this Agreement or any Statement of Work at any time with or without cause for its convenience, effective upon ninety (90) days' notice to the other party.

**9.3 Termination for Breach.** Either party may, at its option, terminate this Agreement in the event of a material breach by the other party. Such termination may be effected only through a written notice to the breaching party, specifically identifying the breach or breaches on which such notice of termination is based. The breaching party will have the right to cure such breach or breaches within thirty (30) days of receipt of such notice, and this Agreement shall terminate in the event that such cure is not made within such thirty (30)-day period. The cure period for Client's breach of payment provision shall be ten (10) calendar days. No cure period shall be required in the event of a party's breach of Section 4 or GlobalLogic's breach of Section 5.3.

**9.3 Effects of Termination.**

**9.3.1 Survival.** Sections 1, 4, 5, 6, 7, 8, 9.3 and 10 will survive any termination or expiration of this Agreement. Expiration or termination of this Agreement will not relieve the parties of any obligation accruing prior to such expiration or termination.

**9.3.2 Return of Client Property.** Upon termination of this Agreement or earlier as requested by Client, GlobalLogic will deliver to Client any and all documents, samples, and other materials in GlobalLogic's possession or control that contain, summarize, or disclose any Work Product (in whatever stage of development or completion) or any Intellectual Property provided by or on behalf of Client. GlobalLogic shall, at Client's expense, also execute any patent, copyright and other documents of assignment, transfer or registration, and to provide such other assistance as Client may request to assist Client in obtaining, perfecting, evidencing or protecting its rights in the Deliverables.

**9.3.3 Compensation.** Upon termination of this Agreement by Client without cause for its convenience, unless the Statement of Work expressly provides otherwise, Client will pay GlobalLogic fees for all work performed up through the effective date of termination and will reimburse GlobalLogic for related expenses incurred by GlobalLogic before the effective date of such termination.

**9.3.4 Transition Services.** Upon termination of this Agreement for any reason (other than termination for Client's breach of its payment obligations). GlobalLogic shall provide reasonable transition assistance as mutually agreed to upon the Parties for no less than forty-five (45) days as requested by Client to facilitate the orderly transfer of Services to Client or another service provider at a reasonable rate to be agreed to in a separate signed writing.

**10 MISCELLANEOUS**

**10.1 Non-solicitation.** Each party agrees not to employ, or solicit or seek to employ, any employee of the other party for a period of six months after the employee's termination of employment, without the prior written consent of the other party. Upon breach of this Section 10.1 with respect to a particular employee, the party in breach shall pay to the other party liquidated damages equal to the greater of: (a) fifty percent (50%) of such employee's annual hiring salary (converted to US Dollars), or (b) fifty thousand dollars (US$50,000.00). The parties agree that this amount is reasonable estimate of the costs and expenses that other party has incurred in recruiting and maintaining the hired person.

**10.2 Independent Contractor Relationship.** GlobalLogic's relation to Client under this Agreement is that of an independent contractor. Nothing in this Agreement is intended or shall be construed to create a partnership, joint venture, or employer-employee relationship between Client and any of GlobalLogic's employees or agents. GlobalLogic is not an agent of Client and is not authorized, and shall not represent to any third party that it is authorized to make any commitment or otherwise act on behalf of Client as its agent.

**10.3 Governing Law; Venue.** This Agreement is governed by the laws of the State of New York without reference to any conflict of laws principles that would require the application of the laws of any other jurisdiction. The United Nations Convention on Contracts for the International Sale of Goods does not apply to this Agreement. Both parties irrevocably consent to the personal jurisdiction of the state and federal courts located in New York county, New York for any suit or action arising from or related to this Agreement, and waives any right it may have to object to the venue of such courts.

**10.4 Severability.** If any provision of this Agreement is, for any reason, held to be invalid or unenforceable, the other provisions of this Agreement will be unimpaired and the invalid or unenforceable provision will be deemed modified so that it is valid and enforceable to the maximum extent permitted by law.

**10.5 Assignment.** Each party may assign this Agreement to a successor in interest resulting from a merger, sale of stock or sale of all or substantially all of its assets. Subject to the foregoing, this Agreement may not be assigned, delegated, or otherwise transferred, in whole or in part, by operation of law or otherwise, by either party without the other party's express prior written consent, such consent not to be unreasonably withheld. Any attempted assignment, delegation, or transfer in violation of the foregoing will be null and void.

**10.6 Notices.** Each Party must deliver all notices, consents, and approvals required or permitted under this Agreement in writing to the other Party at the address listed on the signature page by courier, by certified or registered mail (postage prepaid and return receipt requested), or by a nationally-recognized overnight carrier. Notice will be effective upon receipt or refusal of delivery. Each Party may change its address for receipt of notice by giving notice of such change to the other Party. Mail that is not registered or certified, email messages, facsimiles or verbal communications shall not be considered "Notice" for the purpose of this Section.

**10.7 Force Majeure.** If either party's performance of any part of this Agreement, is prevented or delayed by a Force Majeure Event, that party will be excused from such performance to the extent it is necessarily prevented or delayed thereby. "Force Majeure Event" means an event beyond a party's reasonable control, including without limitation, fire, flood, war or riot, acts of civil or military authority (including governmental priorities), embargo, severe weather, strikes or labor disputes or labor shortages.

**10.8 Promotion Rights.** Client and GlobalLogic acknowledge GlobalLogic, with the prior written consent of Client's Chief Marketing Officer may publicize its consulting relationship with Client for the purpose of marketing and promotion, including by issuing a press release indicating the relationship or by mentioning such relationship on the GlobalLogic website (in each case by disclosing Client's name, general information and/or a link to Client's website).

**10.9 Construction.** Section headings are included in this Agreement merely for convenience of reference; they are not to be considered part of this Agreement or used in the interpretation of this Agreement. When used in this Agreement, "including" means "including without limitation." No rule of strict construction will be applied in the interpretation or construction of this Agreement. In the event of any conflict between this Agreement and a Statement of Work, this Agreement will control unless the Statement of Work expressly refers to the Parties' intent to alter the terms of this Agreement with respect to that Statement of Work.

**10.10 Waiver.** All waivers must be in writing and signed by the Party to be charged. Any waiver or failure to enforce any provision of this Agreement on one or more occasions will not be deemed a waiver of any other provision or of such provision on any other occasion.

**10.11 Entire Agreement; Amendments.** This Agreement is the final, complete, and exclusive agreement of the Parties with respect to the subject matter hereof and supersedes and merges all prior or contemporaneous communications and understandings between the Parties. No modification of or amendment to this Agreement will be effective unless in writing and signed by the Party to be charged.

**10.12 Export Regulations** . GlobalLogic agrees to provide all information, upon request, to Client at the time of delivery that is necessary for the determination of the Export Control Classification Numbers (ECCNs), Commodity Classification Automated Tracking System (CCATS) Numbers and/or Self Classification filing information for all Services performed or provided and delivered hereunder, in order that they will comply with the provisions of the Export Administration Regulations (15 C.F.R. §§ 730-774), promulgated under the authority of the Export Administration Act ("EAA"), 50 U.S.C. App. §§ 2401-2420 as amended), as well as any regulations or industry standards implementing the provisions of the law. GlobalLogic acknowledges that the export laws of the United States and any other applicable local export laws and regulations apply to Client Materials. GlobalLogic acknowledges and agrees: (a) that such export laws and regulations govern the use of the Client Materials; (b) to comply with all such export laws and regulations (including "deemed export" and "deemed re-export" regulations; (c) and no portion of the Client Materials will be exported, directly or indirectly, in violation of such laws and regulations (including the exposure of Client Materials to a listed prohibited or restricted person, or used for any purpose prohibited by such laws and regulations. GlobalLogic represents and warrants that GlobalLogic: (x) is not located in a country that is subject to a United States Government embargo and will not perform the Services in such country; or (y) is not listed on any United States Government list of prohibited or restricted persons or entities.

**10.13 Use of Subcontractors.** GlobalLogic may perform certain of its tasks or duties under a Statement of Work using one or more consultants or subcontractors. GlobalLogic shall remain solely responsible for the performance of the Services in accordance with the terms hereof by such consultants or subcontractors.

**[END OF GENERAL TERMS AND CONDITIONS]**

## EXHIBIT A

### Rates and Pricing Policies

This Exhibit sets forth the applicable rates for the Services and GlobalLogic's pricing policy as applicable to Rates, Hardware and Software, Expenses and any other incidental items:

### Rates:

**Pricing Terms**

1. These are loaded monthly FTE rates that include.
   1.1. GlobalLogic standard hardware and software
   1.2. Country specific holidays and vacation and other time off per GL HR policies.
   1.3. Charges for overtime will be mutually agreed upon between the Parties. If there is consistent over or under utilization of team members then we will jointly agree in a Statement of Work or Change Order to re-balancing of the team size, project specifications, deadlines, or SLAs.
2. Additional Hardware and Software as needed by GlobalLogic to perform the Services as specifically instructed by Client will be charged as a pass through
3. Pre-approved Short Term Travel will be charged as a pass through.
4. 'Outlier Pricing' for niche skills will be jointly discussed if needed.
5. Volume discounts:
   5.1. <20FTE: 0%
   5.2. 21-49 FTE: 1.5%
   5.3. >=50: 5%

| GL Role | Experience Level (Years) | FTEs | Rates Ukraine | Volume Discount 21-49 FTEs 1.5% | Volume Discount >=50 FTEs 5.0% |
|---|---|---|---|---|---|
| Junior Engineer | 0-1 | 4 | $ 3,960 | $ 3,901 | $ 3,762 |
| Engineer I | 1-2 | 10 | $ 4,860 | $ 4,787 | $ 4,617 |
| Engineer II | 2-4 | 15 | $ 5,760 | $ 5,674 | $ 5,472 |
| Sr Engineer I | 4-6 | 10 | $ 6,660 | $ 6,560 | $ 6,327 |
| Sr Engineer II | 6-8 | 7 | $ 7,560 | $ 7,447 | $ 7,182 |
| Principal Engineer I | 8-10 | 3 | $ 8,280 | $ 8,156 | $ 7,866 |
| Principal Engineer II | 10+ | 1 | $ 8,910 | $ 8,776 | $ 8,465 |
| Junior Analyst | 0-1 | 3 | $ 3,570 | $ 3,516 | $ 3,392 |
| Analyst I | 1-2 | 4 | $ 4,250 | $ 4,186 | $ 4,038 |
| Analyst II | 2-4 | 3 | $ 4,930 | $ 4,856 | $ 4,684 |
| Senior Analyst I | 4-6 | 2 | $ 5,610 | $ 5,526 | $ 5,330 |
| Senior Analyst II | 6-8 | 1 | $ 6,290 | $ 6,196 | $ 5,976 |
| Principal Analyst I | 8-10 | 0 | $ 6,900 | $ 6,797 | $ 6,555 |
| Principal analyst II | 10+ | 0 | $ 7,574 | $ 7,460 | $ 7,195 |
| ***Total / Average**** | | ***63*** | ***$ 5,780*** | ***$ 5,693*** | ***$ 5,491*** |
| *Eng** | | *46* | *$ 5,877* | *$ 5,789* | *$ 5,584* |
| *Test** | | *13* | *$ 4,616* | *$ 4,547* | *$ 4,385* |
| *Leadership** | | *4* | *$ 8,438* | *$ 8,311* | *$ 8,016* |

* Note: The average blended rates are for information only.

**Pricing Policies:**

**Hardware and Software:** If, in connection with this Agreement, GlobalLogic is required to provide Client with a dedicated team of consultants, then, unless otherwise set forth in a Statement of Work, GlobalLogic will provide Client at no additional cost with standard hardware and software, including Internet connectivity to its off-shore team, in accordance with GlobalLogic's then-current standard operating procedures as reflected in Exhibit F of this Agreement or in an applicable Statement of Work. Non-standard and project-specific materials including software and hardware not listed in Exhibit F or the applicable Statement of Work will be invoiced to the Client. Prior authorization from Client will be obtained by GlobalLogic before incurring any such expense.

**Expenses:** Travel expenses will include Client pre-approved travel and Client pre-approved Per Diem Rates for other living expenses as set forth a Statement of Work and Exhibit H, as applicable. Where a per diem is specified for expenses, per diem will be calculated based on number of days the employee travels to and from the location where Services are performed. The foregoing shall not apply to Services performed at GlobalLogic's facilities.

**Pricing Policies:** Each Agreement will set forth one or more of the following rates applicable to Services performed by GlobalLogic there under:

Monthly Rate : If the Agreement or applicable Statement of Work refers to a monthly rate and the employee is allocated to the Client on a full-time basis, invoices will not be adjusted for Paid Time Off (PTO). Hours will be tracked and reported but will not apply to the invoice value unless an individual is assigned to the project for a partial month. For work during a partial month, the monthly rate will be prorated by multiplying the monthly rate by the number of days actually worked divided by twenty standard work days (Monthly Rate * Days Worked / 20).

Daily Rate : If a resource is assigned to a full-time project, a standard "Person Day" is any time worked over 4 hours at any location and will be invoiced as a full day. For example, some employees may be required to work flexible schedules whereby they work 15 hours one day and 5 hours the next to accommodate deadlines for the benefit of Client. Under this policy, Client will be invoiced for 2 days. Should the employee work 3 hours one day, that day will not be invoiced. Any time worked on a weekend or holiday will be billed as a normal working day. For purposes of calculation the Daily Rate, GlobalLogic shall presume its employee(s) shall work for forty (40) hours per week. Hourly Rate (Part-Time Resources Only) : If the Agreement anticipates a part-time resource, the Statement of Work should specify an Hourly Rate to be applied to all hours worked.

**Other Policies**

Compensatory Time Off : GlobalLogic encourages its employees to work flexible hours to manage their work flow. If a GlobalLogic employee assigned to Client requires flexible hours that may interfere with the performance of the Services, GlobalLogic shall notify Client and both parties will use commercially reasonable efforts to ensure the Services are delivered timely.

Travel Time : If so required to perform the Services, Employees will be encouraged to travel on the weekends. If travel on weekends is possible, the Client will not be billed for travel time. If the employee is required to travel during week days, the Client will be billed accordingly.

Training Client shall bear the expense of the training provided to GlobalLogic employee(s) to provide the Services, which shall be billed to Client after prior mutual discussion and agreement before training is imparted to GlobalLogic employee(s).

**EXHIBIT B**

**Resourcing Plan**

The anticipated minimum headcounts are set forth below:

| | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 |
|---|---|---|---|---|---|
| **Headcount** | **21** | **21** | **21** | **21** | **21** |

GlobalLogic Confidential and Proprietary Document

## EXHIBIT C

Reserved as place holder.

## EXHIBIT D

### Travel/Expense Policy

Short term travel (less than 2 months): For any short term onsite travel to/stay at Violin Memory, Violin Memory shall pay GlobalLogic the offshore rates plus travel related charges and Per Diem allowances as stated below.

| Expense | Unit Cost | Comments |
|---|---|---|
| Per Diem (option1) | (Per Calendar Day)<br>USA: USD 300<br>Europe: EUR 300 | The per diem allowance covers accommodation, local transportation, gas, toll, parking, food, laundry, and phone charges outside office hours, internet connectivity from place of accommodation, visitor health insurance, etc. |
| Per Diem (option 2) | (Per Calendar Day)<br>North America: USD 90<br>Europe: EUR 90 | • The per diem allowance covers local transportation, gas, toll, parking, food, laundry, and phone charges outside office hours, internet connectivity from place of accommodation, visitor health insurance, etc.<br>• Accommodation will be charged at actuals in addition or can be arranged by Violin Memory |
| One time travel expenses per trip | Billed at actuals | Per round trip. This covers airfare, taxi to and from the airport and meals while traveling and other travel related expenses. |

Long Term travel (More than 2 months): US immigration laws require that such team members be paid in the US, Costs will be discussed with Violin Memory on a case by case basis.

All travel shall be pre-approved by Violin Memory and GlobalLogic will use commercially reasonable efforts to follow Violin Memory's travel policy.

**EXHIBIT E**

**Performance Based Variable Pricing (Risk / Reward)**

**Performance** based variable pricing (Risk/Reward) will be implemented based on the Risk Reward Framework described below:

## 1. Risk Reward Framework

### 1.1. GENERAL PROVISIONS

1.1.1. Purpose and Scope. This Service Levels Agreement Schedule (this " **SLA** ") sets forth Provider's (GlobalLogic's) and Customer's (Client's) agreement with respect to the Services that Provider will provide in connection with its performance under the Agreement of which this SLA is a schedule. Any capitalized terms not otherwise defined in this SLA are defined in the Agreement. This SLA describes the level of service that Provider will provide in order to support the Services to Customer in the following areas (each, a " **Performance Area** "):

- Lab-level KPIs
- R&D KPIs
- Technical Support KPIs
- Professional Services KPIs

1.1.2. Risk/Reward Model. This SLA applies to all Statements of Work (except as otherwise stated in the applicable Statement of Work) and is intended to: (1) give Provider financial incentives for meeting or exceeding Service Levels; and (2) provide financial disincentives for failing to achieve Service Levels, all as more fully set forth herein. Upon each anniversary of the Agreement, the Parties may mutually discuss and agree to revise the amounts for each Service Credit and Service Award and/or for the aggregate amounts of Service Credits and Service Awards earned during a reporting period.

1.1.3. Measurement and Monitoring. Unless otherwise expressly set forth herein, Provider will be responsible for implementing the capability to measure, monitor and report its performance against the terms of this Service Levels Agreement Schedule. Operational reporting frequency and procedures shall be as set forth in Exhibit A, attached hereto, or as otherwise set forth in the applicable Statement of Work.

## 2. DEFINITIONS

For purposes of this SLA, the following terms shall have the meanings ascribed to them below:

**"Critical Service Level"** means a Service Level that is designated as critical in Exhibit A or a Statement of Work.

" **Force Majeure Event** " means a default or delay which is caused, directly or indirectly, by: flood, earthquake, elements of nature or acts of God; wars, terrorist acts, riots, civil disorders, rebellions or revolutions in any country; or any other cause beyond the reasonable control of Provider.

**"Minimum Standard"** means the minimum standard of performance with respect to any given Service Level for purposes of determining whether Customer has earned a Service Credit, as set forth in Exhibit A or the applicable Statement of Work (and sometimes referred to as "Contractual Performance Level (Below Expectation)"). For the avoidance of doubt, the Minimum Standard does not refer to performance levels measured for operational purposes (sometimes referred to as "Operational Performance Level").

**"Prerequisites"** means the conditions, requirements, dependencies and activities for which Provider is not responsible pursuant to the Agreement and which must exist or occur to enable Provider to achieve Service Levels, as set forth in the applicable Statement of Work or as otherwise agreed by the Parties. Additionally, the term Prerequisites includes in all cases: (1) Customer's timely and sufficient provision of or access to all necessary equipment, supplies, Customer personnel or contractors, or other resources in connection with a specific Service Level; and (2) Customer's reasonable cooperation and assistance where and as needed by Provider.

“ **Rating Scale** ” means the following scale for rating Provider’s performance against applicable Service Levels:

| Rating | Meaning |
| --- | --- |
| Below Standard | With respect to a given Service Level, the Provider’s performance falls below the Minimum Standard for such Service Level, as set forth in the relevant Statement of Work. |
| Meets Standard | With respect to a given Service Level, Provider’s performance neither falls below the Minimum Standard nor meets or exceeds the Target Standard. |
| Exceeds Standard | With respect to a given Service Level, Provider’s performance exceeds the Target Standard for such Service Level, as set forth in the relevant Statement of Work. |

**“Service Award”** means awards earned by Provider pursuant to 3.3.1.

**“Service Credit”** means credits earned by Customer pursuant to Section 3.2.1.

**“Service Fees”** means fees paid or payable to Provider pursuant to the Agreement in consideration for services rendered by Provider. For the avoidance of doubt, the term Service Fees excludes taxes, duties, export/import fees, customs duties, travel and entertainment expenses or any other reimbursable expense.

“ **Service Levels** ” means the service level requirements set forth in Exhibit A or a Statement of Work for that is subject to a Minimum Standard or Target Standard.

**“SLA Report”** has the meaning set forth in Section 3.1.1.

**“Target Standard”** means minimum standard of performance with respect to any given Service Level for purposes of determining whether Provider has earned Service Awards, as set forth in Exhibit A or the applicable Statement of Work (and sometimes referred to as “Contractual Performance Level (Exceed Expectation)”). For the avoidance of doubt, the Target Standard does not refer to performance levels measured for operational purposes (sometimes referred to as “Operational Performance Level”).

## 3. PERFORMANCE STANDARDS

### 3.1. REPORTING

3.1.1. Frequency of Quarterly SLA Report. Commencing six months from the end of the month following the commencement of Services by Provider and on a quarterly basis thereafter, Provider will submit to Customer a report of its performance against all applicable Service Levels during the preceding three-month period utilizing the Rating Scale (the “ **Quarterly SLA Report** ”). The Quarterly SLA Report shall be due 10 days after the end of the relevant reporting period.

3.1.2. Acceptance. The Quarterly SLA Report shall be deemed accepted by Customer in its entirety unless Customer notifies Provider within fifteen (15) days after Customer’s receipt of the SLA Report that such report is not accepted. Such notice shall specifically identify each performance rating disputed by Customer and shall set forth in detail Customer’s factual basis for disputing such rating, and Provider will reasonably cooperate with Customer in good faith, at no additional charge to Customer, to assist Customer in verifying the contents of such report. Any performance rating not specifically identified and disputed by Customer shall be deemed accepted by Customer. Ratings disputes shall be resolved in the steering committee meetings as mutually agreed upon between the parties.

### 3.2. SERVICE CREDITS

3.2.1. Statements of Work. Subject to the terms hereof,

3.2.1.1. for each final “Below Standard” rating of Provider’s performance against Service Levels established within a Statement of Work, Customer may earn a Service Credit equal to one percent (1%) of quarterly Service Fees paid or payable by Customer for Services rendered by Provider during the relevant reporting period pursuant to such Statement of Work, except that quarterly Service Fees shall not be included in the calculation of Service Credits for any quarter in which the relevant Service Levels were not required to be measured; and

3.2.1.2. In no event shall Service Credits available pursuant to this Section 3.2.1 exceed five percent (5%) of Service Fees paid or payable by Customer pursuant to the relevant Statement of Work during the relevant reporting period.

3.2.2. Exhibit A. Subject to the terms hereof,

3.2.2.1. For each final “Below Standard” rating of Provider’s performance against Service Levels established within Exhibit A, if any, Customer may earn a Service Credit equal to one percent (1%) of quarterly Service Fees paid or payable by Customer for Services rendered by Provider during the relevant reporting period pursuant to all Statements of Work.

3.2.3. Aggregate Cap on Service Credits. In no event shall Service Credits available pursuant to Sections 3.2.1 and 3.2.2 in the aggregate (across all Services) exceed five percent (5%) of all Service Fees paid or payable by Customer for Services rendered during the relevant reporting period.

3.2.4. No Carry-Forward; Anti-stacking. Under no circumstances shall Customer be entitled to carry forward any Service Credits earned in one reporting period to any future reporting period. Customer shall not be entitled to combine Service Credit caps available under multiple Statements of Work.

3.2.5. Restrictions and Limitations. Notwithstanding anything to the contrary, Customer shall not be entitled to a Service Credit in the event the relevant “Below Standard” rating is attributable to the fault of Customer, a Force Majeure Event, or the failure of a Prerequisite.

3.2.6. Except as may otherwise be expressly set forth in the Agreement, including Client’s ability to terminate the Agreement for cause, Service Credits shall constitute Customer’s sole and exclusive remedy and Provider’s sole liability for not meeting Service Levels. Provider’s failure to meet or exceed the Minimum Standard for a particular Service Level shall not constitute a breach of the Agreement or applicable Statement of Work, subject to Section 2.3 of the Agreement.

**3.3. SERVICE AWARDS**

3.3.1. Statements of Work. Subject to the terms hereof,

3.3.1.1. for each final “Exceeds Standard” rating of Provider’s performance against Service Levels established within a Statement of Work, Provider may earn Service Award equal to one percent (1%) of quarterly Service Fees paid or payable by Customer for Services rendered by Provider during the relevant reporting period pursuant to such Statement of Work, except that quarterly Service Fees shall not be included in the calculation of Service Credits for any quarter in which the relevant Service Levels were not required to be measured; and

3.3.1.2. In no event shall Service Awards available pursuant to this Section 3.3.1 exceed five percent (5%) of Service Fees paid or payable by Customer pursuant to the relevant Statement of Work during the relevant reporting period.

3.3.2. Exhibit A. Subject to the terms hereof,

3.3.2.1. For each final “Exceeds Standard” rating of Provider’s performance against Service Levels established within Exhibit A, if any, Provider may earn a Service Award equal to one percent (1%) of quarterly Service Fees paid or payable by Customer for Services rendered by Provider during the relevant reporting period pursuant to all Statements of Work.

3.3.3. Aggregate Cap on Service Awards. In no event shall Service Awards available pursuant to Sections 3.3.1 and 3.3.2 in the aggregate (across all Services) exceed five percent (5%) of all Service Fees paid or payable by Customer for Services rendered during the relevant reporting period.

3.3.4. No Carry-Forward; Anti-stacking. Under no circumstances shall Customer or Provider be entitled to carry forward any Service Awards earned in one reporting period to any future reporting period. Provider shall not be entitled to combine Service Awards caps available under multiple Statements of Work.

### 3.4. CRITICAL PERFORMANCE LEVEL

3.4.1. A failure to achieve Critical Performance Level shall be deemed to have occurred only under the following circumstances:

3.4.1.1. Provider receives three (3) consecutive and final “Below Standard” ratings of its performance against the same Critical Service Level; or

3.4.1.2. Provider receives three (3) final “Below Standard” ratings of its performance against the same Critical Service Level during any rolling four-quarter period;

3.4.2. Notwithstanding anything to the contrary, any “Below Standard” rating that is attributable to the fault of Customer, a Force Majeure Event, or the failure of a Prerequisite shall not be considered for purposes of determining whether a failure to achieve Critical Performance Level has occurred.

**EXHIBIT F**

**GlobalLogic Standard Hardware/ Software/ Facilities and Network infrastructure**

**(included in rates)**

Local Development Environment

1. Infrastructure. Subject to the terms hereof, GlobalLogic will provide infrastructure for Team Members as set forth in the table below.

| Category | Description | Charges |
|---|---|---|
| **Communication** | Standard communication infrastructure including regular email, file transfer and voice services. | The following communication infrastructure is included at no additional cost:<br>Voice services : Each employee has access to voice services for placing and receiving official calls.<br>Audio Conference Bridge : Each project team has access to reservation less Conference Bridge for conference calls.<br>Video Conference Calls : Each major delivery center is equipped with Video Conferencing Facility and is available to Team Members at no additional cost. Client is solely responsible for providing Video Conferencing Equipment at its premises and adequate connectivity to GlobalLogic's network.<br>Fax and Printers : Fax machines and printers are conveniently located and available to all Team Members.<br>VoIP : GlobalLogic provides extensive support for VoIP to facilitate efficient international calls. |
| | VPN services over a shared communication link between GlobalLogic and Client | Included at no additional charge. Client is solely responsible for providing connectivity between its facilities and the VPN. |
| | Any other communication infrastructure such as dedicated internet connection/MPLS with guaranteed bandwidth, latency and uptime | Additional costs to Client will apply and will be determined based on specific requirements agreed upon in writing by the Parties.<br><br>Should Client desire an MPLS, Client must provide at least 60 days' advance written notice to GlobalLogic. All costs associated with MPLS will be billed to Client at GlobalLogic's actual cost. |
| **Capital Equipment** | Standard Desktop for Windows - Intel i5 2.4 GHz/4GB+RAM/160GB HDD/Windows 7 (Prof Edition) 19" LCD<br><br>or<br><br>Standard for MAC - MacMini with 2.3GHz dual-core Intel Core i5 / 4+GB RAM / 160 GB HDD / Snow Leopard | Provided to Developers at no additional cost to Client (MAC Desktops are provided only to IOS Developers and UX Designers). Every additional Windows Desktop and MAC Desktop requested by Client for use by Team Members shall be charged at $70 and $100 per month, respectively. |
| | Standard Laptop for Windows - Intel® i5 2.4 GHz/4GB+ RAM/120GB HDD/Windows 7 (Prof Edition) | Provided to Lead Engineer II*, Lead Analyst II* & Engineering Manager at no additional cost to Client (MAC Laptops are provided only to IOS Developers and UX Designers). Every additional Windows and MAC laptop requested by Client for use by Team Members shall be charged at the rates of $70 and $100 per month, respectively. |

| | | |
|---|---|---|
| | or<br><br>Standard Laptop for MAC - 2.4GHz dual-core Intel Core i5 / 2+GB RAM / 160 GB HDD / Snow Leopard | |
| | Standard Server – VM Xeon Processor 2.4 GHz/4GB RAM/160GB HDD | 1 VM server for every 5 offshore Team Members is included in the base rate; every additional VM server shall be charged at $150 per month and software cost additional at GlobalLogic's actual cost. |
| | Any other capital or software expenditure | Billed to Client at GlobalLogic's cost. |
| **Hosting** | Servers hosted on behalf of client partner at GlobalLogic offshore facility (in excess of 1 server every 5 Team Members) | $150 per server (up to 2 rack U size) per month. |

2. Standard Software. Subject to the terms hereof, the standard software included with each workstation type provided by GlobalLogic is listed below:

| **Standard Software (Desktop)** | **Standard Software (Laptop)** |
|---|---|
| Adobe Acrobat Reader | Adobe Acrobat Reader |
| SSH / telnet clients (Putty) | SSH / telnet clients (Putty) |
| Mozilla Firefox, Internet Explorer, Chrome | Mozilla Firefox, Internet Explorer, Chrome |
| | Microsoft Office Standard (Project Managers and above only) |
| Skype | Skype |
| .NET Framework | .NET Framework |
| JDK | JDK |
| Filezilla, SFTP | Filezilla, SFTP |
| 7-Zip | 7-Zip |
| Tortoise Sub Version SVN | Tortoise Sub Version SVN |
| | Cisco VPN client, Juniper SSL-VPN Host Checker |
| AV – Symantec | AV – Symantec |
| Google Apps Video Plug-in | Google Apps Video Plug-in |
| Managesoft | Managesoft |
| Softphone Zoiper | Softphone Zoiper |
| PDF Converter | PDF Converter |

3. Additional Software. In addition to providing the software set forth in Section 2 above, GlobalLogic will, at no additional cost to Client and subject to the terms hereof, make available the software listed below for applicable Team Members upon written request by Client, as needed to fulfill the requirements under the SOW:

| **Additional Software** | |
|---|---|
| **Laptops/Desktops** | MS Project (1 per team of 10) |
| | MS Visio (1 per team of 10) |
| **.NET Developers** | Visual Studio Professional Edition (one license/desktop) |
| | SQL Server Developer Edition (one license/desktop) |
| **iPhone and MAC Developers** | OSX |
| **JAVA Developers** | My Eclipse |

4. Server Software. Subject to the terms hereof, GlobalLogic will provide, at no additional cost to Client, one VM server per five engineers on a project. The standard VM server is provided with the following server OS as needed to satisfy project requirements:

| **Server Software** | |
|---|---|
| **Windows** | Windows Server Standard Edition |
| **Linux** | CentOS, Ubuntu (free versions) |

**EXHIBIT G**

**EXPECTED TIMEFRAMES**

Violin Memory and GlobalLogic will endeavor to support the following timeframes to the best of their abilities:

| Event / Activity | Timeframe |
|---|---|
| Conduct Planning session | June 10 th , 2016 |
| Complete Detailed Implementation Plan* | June 15 th , 2016 |
| Complete team structure and Client to provide job descriptions | |
| Complete contract | June 15 th , 2016 |
| Agree on Risk Reward framework and base KPIs | October 30 th , 2016 |
| Start initial team ramp up | July 1 st , 2016 |

* In addition Violin Memory and GlobalLogic will support the dates outlined in the Implementation Plan to the best of their abilities.

For clarity and the avoidance of doubt, the times described in this Exhibit G are nonbinding.

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**EXHIBIT H**

**PERSONNEL AND BACKGROUND CHECK REQUIREMENTS**

1. GlobalLogic will conduct background checks on its employees, agents, or subcontractors (collectively, "Personnel") that conform with the following requirements and procedures:

a. To the extent permitted by the law where Personnel performs the Services, GlobalLogic will require all Personnel candidates to successfully complete a background check (that complies with the requirements below) and drug screening as a condition of employment or contract.

b. Background Checks shall include screening for the following information (to the extent permitted by the laws where Personnel perform the Services):

1. A conviction (felony or misdemeanor) within the previous 7 years for a crime involving violent behavior (any job position);

2. An outstanding bench warrant or outstanding arrest warrants (any job position);

3. A conviction (felony or misdemeanor) within the previous 7 years for a crime involving some element of deceitfulness, untruthfulness or falsification bearing on the new hire's propensity to be truthful and honest (generally referred to as crimen falsi), including, but not limited to: crimes such as theft, burglary and check fraud (a job position with access to company bank accounts, company checks, company funds, consumer credit card information, access to inventory, or similar information);

4. A conviction (felony or misdemeanor) within the previous 7 years for a crime involving driving under the influence, reckless/aggressive driving, or vehicular homicide (a job that involves driving a company-owned vehicle or a private vehicle on company business);

5. A Consumer Report Investigation (CRI) and/or an Investigative Consumer Report (ICR); and

6. The "denied persons" consolidated screening list issued by the United States Department of Commerce.

e. GlobalLogic shall require all employees, as a condition of employment, to successfully complete a drug screening at least once per year or within three days of an offer of employment for new employees.

f. GlobalLogic will perform background checks once every 24 months on all current Personnel performing the Services.

2. GlobalLogic shall not permit any employee that fails to meet the standards in this Exhibit H to perform the Services.

**Exhibit 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin A. DeNuccio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Violin Memory, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 14, 2016

By: /s/ Kevin A. DeNuccio
Kevin A. DeNuccio
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Cory J. Sindelar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Violin Memory, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 14, 2016

By: /s/ Cory J. Sindelar
Cory J. Sindelar
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin A. DeNuccio, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Quarterly Report of Violin Memory, Inc. on Form 10-Q for the fiscal quarter ended April 30, 2016 (the " ***Report*** ") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Violin Memory, Inc. for the periods presented therein.

Date: September 14, 2016

By: /s/ Kevin A. DeNuccio
Kevin A. DeNuccio
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Cory J. Sindelar, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Quarterly Report of Violin Memory, Inc. on Form 10-Q for the fiscal quarter ended April 30, 2016 (the " ***Report*** ") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Violin Memory, Inc. for the periods presented therein.

Date: September 14, 2016

By: /s/ Cory J. Sindelar
Cory J. Sindelar
Chief Financial Officer
(Principal Financial Officer)