

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 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 October 31, 2019

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: 001-35667

AMBARELLA, INC.

(Exact name of registrant as specified in its charter)

Cayman Islands
(State or other jurisdiction of
incorporation or organization)

3101 Jay Street
Santa Clara, California
(Address of principal executive offices)

98-0459628
(I.R.S. Employer
Identification No.)

95054
(Zip Code)

(408) 734-8888
(Registrant's telephone number, including area code)

Title of each class	Trading Symbol	Name of each exchange on which registered
Ordinary Shares, \$0.00045 Par Value Per Share	AMBA	The Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of ordinary shares of the Registrant outstanding as of December 2, 2019 was 33,544,802 shares.

AMBARELLA, INC.
QUARTERLY REPORT ON FORM 10-Q
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ITEM 1. Financial Statements

AMBARELLA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	October 31, 2019	January 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 252,310	\$ 194,047
Marketable debt securities	148,481	164,861
Accounts receivable, net	21,609	26,212
Inventories	19,845	18,252
Restricted cash	9	11
Prepaid expenses and other current assets	5,174	6,206
Total current assets	447,428	409,589
Property and equipment, net	5,927	6,728
Deferred tax assets, non-current	10,320	10,587
Intangible assets, net	8,232	10,936
Operating lease right-of-use assets, net	10,595	—
Goodwill	26,601	26,601
Other non-current assets	5,386	2,412
Total assets	<u>\$ 514,489</u>	<u>\$ 466,853</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	18,697	12,801
Accrued and other current liabilities	28,447	24,700
Operating lease liabilities, current	2,161	—
Income taxes payable	955	993
Deferred revenue, current	545	529
Total current liabilities	50,805	39,023
Operating lease liabilities, non-current	8,519	—
Other long-term liabilities	9,925	8,341
Total liabilities	69,249	47,364
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preference shares, \$0.00045 par value per share, 20,000,000 shares authorized and no shares issued and outstanding at October 31, 2019 and January 31, 2019, respectively	—	—
Ordinary shares, \$0.00045 par value per share, 200,000,000 shares authorized at October 31, 2019 and January 31, 2019, respectively; 33,540,324 shares issued and outstanding at October 31, 2019; 32,303,540 shares issued and outstanding at January 31, 2019	15	15
Additional paid-in capital	245,490	188,516
Accumulated other comprehensive income	685	97
Retained earnings	199,050	230,861
Total shareholders' equity	445,240	419,489
Total liabilities and shareholders' equity	<u>\$ 514,489</u>	<u>\$ 466,853</u>

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

	<u>Three Months Ended October 31,</u>		<u>Nine Months Ended October 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	\$ 67,922	\$ 57,286	\$ 171,520	\$ 176,698
Cost of revenue	28,819	22,701	72,127	69,208
Gross profit	<u>39,103</u>	<u>34,585</u>	<u>99,393</u>	<u>107,490</u>
Operating expenses:				
Research and development	32,480	31,653	95,917	95,446
Selling, general and administrative	13,791	12,354	39,293	38,098
Total operating expenses	<u>46,271</u>	<u>44,007</u>	<u>135,210</u>	<u>133,544</u>
Loss from operations	(7,168)	(9,422)	(35,817)	(26,054)
Other income, net	1,917	993	6,308	2,517
Loss before income taxes	(5,251)	(8,429)	(29,509)	(23,537)
Provision (benefit) for income taxes	(942)	592	2,302	2,367
Net loss	<u>\$ (4,309)</u>	<u>\$ (9,021)</u>	<u>\$ (31,811)</u>	<u>\$ (25,904)</u>
Net loss per share attributable to ordinary shareholders:				
Basic	\$ (0.13)	\$ (0.28)	\$ (0.97)	\$ (0.79)
Diluted	<u>\$ (0.13)</u>	<u>\$ (0.28)</u>	<u>\$ (0.97)</u>	<u>\$ (0.79)</u>
Weighted-average shares used to compute net loss per share attributable to ordinary shareholders:				
Basic	<u>33,304,171</u>	<u>32,171,890</u>	<u>32,885,729</u>	<u>32,908,614</u>
Diluted	<u>33,304,171</u>	<u>32,171,890</u>	<u>32,885,729</u>	<u>32,908,614</u>

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited, in thousands)

	<u>Three Months Ended October 31,</u>		<u>Nine Months Ended October 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net loss	\$ (4,309)	\$ (9,021)	\$ (31,811)	\$ (25,904)
Other comprehensive income, net of tax:				
Net unrealized gains on investments	140	26	588	94
Other comprehensive income, net of tax	140	26	588	94
Comprehensive loss	<u>\$ (4,169)</u>	<u>\$ (8,995)</u>	<u>\$ (31,223)</u>	<u>\$ (25,810)</u>

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Outstanding Ordinary Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance--January 31, 2019	32,303,540	\$ 15	\$ 188,516	\$ 97	\$ 230,861	\$ 419,489
Issuance of shares through employee equity incentive plan	335,301	—	1,520	—	—	1,520
Issuance of shares through employee stock purchase plan	99,759	—	3,063	—	—	3,063
Stock-based compensation expense related to stock awards granted to employees and consultants	—	—	15,423	—	—	15,423
Net unrealized gains on investments - net of taxes	—	—	—	254	—	254
Net loss	—	—	—	—	(17,311)	(17,311)
Balance--April 30, 2019	<u>32,738,600</u>	<u>\$ 15</u>	<u>\$ 208,522</u>	<u>\$ 351</u>	<u>\$ 213,550</u>	<u>\$ 422,438</u>
Issuance of shares through employee equity incentive plan	295,019	—	988	—	—	988
Stock-based compensation expense related to stock awards granted to employees and consultants	—	—	15,032	—	—	15,032
Net unrealized gains on investments - net of taxes	—	—	—	194	—	194
Net loss	—	—	—	—	(10,191)	(10,191)
Balance--July 31, 2019	<u>33,033,619</u>	<u>\$ 15</u>	<u>\$ 224,542</u>	<u>\$ 545</u>	<u>\$ 203,359</u>	<u>\$ 428,461</u>
Issuance of shares through employee equity incentive plan	428,600	—	2,711	—	—	2,711
Issuance of shares through employee stock purchase plan	78,105	—	2,904	—	—	2,904
Stock-based compensation expense related to stock awards granted to employees and consultants	—	—	15,333	—	—	15,333
Net unrealized gains on investments - net of taxes	—	—	—	140	—	140
Net loss	—	—	—	—	(4,309)	(4,309)
Balance--October 31, 2019	<u>33,540,324</u>	<u>\$ 15</u>	<u>\$ 245,490</u>	<u>\$ 685</u>	<u>\$ 199,050</u>	<u>\$ 445,240</u>

	Outstanding Ordinary Shares		Additional Paid-in Capital	Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance--January 31, 2018	33,489,614	\$ 15	\$ 221,186	\$ (279)	\$ 261,265	\$ 482,187
Cumulative effect of change in accounting principle	—	—	—	—	43	43
Issuance of shares through employee equity incentive plan	272,723	—	305	—	—	305
Issuance of shares through employee stock purchase plan	71,415	—	2,818	—	—	2,818
Stock repurchase	(437,448)	—	(20,624)	—	—	(20,624)
Stock-based compensation expense related to stock awards granted to employees and consultants	—	—	14,195	—	—	14,195
Net unrealized losses on investments - net of taxes	—	—	—	(110)	—	(110)
Net loss	—	—	—	—	(10,006)	(10,006)
Balance--April 30, 2018	<u>33,396,304</u>	<u>\$ 15</u>	<u>\$ 217,880</u>	<u>\$ (389)</u>	<u>\$ 251,302</u>	<u>\$ 468,808</u>
Issuance of shares through employee equity incentive plan	373,126	—	642	—	—	642
Stock repurchase	(1,119,193)	—	(44,989)	—	—	(44,989)
Stock-based compensation expense related to stock awards granted to employees and consultants	—	—	15,130	—	—	15,130
Net unrealized gains on investments - net of taxes	—	—	—	178	—	178
Net loss	—	—	—	—	(6,877)	(6,877)
Balance--July 31, 2018	<u>32,650,237</u>	<u>\$ 15</u>	<u>\$ 188,663</u>	<u>\$ (211)</u>	<u>\$ 244,425</u>	<u>\$ 432,892</u>
Issuance of shares through employee equity incentive plan	249,002	—	117	—	—	117
Issuance of shares through employee stock purchase plan	75,472	—	2,318	—	—	2,318
Stock repurchase	(825,191)	\$ (1)	(30,804)	—	—	(30,805)
Stock-based compensation expense related to stock awards granted to employees and consultants	—	—	15,612	—	—	15,612
Net unrealized gains on investments - net of taxes	—	—	—	26	—	26
Net loss	—	—	—	—	(9,021)	(9,021)
Balance--October 31, 2018	<u>32,149,520</u>	<u>\$ 14</u>	<u>\$ 175,906</u>	<u>\$ (185)</u>	<u>\$ 235,404</u>	<u>\$ 411,139</u>

See accompanying notes to condensed consolidated financial statements.

AMBARELLA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended October 31,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (31,811)	\$ (25,904)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,231	5,355
Amortization/accretion of marketable debt securities	(879)	(311)
Stock-based compensation	49,968	44,937
Other non-cash items, net	87	358
Changes in operating assets and liabilities:		
Accounts receivable	4,603	(1,123)
Inventories	(1,593)	55
Prepaid expenses and other current assets	857	700
Deferred tax assets	267	(285)
Other assets	(2,974)	(213)
Accounts payable	5,896	(8,681)
Accrued liabilities	3,658	(5,192)
Income taxes payable	(38)	(181)
Deferred revenue	16	140
Lease Liabilities	(2,238)	—
Other long-term liabilities	1,234	843
Net cash provided by operating activities	<u>35,284</u>	<u>10,498</u>
Cash flows from investing activities:		
Purchase of investments	(160,988)	(139,816)
Sales of investments	72,773	50,618
Maturities of investments	105,995	40,928
Purchase of property and equipment	(1,425)	(2,380)
Net cash provided by (used in) investing activities	<u>16,355</u>	<u>(50,650)</u>
Cash flows from financing activities:		
Stock repurchase	—	(96,419)
Proceeds from exercise of stock options and employee stock purchase plan	9,552	4,722
Payment for intangible asset	(2,930)	(2,483)
Net cash provided by (used in) financing activities	<u>6,622</u>	<u>(94,180)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	58,261	(134,332)
Cash, cash equivalents and restricted cash at beginning of period	194,058	346,681
Cash, cash equivalents and restricted cash at end of period	<u>\$ 252,319</u>	<u>\$ 212,349</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 1,664</u>	<u>\$ 1,263</u>
Supplemental disclosure of noncash investing and financing activities:		
Unpaid liabilities related to intangible and fixed assets additions	<u>\$ 618</u>	<u>\$ 299</u>

See accompanying notes to condensed consolidated financial statements.

**Notes to Condensed Consolidated Financial Statements
(Unaudited)****1. Organization and Summary of Significant Accounting Policies*****Organization***

Ambarella, Inc. (the “Company”) was incorporated in the Cayman Islands on January 15, 2004. The Company is a leading developer of low-power, high-definition (HD) and Ultra HD video compression and image processing solutions, and computer vision solutions. The Company combines its processor design capabilities with its expertise in video and image processing, algorithms and software to provide a technology platform that is designed to be easily scalable across multiple applications and enable rapid and efficient product development. The Company’s system-on-a-chip, or SoC, designs fully integrated high-definition video processing, image processing, analysis, audio processing and system functions onto a single chip, delivering exceptional video and image quality, differentiated functionality and low power consumption. Currently the Company is combining advanced computer vision technology with its state-of-the-art video to enable the next generation of intelligent cameras, advanced driver assistance systems (ADAS), electronic mirror, drive recorder, driver/cabin monitoring, autonomous driving and other robotic applications.

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, therefore, do not include all information and notes normally provided in audited financial statements. The accounting policies are described in the “Notes to Consolidated Financial Statements” in the Annual Report on Form 10-K for the 2019 fiscal year filed with the SEC on March 29, 2019 (the “Form 10-K”) and updated, as necessary, in this Form 10-Q. The year-end condensed consolidated balance sheet data presented for comparative purposes was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States (“U.S. GAAP”). In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair statement have been included. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for any other interim period or for a full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Form 10-K.

Basis of Consolidation

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

Use of Estimates

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

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

Concentration of Risk

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

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

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

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

Cash Equivalents and Marketable Debt Securities

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

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

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

Restricted Cash

Amounts included in restricted cash represent those required to be set aside to secure certain transactions in a foreign entity. As of October 31, 2019 and January 31, 2019, the restricted cash was immaterial. The following table presents cash, cash equivalents and restricted cash reported on the condensed consolidated balance sheets and the sums are presented on the condensed consolidated statements of cash flows:

	As of			
	October 31, 2019	January 31, 2019	October 31, 2018	January 31, 2018
	(in thousands)			
Cash and cash equivalents	\$ 252,310	\$ 194,047	\$ 212,338	\$ 346,672
Restricted cash	9	11	11	9
Total as presented in the consolidated statements of cash flows	<u>\$ 252,319</u>	<u>\$ 194,058</u>	<u>\$ 212,349</u>	<u>\$ 346,681</u>

Inventories

The Company records inventories at the lower of cost or net realizable value. The cost includes materials and other production costs and is computed using standard cost on a first-in, first-out basis. Inventory reserves are recorded for estimated obsolescence or unmarketable inventories based on forecast of future demand and market conditions. Any adjustments to reduce the cost of inventories to their net realizable value are recognized in earnings in the current period. Once inventory is written down, a new accounting cost basis is established and, accordingly, any associated reserve is not released until the inventory is sold or scrapped. There were no material inventory losses recognized for the three and nine months ended October 31, 2019 and 2018, respectively.

Noncancelable Internal-Use Software License

The Company accounts for a noncancelable on premise internal-use software license as the acquisition of an intangible asset and the incurrence of a liability to the extent that all or a portion of the software licensing fees are not paid on or before the license acquisition date. The intangible asset and related liability are recorded at net present value and interest expense is recorded over the payment term.

Leases

Effective February 1, 2019, the Company adopted Accounting Standards Codification (“ASC”) Topic 842, Leases, using the alternative transition method with an adjustment to the opening balance in the period of adoption without adjustment of comparative period financial statements. Under this new guidance, the Company recognizes leases as right-of-use (“ROU”) assets and corresponding lease liabilities at the lease commencement date based on the present value of future lease payments, while recognizing lease expenses under straight-line method through the lease term. The Company also elected the other available practical expedients, and has elected not to recognize ROU assets and lease liabilities that arise from short-term (12 months or less) leases and not to reassess the following for existing leases as of February 1, 2019: (i) whether contracts are or contain leases, (ii) lease classification, and (iii) initial direct costs. The Company does not combine lease components with non-lease components, and as a result, the non-lease components are accounted for separately. In determining the present value of lease payments, the Company uses the implicit interest rate if readily determinable. When the implicit rate is not readily determinable, the Company uses its incremental borrowing rate based on the information available at the lease commencement date. The Company’s leases mainly include its worldwide office facilities which are all classified as operating leases. Certain leases include renewal options that are under the Company’s discretion. The renewal options are included in the ROU and liability calculation if it is reasonably certain that the Company will exercise the option. As of February 1, 2019, the Company recognized approximately \$8.6 million of ROU assets, net of previously recognized prepaid rent and accrued liabilities, and corresponding lease liabilities of \$8.7 million. The Company’s finance leases are immaterial as of October 31, 2019 and February 1, 2019, respectively.

Revenue Recognition

Effective February 1, 2018, the Company adopted ASC 606, Revenue from Contracts with Customers. As a result, the Company recognizes product revenue upon shipment and transfer of control to distributors (known as “sell-in” revenue recognition) rather than shipment to the end customers (known as “sell-through” revenue recognition) based on its estimate of the consideration it expects to receive. Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

The sale of semiconductor products accounts for the substantial majority of the Company’s consolidated revenue. Sales agreements with customers are renewable periodically and contain terms and conditions with respect to payment, delivery, warranty, supply and other rights. The Company considers an accepted customer purchase order, governed by sales agreement, to be the contract with the customer. For each contract, the Company considers the promise to transfer tangible products to be the identified performance obligation. Product sales contracts may include volume-based tiered pricing or rebates that are fulfilled in cash or product. In determining the transaction price, the Company accounts for the right of returns, cash rebates, commissions and other pricing adjustments as variable consideration and estimates these amounts based on the expected amount to be provided to customers and reduces the revenue recognized. The Company estimates sales returns and rebates based on the Company’s historical patterns of return and pricing credits. As the Company’s standard payment terms are 30 days to 60 days, the contracts have no financing component. Under ASC 606, the Company estimates the total consideration to be received by using the expected value method for each contract, computes weighted average selling price for each unit shipped in cases where there is a material right due to the presence of volume-based tiered pricing, allocates the total consideration between the identified performance obligations, and recognizes revenue when control of its goods and services is transferred to its customers. The Company considers product control to be transferred at shipment or delivery because the Company has a present right to payment at that time, the customer has legal title to the asset, the Company has transferred physical possession of the asset, and the customer has significant risk and rewards of ownership of the asset.

The Company also enters into fixed-price engineering service agreements with certain customers. These agreements may include multiple performance obligations, such as software development services, licensing of intellectual property and post-contract customer support, or PCS. These multiple performance obligations are highly interdependent, highly interrelated, are typically not sold separately and do not have standalone selling prices. They are all inputs to generate one combined output which is incorporating the Company’s SoC into the customer’s product. Accordingly, the Company determines that they are not separately identifiable and shall be treated as a single performance obligation. Customers usually pay based on milestones achieved. Because payments received do not correspond directly with the value of the Company’s performance to date, for fixed-price engineering services arrangements, revenue is recognized using the time-based straight line method, which best depicts the Company’s performance toward complete satisfaction of the performance obligation based on the nature of such professional services. Revenues from engineering service agreements were not material for the three and nine months ended October 31, 2019 and 2018, respectively.

The Company records contract assets when revenue is recognized prior to invoicing. The Company’s contract liabilities are primarily related to the portion of transaction price that exceeds the weighted average selling price for products sold to date under tiered-pricing contracts which contain material rights. These contract liabilities are expected to be recognized over the course of the contract when products are delivered for future pricing below the weighted average selling price of the contract. For the three and nine months ended October 31, 2019 and 2018, the Company did not recognize any material revenue adjustment related to performance obligations satisfied in prior periods released from these contract liabilities. As of October 31, 2019 and January 31, 2019, the contract liabilities were not material. Additionally, the transaction price allocated to unsatisfied, or partially unsatisfied, purchase orders for contracts that are greater than a year was not material as of October 31, 2019 and January 31, 2019, respectively.

Cost of Revenue

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

Research and Development

Research and development costs are expensed as incurred and consist primarily of personnel costs, product development costs, which include engineering services, development software and hardware tools, license fees, costs of fabrication of masks for prototype products, other development materials costs, depreciation of equipment and tools and allocation of facility costs, net of any research and development grants. As of October 31, 2019, there was approximately \$1.2 million of grants recorded in prepaid expenses and other current assets and approximately \$2.9 million of grants recorded in other non-current assets in the condensed consolidated balance sheets.

Income Taxes

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

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

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

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

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

Net Income (Loss) Per Ordinary Share

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

Comprehensive Income (Loss)

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

Recent Accounting Pronouncements

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

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment, to eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. This new guidance will be applied prospectively and is effective for annual and interim periods beginning after December 15, 2019. The Company does not believe the adoption of this new guidance will have a material impact on its financial position, results of operations and disclosures.

In August 2018, the FASB issued 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. Under this new guidance, the entities will no longer be required to disclose the amount of and the reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2019 and for the interim periods within those fiscal years. Early adoption is permitted. The Company does not believe the adoption of this new guidance will have a material impact on its financial position, results of operations and disclosures.

In August 2018, the FASB issued 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. Under this new guidance, the entities are required to capitalize implementation costs related to a hosting arrangement that is a service contract and amortize the costs over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. The guidance is effective for fiscal years beginning after December 15, 2019 and for the interim periods within those fiscal years. Early adoption is permitted. The Company does not believe the adoption of this new guidance will have a material impact on its financial position, results of operations and disclosures.

In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 25, Financial Instruments. The new guidance further clarifies that equity instruments without readily determinable fair values for which an entity has elected the measurement alternative should be remeasured to fair value as of the date that an observable transaction occurred. The FASB also amended the guidance to clarify that the nonrecurring fair value disclosure is applicable to equity instruments accounted for under the measurement alternative. The ASU will be effective for public entities in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted and requires a prospective method for those related to equity securities without readily determinable fair values that are measured using the measurement alternative. The Company does not believe the adoption of this new amendment will have a material impact on its consolidated financial statements.

In November 2019, the FASB issued ASU 2019-08, Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer. Under this new guidance, share-based payment award issued to a customer should be recorded as a reduction of the transaction price in revenue with an amount measured under the grant-date fair value of the award. Changes in the measurement of the share-based payments after the grant date that are due to the form of the consideration are not included in the transaction price and are recorded elsewhere in the income statement. The award is measured and classified under ASC 718 for its entire life, unless the award is modified after it vests and the grantee is no longer a customer. The new guidance is effective for public entities that have adopted ASU 2018-07 in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company does not believe the adoption of this new guidance will have an impact on its consolidated financial statements.

2. Financial Instruments and Fair Value

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

	As of October 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Money market funds	\$ 23,595	\$ —	\$ —	\$ 23,595
Commercial paper	66,320	—	—	66,320
Corporate bonds	85,890	617	(12)	86,495
Asset-backed securities	16,516	43	(6)	16,553
U.S. government securities	16,823	43	—	16,866
Total cash equivalents and marketable debt securities	<u>\$ 209,144</u>	<u>\$ 703</u>	<u>\$ (18)</u>	<u>\$ 209,829</u>

	As of January 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Money market funds	\$ 8,914	\$ —	\$ —	\$ 8,914
Certificates of Deposit	7,012	—	—	7,012
Commercial paper	68,233	—	—	68,233
Corporate bonds	87,250	170	(60)	87,360
Asset-backed securities	11,607	3	(6)	11,604
U.S. government securities	21,993	3	(13)	21,983
Total cash equivalents and marketable debt securities	<u>\$ 205,009</u>	<u>\$ 176</u>	<u>\$ (79)</u>	<u>\$ 205,106</u>

	As of	
	October 31, 2019	January 31, 2019
	(in thousands)	
Included in cash equivalents	\$ 61,348	\$ 40,245
Included in marketable debt securities	148,481	164,861
Total cash equivalents and marketable debt securities	<u>\$ 209,829</u>	<u>\$ 205,106</u>

The contractual maturities of the investments at October 31, 2019 and January 31, 2019 were as follows:

	As of	
	October 31, 2019	January 31, 2019
	(in thousands)	
Due within one year	\$ 153,433	\$ 151,991
Due within one to three years	56,396	53,115
Total cash equivalents and marketable debt securities	<u>\$ 209,829</u>	<u>\$ 205,106</u>

The unrealized losses on the available-for-sale securities were primarily caused by fluctuations in market value and interest rates as a result of the economic environment. As the decline in market value was attributable to changes in market conditions and not credit quality, and because the Company neither intended to sell nor was it more likely than not that it will be required to sell these investments prior to a recovery of par value, the Company did not consider these investments to be other-than temporarily impaired as of October 31, 2019 and January 31, 2019, respectively.

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

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

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

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

The Company measures the fair value of money market funds and certificates of deposit using quoted prices in active markets for identical assets and classifies them within Level 1. The respective fair values of the Company’s investments in other debt securities are obtained based on quoted prices for similar assets in active markets and are classified within Level 2.

The following table presents the fair value of the financial instruments measured on a recurring basis as of October 31, 2019 and January 31, 2019:

	As of October 31, 2019			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	\$ 23,595	\$ 23,595	\$ —	\$ —
Commercial paper	66,320	—	66,320	—
Corporate bonds	86,495	—	86,495	—
Asset-backed securities	16,553	—	16,553	—
U.S. government securities	16,866	—	16,866	—
Total cash equivalents and marketable debt securities	<u>\$ 209,829</u>	<u>\$ 23,595</u>	<u>\$ 186,234</u>	<u>\$ —</u>

	As of January 31, 2019			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	\$ 8,914	\$ 8,914	\$ —	\$ —
Certificates of Deposit	7,012	7,012	—	—
Commercial paper	68,233	—	68,233	—
Corporate bonds	87,360	—	87,360	—
Asset-backed securities	11,604	—	11,604	—
U.S. government securities	21,983	—	21,983	—
Total cash equivalents and marketable debt securities	<u>\$ 205,106</u>	<u>\$ 15,926</u>	<u>\$ 189,180</u>	<u>\$ —</u>

3. Inventories

Inventories at October 31, 2019 and January 31, 2019 consisted of the following:

	As of	
	October 31, 2019	January 31, 2019
	(in thousands)	
Work-in-progress	\$ 11,830	\$ 9,430
Finished goods	8,015	8,822
Total	<u>\$ 19,845</u>	<u>\$ 18,252</u>

4. Property and Equipment, Net

Depreciation expense was approximately \$0.7 million and \$0.6 million for the three months ended October 31, 2019 and 2018, respectively. Depreciation expense was approximately \$2.1 million and \$1.9 million for the nine months ended October 31, 2019 and 2018, respectively. Property and equipment at October 31, 2019 and January 31, 2019 consisted of the following:

	As of	
	October 31, 2019	January 31, 2019
	(in thousands)	
Computer equipment and software	\$ 10,095	\$ 9,098
Machinery and equipment	6,162	5,659
Furniture and fixtures	969	969
Leasehold improvements	2,345	2,331
Construction in progress	49	330
	19,620	18,387
Less: accumulated depreciation and amortization	(13,693)	(11,659)
Total property and equipment, net	\$ 5,927	\$ 6,728

5. Intangible Assets, Net

Intangible assets primarily consist of \$4.1 million of in-process research and development (“IPR&D”) from the acquisition of VisLab S.r.l., or VisLab, in June 2015 and \$4.1 million of noncancelable software licenses, net of amortization expense. Acquired IPR&D is capitalized at fair value and the amortization commences upon completion of the underlying projects. When a project underlying reported IPR&D is completed, the corresponding amount of IPR&D is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. As of October 31, 2019 and January 31, 2019, there was no IPR&D amortized, respectively. The Company will determine the project incorporating the VisLab IPR&D to be completed when a related chip begins mass production to address the level 3 and above advanced driving assistance systems markets.

The Company enters into certain internal-use noncancelable software license agreements with third parties from time-to-time. The licenses have been capitalized as intangible assets, and the corresponding future payments have been recorded as liabilities at net present value. As of October 31, 2019 and January 31, 2019, \$2.8 million and \$4.9 million was recorded in accrued and other current liabilities, respectively, and \$0.7 million and \$0.3 million was recorded in other long-term liabilities, respectively, in the condensed consolidated balance sheets.

The carrying amounts of intangible assets as of October 31, 2019 and January 31, 2019 were as follows:

	As of October 31, 2019			As of January 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
In-process research and development	\$ 4,100	\$ —	\$ 4,100	\$ 4,100	\$ —	\$ 4,100
Internal-use software licenses	15,654	(11,522)	4,132	14,448	(7,612)	6,836
Total acquired intangible assets	\$ 19,754	\$ (11,522)	\$ 8,232	\$ 18,548	\$ (7,612)	\$ 10,936

The amortization expense related to these software licenses was approximately \$1.3 million and \$1.2 million for the three months ended October 31, 2019 and 2018, respectively. The amortization expense related to these software licenses was approximately \$3.9 million and \$3.5 million for the nine months ended October 31, 2019 and 2018, respectively. The estimated future amortization expense of these software licenses as of October 31, 2019 is as follows:

Fiscal Year	As of
	October 31, 2019
	(in thousands)
2020 (3 months remaining)	\$ 1,359
2021	2,099
2022	552
2023	122
2024	—
Thereafter	—
Total future amortization expenses:	\$ 4,132

IPR&D is required to be tested for impairment at least annually in the fourth fiscal quarter or sooner whenever events or changes in circumstances indicate that the assets may be impaired. There were no intangible asset impairments for the three and nine months ended October 31, 2019 and 2018, respectively.

6. Accrued and Other Current Liabilities

Accrued and other current liabilities at October 31, 2019 and January 31, 2019 consisted of the following:

	As of	
	October 31, 2019	January 31, 2019
	(in thousands)	
Accrued employee compensation	\$ 14,982	\$ 10,645
Accrued rebates	247	311
Accrued product development costs	8,017	6,393
Software license liabilities, current	2,839	4,879
Other accrued liabilities	2,362	2,472
Total accrued and other current liabilities	<u>\$ 28,447</u>	<u>\$ 24,700</u>

7. Leases

The Company has entered into various operating leases for its worldwide office buildings and research and development facilities. During the three months ended October 31, 2019, the Company exercised the renewal option to extend its U.S. office lease for a period of 63 months beginning from June 1, 2020 through August 31, 2025 and renewed its Shanghai office lease for another two years beginning from December 1, 2019 to November 30, 2021. The Company accounted these two renewed contracts as lease modifications and recorded an increase to the operating lease right-of-use assets and corresponding operating lease liabilities by approximately \$4.0 million, respectively, in the condensed consolidated balance sheets.

The Company also signed a separate lease for additional space for its U.S. office for a period of 56 months beginning from January 1, 2021 through August 31, 2025 and will record it in the balance sheet upon commencement date on January 1, 2021. The total estimated future undiscounted cash payments for this lease are approximately \$1.7 million.

In August 2019, VisLab, a wholly-owned subsidiary, was granted a land lease for 35 years with an obligation to construct a building on the land in line with architectural requirements from the lessor in Parma, Italy ("Parma lease"). The Company will be responsible for the costs of construction and occupy the building after completion of construction for the remainder of the lease term. At the end of the lease, the land together with the building and all of the improvements will revert to the lessor. The Parma lease will be recorded in the balance sheet upon completion of the building construction, which is expected to be two years after the lease inception date. Any payments made prior to completion of construction will be recorded as prepayments of the lease in other non-current assets in the condensed consolidated balance sheets. The total estimated future undiscounted cash payments are approximately \$2.2 million, of which \$1.8 million will be paid in the first two years and the remaining balance of \$0.4 million will be paid over the remainder of the lease term.

For the three and nine months ended October 31, 2019, the Company recorded approximately \$0.7 million and \$2.2 million of operating lease expense, respectively. The Company's short-term leases and finance leases are immaterial as of October 31, 2019.

The cumulative effect of the changes made to the condensed consolidated balance sheet as of February 1, 2019 for the adoption of ASC 842 was as follows:

	Balance as of		Opening Balance as of	
	January 31, 2019	Adjustment	February 1, 2019	
	(in thousands)			
Operating lease right-of-use assets	\$ —	\$ 8,581	\$	8,581
Prepaid expenses and other current assets	\$ 6,206	\$ (174)	\$	6,032
Accrued and other current liabilities	\$ 24,700	\$ (279)	\$	24,421
Operating lease liabilities, current	\$ —	\$ 2,534	\$	2,534
Operating lease liabilities, non-current	\$ —	\$ 6,152	\$	6,152

Supplemental cash flow information related to leases is as follows:

	Three Months Ended October 31, 2019	Nine Months Ended October 31, 2019
	(in thousands)	
Cash paid for operating leases included in operating cash flows	\$ 784	\$ 2,238
Supplemental non-cash information related to lease liabilities arising from obtaining right-of-use assets	\$ 82	\$ 210
Leased assets obtained in exchange for operating lease liabilities arising from lease modifications	\$ 4,021	\$ 4,021

As of October 31, 2019, the weighted average remaining lease term is 5.17 years, and the weighted average discount rate is 4.43 percent. Future minimum lease payments for the lease liabilities, excluding the additional space for the U.S. office and the Parma lease described above, are as follows:

Fiscal Year	As of October 31, 2019 (in thousands)
2020 (3 months remaining)	\$ 633
2021	2,487
2022	2,353
2023	1,644
2024	1,693
Thereafter	2,947
Total future annual minimum lease payments	11,757
Less: interest	(1,077)
Total lease liabilities	\$ 10,680

Prior to the adoption of the new leases guidance, future minimum undiscounted lease payments as of January 31, 2019 were as follows:

Fiscal Year	As of January 31, 2019 (in thousands)
2020	\$ 2,592
2021	1,040
2022	356
2023	143
2024	147
Thereafter	576
Total future annual minimum lease payments	\$ 4,854

The increased liabilities, as compared to the minimum lease payments as of January 31, 2019, were primarily attributable to a renewal option exercised and lease modifications during the nine months ended October 31, 2019.

8. Other Long-Term Liabilities

Other long-term liabilities at October 31, 2019 and January 31, 2019 consisted of the following:

	As of	
	October 31, 2019	January 31, 2019
	(in thousands)	
Unrecognized tax benefits, including interest	\$ 7,872	\$ 6,732
Deferred tax liabilities, non-current	1,293	1,293
Software license liabilities, non-current	660	310
Other long-term liabilities	100	6
Total other long-term liabilities	\$ 9,925	\$ 8,341

9. Capital Stock

Preference shares

After completion of the Company's initial public offering in 2012, a total of 20,000,000 preference shares, with a \$0.00045 par value per share, were authorized. There were no preference shares issued and outstanding as of October 31, 2019 and January 31, 2019, respectively.

Ordinary shares

As of October 31, 2019 and January 31, 2019, a total of 200,000,000 ordinary shares were authorized.

On February 1, 2019, the Company added 1,453,659 ordinary shares to the ordinary shares reserved for issuance, pursuant to an "evergreen" provision contained in the 2012 Equity Incentive Plan, or EIP. Pursuant to such provision, for each fiscal year, the number of ordinary shares reserved for issuance under the EIP is automatically increased by a number equal to the lesser of (i) 3,500,000 ordinary shares, (ii) four and one half percent (4.5%) of the aggregate number of ordinary shares outstanding on January 31st of the preceding fiscal year, or (iii) a lesser number of shares that may be determined by the Company's Board of Directors.

On February 1, 2019, the Company added 403,794 ordinary shares to the ordinary shares reserved for issuance, pursuant to an "evergreen" provision contained in the Amended and Restated 2012 Employee Stock Purchase Plan, or ESPP. Pursuant to such provision, for each fiscal year, the number of ordinary shares reserved for issuance under the ESPP is automatically increased by a number equal to the lesser of (i) 1,500,000 ordinary shares, (ii) one and one quarter percent (1.25%) of the aggregate number of ordinary shares outstanding on such date, or (iii) an amount determined by the Company's Board of Directors or a duly authorized committee of the Board of Directors.

As of October 31, 2019 and January 31, 2019, the following ordinary shares were reserved for future issuance under the EIP and ESPP:

	As of	
	October 31, 2019	January 31, 2019
Shares reserved for options, restricted stock and restricted stock units under EIP	6,310,393	5,915,654
Shares reserved for ESPP	2,059,504	1,833,574

Shares repurchased

On June 4, 2018, the Company's Board of Directors authorized the repurchase of up to \$100.0 million of the Company's ordinary shares over a twelve-month period through June 4, 2019. On May 29, 2019, the Company's Board of Directors authorized an additional repurchase of up to \$50.0 million of the Company's ordinary shares commencing immediately through June 30, 2020. Repurchases may be made from time-to-time through open market purchases, 10b5-1 plans or privately negotiated transactions subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate the Company to acquire any particular amount of ordinary shares, and it may be suspended at any time at the Company's discretion. The repurchase program is funded using the Company's working capital and any repurchased shares are recorded as authorized but unissued shares. There were no shares repurchased during the three and nine months ended October 31, 2019, respectively. As of October 31, 2019, there was \$50.0 million available for repurchases through June 30, 2020.

10. Stock-based Compensation

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
	(in thousands)			
Stock-based compensation:				
Cost of revenue	\$ 335	\$ 310	\$ 922	\$ 942
Research and development	10,601	9,720	31,306	27,847
Selling, general and administrative	6,372	5,582	17,740	16,148
Total stock-based compensation	<u>\$ 17,308</u>	<u>\$ 15,612</u>	<u>\$ 49,968</u>	<u>\$ 44,937</u>

During the three and nine months ended October 31, 2019, approximately \$2.0 million and \$4.2 million of stock-based compensation expense was accrued in the accrued and other current liabilities in the condensed consolidated balance sheets, respectively. As of October 31, 2019, total unrecognized compensation cost related to unvested stock options was \$4.1 million and is expected to be recognized over a weighted-average period of 2.61 years. Total unrecognized compensation cost related to unvested restricted stock units was \$128.2 million and is expected to be recognized over a weighted-average period of 2.68 years. All restricted stock awards were fully vested as of October 31, 2019.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Stock Options:				
Volatility	52%	53%	52%	54%
Risk-free interest rate	1.39%	2.78%	1.84%	2.75%
Expected term (years)	6.09	5.45	6.02	5.40
Dividend yield	0%	0%	0%	0%
Employee stock purchase plan awards:				
Volatility	46%	44%	47%	45%
Risk-free interest rate	1.93%	2.35%	2.23%	2.15%
Expected term (years)	0.5	0.5	0.5	0.5
Dividend yield	0%	0%	0%	0%

The following table summarizes stock option activities for the period indicated:

	Option Outstanding			Total Intrinsic Value Of Options Exercised (in thousands)	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
	Shares	Weighted- Average Exercise Price	Weighted- Average Grant-date Fair Value			
Outstanding at January 31, 2019	1,459,064	\$ 28.31				
Granted	57,350	49.79	\$ 25.06			
Exercised	(338,289)	15.43		\$ 12,054		
Forfeited	(13,306)	45.65				
Expired	(9,751)	55.95				
Outstanding at October 31, 2019	1,155,068	32.71			4.54	\$ 26,387
Exercisable at October 31, 2019	981,191	\$ 29.94			3.80	\$ 25,280

The intrinsic value of options outstanding and exercisable is calculated based on the difference between the fair market value of the Company's ordinary shares on the reporting date and the exercise price. The closing price of the Company's ordinary shares on October 31, 2019 was \$52.63, as reported by The NASDAQ Global Market. The intrinsic value of exercised options is calculated by the difference between the fair market value of the Company's ordinary shares on the exercise date and the exercise price.

The following table summarizes restricted stock and restricted stock units activities for the period indicated:

	Shares	Weighted-Average Grant-Date Fair Value
Unvested at January 31, 2019	2,395,516	\$ 48.49
Granted	1,296,053	54.48
Vested	(775,893)	51.41
Forfeited	(80,496)	55.50
Unvested at October 31, 2019	2,835,180	\$ 50.23

As of October 31, 2019, the aggregate intrinsic value of unvested restricted stock units was \$149.2 million.

11. Net Loss Per Ordinary Share

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
	(in thousands, except share and per share data)			
Numerator:				
Net loss	\$ (4,309)	\$ (9,021)	\$ (31,811)	\$ (25,904)
Denominator:				
Weighted-average ordinary shares - basic	33,304,171	32,171,890	32,885,729	32,908,614
Weighted-average ordinary shares - diluted	33,304,171	32,171,890	32,885,729	32,908,614
Net loss per ordinary share:				
Basic	\$ (0.13)	\$ (0.28)	\$ (0.97)	\$ (0.79)
Diluted	\$ (0.13)	\$ (0.28)	\$ (0.97)	\$ (0.79)

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Options to purchase ordinary shares	873,515	1,247,117	948,283	1,172,152
Restricted stock and restricted stock units	1,675,570	2,243,272	1,195,320	1,494,860
Employee stock purchase plan	13,672	58,530	11,204	35,204
	2,562,757	3,548,919	2,154,807	2,702,216

12. Income Taxes

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
	(in thousands)			
Loss before income taxes	\$ (5,251)	\$ (8,429)	\$ (29,509)	\$ (23,537)
Provision (benefit) for income taxes	(942)	592	2,302	2,367
Effective tax rate	17.9%	(7.0)%	(7.8%)	(10.1%)

The income tax expense decreased for the three and nine months ended October 31, 2019, respectively, as compared to the same periods in the prior fiscal year, primarily due to an increase in tax benefits from excess stock-based compensation deductions, partially offset by a decrease in the proportion of profits generated in lower tax jurisdictions.

The Company files federal and state income tax returns in the United States and in various foreign jurisdictions. The tax years 2013 to 2018 remain open to examination by U.S. federal tax authorities. The tax years 2009 to 2018 remain open to examination by U.S. state tax authorities. The tax years 2013 to 2018 remain open to examination by foreign tax authorities. Fiscal years outside of the normal statute of limitations remain open to audit by tax authorities due to tax attributes generated in those earlier years, which have been carried forward and may be audited in subsequent years when utilized.

The Company regularly assesses the likelihood of adverse outcomes resulting from potential tax examinations to determine the adequacy of its provision for income taxes. These assessments can require considerable estimates and judgments. As of October 31, 2019, the gross amount of unrecognized tax benefits was approximately \$40.5 million. If the estimates of income tax liabilities prove to be less than the ultimate assessment, then a further charge to expense could be required. If events occur, and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities could result in tax benefits being recognized in the period in which the Company determines the liabilities are no longer necessary. The Company does not anticipate significant changes to its uncertain tax positions during the next twelve months.

On July 27, 2015, the United States Tax Court issued a decision (“Tax Court Decision”) in *Altera Corp. v. Commissioner*, which concluded that related parties in a cost sharing arrangement are not required to share expenses related to share-based compensation. The Tax Court Decision was appealed by the Commissioner to the Ninth Circuit Court of Appeals (“Ninth Circuit”). On June 7, 2019, a three-judge panel from the Ninth Circuit issued an opinion (“*Altera* Ninth Circuit Panel Opinion”) that reversed the Tax Court Decision. On July 22, 2019, the taxpayer requested a rehearing before the full Ninth Circuit but was denied on November 12, 2019. The taxpayer may subsequently appeal from the Ninth Circuit to the Supreme Court. The Company will continue to monitor the future developments and potential impacts on its consolidated financial statements.

13. Commitments and Contingencies

Contract Manufacturer Commitments

The Company’s components and products are procured and built by independent contract manufacturers based on sales forecasts. These forecasts include estimates of future demand, historical trends, analysis of sales and marketing activities, and adjustment of overall market conditions. The Company regularly issues purchase orders to independent contract manufacturers which are cancelable upon agreement between the Company and the third-party manufacturers. As of October 31, 2019 and January 31, 2019, total manufacturing purchase commitments were approximately \$27.6 million and \$28.2 million, respectively.

Indemnification

The Company, from time to time, in the normal course of business, indemnifies certain vendors with whom it enters into contractual relationships. The Company has agreed to hold the other party harmless against third-party claims in connection with the Company’s future products. The Company also indemnifies certain customers against third-party claims related to certain intellectual property matters. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim. The Company has not made payments under these obligations, and no liabilities have been recorded for these obligations in the condensed consolidated balance sheets as of October 31, 2019 and January 31, 2019, respectively.

14. Segment Reporting

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

Geographic Revenue

The following table sets forth the Company's revenue by geographic region based on bill-to location for the periods indicated:

	<u>Three Months Ended October 31,</u>		<u>Nine Months Ended October 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(in thousands)			
Taiwan	\$ 42,986	\$ 28,300	\$ 101,567	\$ 100,650
Asia Pacific	18,011	20,971	49,745	55,372
Europe	2,264	5,734	9,848	13,191
North America other than United States	2,804	1,531	6,688	5,040
United States	1,857	750	3,672	2,445
Total revenue	<u>\$ 67,922</u>	<u>\$ 57,286</u>	<u>\$ 171,520</u>	<u>\$ 176,698</u>

As of October 31, 2019, substantially all of the Company's property and equipment, net, was located in the United States, Asia Pacific region and Europe with approximate net amounts of \$1.8 million, \$2.8 million and \$1.3 million, respectively.

Major Customers

The customers representing 10% or more of revenue and accounts receivable were Wintech and Chicony, which accounted for approximately 63.2% and 15.7% of total revenue for the three months ended October 31, 2019, respectively, and accounted for approximately 59.2% and 17.8% of total revenue for the nine months ended October 31, 2019, respectively. The customers representing 10% or more of revenue and accounts receivable were Wintech and Chicony, which accounted for approximately 49.4% and 22.7% of total revenue for the three months ended October 31, 2018, respectively, and accounted for approximately 57.0% and 16.3% of total revenue for the nine months ended October 31, 2018, respectively. Accounts receivable with Wintech and Chicony were approximately \$5.9 million and \$10.7 million as of October 31, 2019, respectively. Accounts receivable with Wintech and Chicony were approximately \$14.3 million and \$6.9 million as of January 31, 2019, respectively.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, and the consolidated financial statements and notes thereto for the fiscal year ended January 31, 2019 and management’s discussion and analysis of our financial condition and results of operations included in our Annual Report on Form 10-K for the 2019 fiscal year filed with the Securities and Exchange Commission, or SEC, on March 29, 2019.

This Quarterly Report on Form 10-Q, including this “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, includes a number of forward-looking statements that involve many risks and uncertainties. Forward-looking statements are identified by the use of the words “would,” “could,” “will,” “may,” “expect,” “believe,” “should,” “anticipate,” “outlook,” “if,” “future,” “intend,” “plan,” “estimate,” “predict,” “potential,” “target,” “seek,” “project,” “forecast,” “continue” or “foreseeable” and similar words and phrases, including the negatives of these terms, or other variations of these terms, that denote future events. Such statements include, but are not limited to, statements concerning our market opportunity and our ability to compete in such markets, our product strategy, our ability to develop and introduce new solutions, our future financial and operating performance, our sales and marketing strategy, our investment strategy, research and development, our customer and supplier relationships and inventory levels, industry trends, our cash needs and capital requirements, our repurchase programs, our expectations about taxes and operating expenses, the availability of third-party components and economic and political conditions. These statements reflect our current views with respect to future events and our potential financial performance and are subject to risks and uncertainties that could cause our actual results and financial position to differ materially and adversely from what is projected or implied in any forward-looking statements included in this Quarterly Report on Form 10-Q. These factors include, but are not limited to: risks associated with revenue being generated from new customers or design wins, neither of which is assured; our ability to retain and expand customer relationships and to achieve design wins; the commercial success of our customers’ products; our growth strategy; fluctuations in our operating results; our ability to anticipate future market demands and future needs and preferences of our customers; our ability to introduce new and enhanced solutions; the expansion of our current markets and our ability to successfully enter new markets; anticipated trends and challenges, including competition, in the markets in which we operate or seek to operate; our expectations regarding computer vision; our ability to effectively generate and manage growth; our ability to retain key employees; the potential for intellectual property disputes or other litigation; the risks described under Item 1A of Part II — “Risk Factors,” Item 2 of Part I — “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; the risks described elsewhere in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the SEC. We make these forward-looking statements based upon information available on the date of this Quarterly Report on Form 10-Q, and we have no obligation (and expressly disclaim any such obligation) to update or alter any forward-looking statements, whether as a result of new information or otherwise except as otherwise required by securities regulations.

Overview

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

Over the last several years, we have been expanding our development efforts on computer vision technology that we believe complements our image processing and video compression technology, and builds a foundation to address significant opportunities in AI and CV applications for a variety of markets. We believe that enhanced computer vision functionality is critical both to our current video markets, such as Internet Protocol, or IP, security camera, as well as future markets such as automotive original equipment manufacturer, or OEM, cameras for advanced driving assistance systems, or ADAS, and autonomous driving, and robotics. Our recent development efforts have focused on creating advanced computer vision algorithms and high-performance, low-power hardware platforms to enhance processing acceleration, which we refer to as our CVflow architecture. We believe that the integration of our proprietary highly-optimized AI computer vision technology with our video processor provides an optimized CV platform. In 2017, we introduced our first computer vision semiconductor chip, the CV1 SoC. In 2018, we introduced three new computer vision-based SoCs to enable our customers to develop intelligent camera systems for a variety of markets at different feature levels.

Our revenue over the last three years has been generated primarily from sales of our SoC solutions for incorporation into specialized video and image capture devices such as wearable sports cameras, automotive aftermarket cameras, IP security cameras and cameras incorporated into unmanned aerial vehicles, or UAVs or drones. Our revenue from several of these markets, however, has recently experienced significant declines. As a result, we believe that our future revenue growth, if any, will significantly depend upon our ability to expand within the camera markets with our video and image processing SoC solutions, particularly in the professional IP security and home security and monitoring camera markets, as well as emerging markets such as the OEM automotive and robotics markets. We expect our research and development expenditures to increase in comparison to prior periods as we devote additional resources to the development of innovative video and image processing solutions with increased functionality, such as computer vision capabilities, and as we target new markets, such as the OEM automotive and robotics markets.

We sell our SoC solutions to leading original design manufacturers, or ODMs, and OEMs globally, and in the automotive market, we also sell to Tier-1 suppliers to OEMs. We refer to ODMs and Tier-1 automotive suppliers as our customers and OEMs as our end customers, except as otherwise indicated or as the context otherwise requires. In the camera market, our solutions enable the creation of high-quality video content in wearable cameras, automotive cameras, IP security cameras, for both professional use and home security and monitoring, unmanned aerial vehicle cameras, also referred to as UAVs or drones, and virtual reality cameras, also referred to as 360° cameras. We also recently introduced, and continue to develop solutions to address emerging markets, such as the incorporation of computer vision functionalities for AI-enabled security cameras, AI-based driving applications, including auto-parking, driver monitoring systems, advanced blind spot detection, object detection, and deep learning algorithms for HD mapping solutions, OEM automotive ADAS applications and robotics markets.

Our sales cycles typically require a significant investment of time and a substantial expenditure of resources before we can realize revenue from the sale of our solutions, if any. Our typical sales cycle consists of a multi-month sales and development process involving our customers' system designers and management along with our sales personnel and software engineers. If successful, this process culminates in a customer's decision to use our solutions in its system, which we refer to as a design win. Our sales efforts are typically directed to the OEM of the product that will incorporate our video and image processing solution, but the eventual design and incorporation of our SoC into the product may be handled by an ODM on behalf of the OEM. In some of the new markets we are addressing, such as AI-based automotive applications, it may take longer and require more resources to secure design wins than in our traditional markets.

Volume production may begin within six to 18 months or even longer after a design win, depending on the targeted market, the complexity of our customer's product and other factors upon which we may have little or no influence. Once one of our solutions has been incorporated into a customer's design, we believe that our solution is likely to remain a component of the customer's product for its life cycle because of the time and expense associated with redesigning a product or substituting an alternative solution. Conversely, a design loss to a competitor will likely preclude any opportunity for us to generate future revenue from such customer's product. Even if we obtain a design win and our SoC remains a component through the life cycle of a customer's product, the volume and timing of actual sales of our SoCs to the customer depend upon the production, release and market acceptance of that product, none of which are within our control. A portable consumer device typically has a product life cycle of six to 18 months, while an IP security camera typically has a product life cycle of 12 to 24 months. We anticipate that product lifecycles will typically be longer than 24 months in the OEM automotive and robotics markets, as new product introductions occur less frequently in these markets.

Financial Highlights and Trends

- We recorded revenue of \$67.9 million and \$171.5 million for the three and nine months ended October 31, 2019, respectively. This represented an increase of 18.6% for the three months ended October 31, 2019 and a decrease of 2.9% for the nine months ended October 31, 2019, as compared to the same periods in the prior fiscal year. For the three months ended October 31, 2019, the increase in revenue was primarily attributable to higher revenue from professional IP security camera and consumer camera markets. In the professional IP security camera market, significant growth in the China region as a result of inventory build-up by our two largest China customers, and continued shipment of our computer vision-based solutions in the North America region, resulted in significant revenue growth in the third fiscal quarter of fiscal year 2020. In the consumer camera markets, revenue growth was primarily due to strong demand from action camera and drone markets in preparation for the holiday shopping season. The increase was also attributable to higher revenue from automotive camera markets, as a result of initial purchases of our computer vision-based solutions in the automotive aftermarket and a resumption of demand from the OEM video recorder market, principally in the China and Japan regions. The increased revenue was partially offset by decreased revenue in the consumer IP security camera and other consumer markets, including non-sports wearable camera and virtual reality markets. For the nine months ended October 31, 2019, the decrease in revenue was primarily attributable to lower revenue from consumer camera markets, including non-sports wearable camera, virtual reality, and drone markets. The decrease was also attributable to lower revenue from automotive markets, including the automotive aftermarket and OEM video recorder market, caused by a significant slowdown in the automotive industry in the first half of fiscal year 2020 and promotional activity in fiscal year 2019 from a large automotive customer that did not recur in the current fiscal year. The decreased revenue was partially offset by increased revenue in the consumer IP security camera market, led by the home security and monitoring market in the North America region, and the professional IP security camera market in the Asia and Europe regions. In the sports camera market, incorporation of our solutions into newly launched action camera products from Dajiang Innovation Technology Inc., or DJI, partially offset revenue loss from our sales to GoPro, Inc. or GoPro, for the nine months ended October 31, 2019.
- We recorded operating losses of \$7.2 million and \$35.8 million for the three and nine months ended October 31, 2019, respectively, as compared to operating losses of \$9.4 million and \$26.1 million for the three and nine months ended October 31, 2018, respectively. The decreased operating losses for the three months ended October 31, 2019 were primarily due to increased revenue, partially offset by decreased gross margin and increased operating expenses. The increased operating losses for the nine months ended October 31, 2019 were primarily due to decreased revenue and gross margin and increased operating expenses. The increased operating expenses, primarily in support of new applications for the automotive markets as well as the development of computer vision-based solutions, were partially offset by the recognition of approximately \$0.5 million and \$3.7 million of research and development grants from a foreign government during the three and nine months ended October 31, 2019, respectively. The increase in expenses related primarily to increased engineering headcount and increased stock-based compensation expense.
- We generated cash flows from operating activities of \$35.3 million for the nine months ended October 31, 2019, as compared to \$10.5 million for the nine months ended October 31, 2018. The increased cash flows from operating activities were primarily due to increased cash receipts associated with the timing of payments from customers, decreased inventory and other asset purchases, and increased liabilities associated with the timing of payments to suppliers.
- Effective February 1, 2019, we adopted Accounting Standards Codification (“ASC”) Topic 842, Leases. Under this new guidance, we recognize leases as right-of-use (“ROU”) assets and corresponding lease liabilities at the lease commencement date based on the present value of future lease payments, while recognizing lease expenses under the straight-line method through the lease term. As of October 31, 2019, there were approximately \$10.6 million of ROU assets, net of amortization expense, and \$10.7 million of lease liabilities recorded in the condensed consolidated balance sheets. For the three and nine months ended October 31, 2019, there was approximately \$0.7 million and \$2.2 million of lease expense, respectively, recorded in the condensed consolidated statements of operations.

- During the three months ended October 31, 2019, we exercised the renewal option to extend our current U.S. office lease for a period of 63 months and renewed our Shanghai office lease for another two years. We also signed a separate lease for additional space for our U.S. office for a period of 56 months. In August 2019, our wholly-owned subsidiary VisLab S.r.l., or VisLab, was granted a land lease for 35 years with an obligation to construct a building on the land in Parma, Italy (“Parma lease”). We will be responsible for the costs of construction and occupy the building after completion of construction for the remainder of the lease term. At the end of the lease, the land together with the building and all of the improvements will revert to the lessor. The renewed leases for the current U.S. office and Shanghai office have been recorded in the condensed consolidated balance sheets, while the lease associated with the additional space for our U.S. office and the Parma lease will be recorded as right-of-use (“ROU”) assets and lease liabilities upon their respective lease commencement dates. The total estimated future undiscounted cash payments are approximately \$9.4 million for our U.S. office leases, \$1.4 million for Shanghai office lease and \$2.2 million for the Parma lease.
- On May 29, 2019, our Board of Directors authorized an additional repurchase of up to \$50.0 million of our ordinary shares through June 30, 2020. Repurchases may be made from time-to-time through open market purchases, 10b5-1 plans or privately negotiated transactions subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate us to acquire any particular amount of ordinary shares, and it may be suspended at any time at our discretion. The repurchase program is funded using our working capital and any repurchased shares are recorded as authorized but unissued shares. There were no shares repurchased for the three and nine months ended October 31, 2019, respectively. As of October 31, 2019, \$50.0 million was available for repurchases through June 30, 2020.

Factors Affecting Our Performance

Ability to Capitalize on Computer Vision Trends. We expect that computer vision functionality will become an increasingly important requirement in many of our current and future markets, including IP security, automotive, robotics, and UAV markets. As a result, we believe that our ability to develop advanced AI computer vision technology, enable and support customer product development in emerging applications, such as ADAS, advanced blind spot detection, object detection, people recognition, retail analytics, and machine learning, and gain customer acceptance of our technology platform and solutions, will be critical to our future success. Moreover, achieving design wins, particularly for computer vision-centric applications in the IP security, automotive and robotics markets, is vital to our ability to generate revenue growth. As such, we closely monitor design wins by customer and end market. However, a design win may not successfully materialize into revenue, and even if it does result in revenue, the amount generated by each design win can vary significantly.

Ability to Develop and Introduce New or Enhanced Solutions. We operate in a dynamic environment characterized by rapidly changing technologies and technological obsolescence. To compete successfully, we must design, develop, market and sell enhanced solutions with increased levels of performance and functionality that meet the expectations of our customers. As such, we continuously invest in our research and development projects, especially computer vision technologies. However, failure to anticipate or timely develop new or enhanced solutions in response to technology shifts and trends could result in decreased revenue and our competitors achieving design wins we sought. Moreover, any reliability or quality problems with our solutions could harm our reputation, increase additional development and replacement costs, and prevent us from retaining existing customers and attracting new customers.

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

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

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

Continued Concentration of Revenue by End Market. Historically, our revenue has been significantly concentrated in a small number of end markets. In fiscal year 2010, the majority of our revenue came from the pocket video, camcorder and infrastructure markets. Since that time, we have developed technologies to provide solutions for new markets as they emerged, such as the wearable, IP security, UAV and automotive video recorder camera markets. Since fiscal year 2013, the wearable sports, professional IP security and UAV markets have been our largest end markets and sales into these markets collectively generated the majority of our revenue. We believe, however, that expansion into new markets is required to facilitate revenue growth and customer diversification as our revenue from the wearable camera and UAV camera markets has declined in recent years. We have recently introduced solutions to address emerging applications and markets, such as the incorporation of computer vision functionalities for AI-enabled security cameras, AI-based driving applications, including auto-parking, driver monitoring systems, advanced blind spot detection, object detection, deep learning algorithms for HD mapping solutions, OEM automotive ADAS applications and robotics markets. While we will continue to seek to expand our end market exposure, we anticipate that sales to a limited number of end markets will continue to account for a significant percentage of our total revenue for the foreseeable future. Our end market concentration may cause our financial performance to fluctuate significantly from period to period based on the success or failure of products that our SoCs are designed into as well as the overall growth or decline in the video capture markets in which we compete. In addition, we derive a significant portion of our revenue from a limited number of ODMs who build products on behalf of a limited number of OEMs and from a limited number of OEMs to whom we ship directly. We believe that our operating results for the foreseeable future will continue to depend on sales to a relatively small number of customers.

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

Sales Volume. A typical design win that successfully launches into the marketplace can generate a wide range of sales volumes for our solutions, depending on the end market demand for our customers' products. Our ability to accurately forecast demand can be adversely affected by a number of factors, including the reputation of the end customer, market penetration, product capabilities, size of the end market that the product addresses, our end customers' ability to sell their products, miscalculations by our customers of their inventory requirements, changes in market conditions, adverse changes in our product order mix and fluctuating demand for our customers' products. In certain cases, we may provide volume discounts on sales of our solutions, which may be offset by lower manufacturing costs related to higher volumes. In general, our customers with greater market penetration and better branding tend to develop products that generate larger volumes over the product life cycle.

Customer Product Life Cycle. We estimate our customers' product life cycles based on the customer, type of product and end market. We typically commence commercial shipments from six to 18 months following a design win; however, in some markets, more lengthy product and development cycles are possible, depending on the scope and nature of the project, such as in the automotive OEM market. A portable consumer device typically has a product life cycle of six to 18 months, and an IP security camera typically has a product life cycle of 12 to 24 months. We anticipate that product development and product life cycles will typically be longer than 24 months in the OEM automotive, Tier-1 automotive suppliers and robotics markets, as new product introductions typically occur less frequently in these markets.

Results of Operations

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
	(dollars in thousands)			
Revenue	\$ 67,922	\$ 57,286	\$ 171,520	\$ 176,698
Cost of revenue	28,819	22,701	72,127	69,208
Gross profit	39,103	34,585	99,393	107,490
Operating expenses:				
Research and development	32,480	31,653	95,917	95,446
Selling, general and administrative	13,791	12,354	39,293	38,098
Total operating expenses	46,271	44,007	135,210	133,544
Loss from operations	(7,168)	(9,422)	(35,817)	(26,054)
Other income, net	1,917	993	6,308	2,517
Loss before income taxes	(5,251)	(8,429)	(29,509)	(23,537)
Provision (benefit) for income taxes	(942)	592	2,302	2,367
Net loss	\$ (4,309)	\$ (9,021)	\$ (31,811)	\$ (25,904)

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	42	40	42	39
Gross profit	58	60	58	61
Operating expenses:				
Research and development	48	55	56	54
Selling, general and administrative	20	22	23	22
Total operating expenses	68	77	79	76
Loss from operations	(10)	(17)	(21)	(15)
Other income, net	3	2	4	1
Loss before income taxes	(7)	(15)	(17)	(14)
Provision (benefit) for income taxes	(1)	1	2	1
Net loss	(6)%	(16)%	(19)%	(15)%

Revenue

We derive substantially all of our revenue from the sale of HD and Ultra HD video and image processing SoC solutions to IP security OEMs, IP security ODMs, OEM automotive or Tier-1 automotive suppliers, either directly or through our distributors. In recent years, our SoC solutions have been primarily used in camera markets, such as IP security, automotive video recorder, drone and wearable cameras. Although we expect these camera markets, in particular the IP security camera market, to continue to generate revenue for the foreseeable future, we have recently introduced new SoCs targeting emerging computer vision applications in the IP security, OEM automotive, and robotics markets. We derive a substantial portion of our revenue from sales made indirectly through one of our distributors, Wintech Microelectronics Co., Ltd., or Wintech, and directly to one of our ODM customers, Chicony Electronics Co., Ltd., or Chicony.

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

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

Cost of Revenue and Gross Margin

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

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

Research and Development

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

Selling, General and Administrative

Selling, general and administrative expense consists primarily of personnel costs, including salaries, stock-based compensation and employee benefits for our sales, marketing, finance, human resources, information technology and administrative personnel. The expense also includes professional service costs related to accounting, tax, legal services, and allocated depreciation and facility expenses. We expect our selling, general and administrative expense to increase in absolute dollars as we continue to maintain the infrastructure and expand the size of our sales and marketing organization to support our business strategy of addressing new opportunities with our computer vision technology.

Other Income, Net

Other income, net, consists primarily of interest and other income from debt security investments and cash deposits with financial institutions.

Provision for Income Taxes

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

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

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

Comparison of the Three and Nine Months Ended October 31, 2019 and 2018

Revenue

	Three Months Ended October 31,		Change		Nine Months Ended October 31,		Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(dollars in thousands)							
Revenue	\$ 67,922	\$ 57,286	\$ 10,636	18.6%	\$ 171,520	\$ 176,698	\$ (5,178)	(2.9)%

The increased revenue for the three months ended October 31, 2019, as compared to the same period in the prior fiscal year, was primarily attributable to higher revenue from professional IP security camera and consumer camera markets. In the professional IP security camera market, significant growth in the China region as a result of inventory build-up by our two largest China customers, and continued shipment of our computer vision-based solutions in the North America region, resulted in significant revenue growth in the third fiscal quarter of fiscal year 2020. In the consumer camera markets, revenue growth was primarily due to strong demand from action camera and drone markets in preparation for the holiday shopping season. The increase was also attributable to higher revenue from automotive camera markets, as a result of initial purchases of our computer vision-based solutions in the automotive aftermarket and a resumption of demand from the OEM video recorder market, principally in the China and Japan regions. The increased revenue was partially offset by decreased revenue in the consumer IP security camera and other consumer markets, including non-sports wearable camera and virtual reality markets.

The decreased revenue for the nine months ended October 31, 2019, as compared to the same period in the prior fiscal year, was primarily attributable to lower revenue from consumer camera markets, including non-sports wearable camera, virtual reality, and drone markets. The decrease was also attributable to lower revenue from automotive markets, including the automotive aftermarket and OEM video recorder market, caused by a significant slowdown in the automotive industry in the first half of fiscal year 2020 and promotional activity in fiscal year 2019 from a large automotive customer that did not recur in the current fiscal year. The decreased revenue was partially offset by increased revenue in the consumer IP security camera market, led by the home security and monitoring market in the North America region, and the professional IP security camera market in the Asia and Europe regions. In the sports camera market, incorporation of our solutions into newly launched action camera products from DJI partially offset revenue loss from our sales to GoPro for the nine months ended October 31, 2019.

Cost of Revenue and Gross Margin

	Three Months Ended October 31,		Change		Nine Months Ended October 31,		Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(dollars in thousands)							
Cost of revenue	\$ 28,819	\$ 22,701	\$ 6,118	27.0%	\$ 72,127	\$ 69,208	\$ 2,919	4.2%
Gross profit	39,103	34,585	4,518	13.1%	99,393	107,490	(8,097)	(7.5)%
Gross margin	57.6%	60.4%	—	(2.8)%	57.9%	60.8%	—	(2.9)%

Cost of revenue increased for the three months ended October 31, 2019, as compared to the same period in the prior fiscal year, primarily due to increased volume of SoC shipments associated with increased revenue for the professional IP security camera market, consumer camera markets, including sports camera and drone markets, as well as automotive camera markets. Cost of revenue increased for the nine months ended October 31, 2019, as compared to the same period in the prior fiscal year, primarily due to increased volume of SoC shipments for the IP security camera markets, which were partially offset by decreased shipments of SoCs for the automotive camera markets.

Gross margin decreased for the three and nine months ended October 31, 2019, as compared to the same periods in the prior fiscal year, primarily due to a large percentage of our total revenue coming from the professional IP security camera market, which continued to have lower gross margins over the periods, principally in the China region. The decreased gross margin was partially offset by a shift in revenue composition to the higher gross margin automotive camera markets and consumer camera markets, including action camera and drone markets, for the three months ended October 31, 2019.

Research and Development

	Three Months Ended October 31,		Change		Nine Months Ended October 31,		Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(dollars in thousands)							
Research and development	\$ 32,480	\$ 31,653	\$ 827	2.6%	\$ 95,917	\$ 95,446	\$ 471	0.5%

Research and development expense increased for the three and nine months ended October 31, 2019, as compared to the same periods in the prior fiscal year, primarily due to increased salary-related and employee benefit expenses as a result of increased headcount, issuances of stock and our annual employee bonus program. Our engineering headcount increased to 560 at October 31, 2019 compared to 552 at October 31, 2018. For the three and nine months ended October 31, 2019, salary-related expenses increased by approximately \$0.7 million and \$2.2 million, respectively, and employee benefit expenses increased by approximately \$1.1 million and \$2.5 million, respectively. The increases were partially offset by approximately \$0.5 million and \$3.7 million of research and development grants from a foreign government for the three and nine months ended October 31, 2019, respectively. SoC development costs also decreased by approximately \$0.6 million and \$0.5 million for the three and nine months ended October 31, 2019, respectively, as compared to the same periods in the prior fiscal year, due to project timing and number of chips in development.

Selling, General and Administrative

	Three Months Ended October 31,		Change		Nine Months Ended October 31,		Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(dollars in thousands)							
Selling, general and administrative	\$ 13,791	\$ 12,354	\$ 1,437	11.6%	\$ 39,293	\$ 38,098	\$ 1,195	3.1%

Selling, general and administrative expense increased for the three and nine months ended October 31, 2019, as compared to the same periods in the prior fiscal year, primarily due to increased employee compensation expenses by approximately \$1.3 million and \$2.0 million, respectively, as a result of increased salary, issuances of stock and our annual employee bonus program. For the nine months ended October 31, 2019, the increase was partially offset by approximately \$0.6 million less expenditures on professional services.

Other Income, Net

	Three Months Ended October 31,		Change		Nine Months Ended October 31,		Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(dollars in thousands)							
Other income, net	\$ 1,917	\$ 993	\$ 924	93.1%	\$ 6,308	\$ 2,517	\$ 3,791	150.6%

The increase in other income, net, for the three and nine months ended October 31, 2019, as compared to the same periods in the prior fiscal year, was primarily due to aggregate increases of approximately \$1.0 million and \$3.6 million, respectively, in interest and other income from our deposits and debt security investments. The increases were primarily the result of larger invested balances and debt securities purchased at discounts.

Provision for Income Taxes

	Three Months Ended October 31,		Change		Nine Months Ended October 31,		Change	
	2019	2018	Amount	%	2019	2018	Amount	%
(dollars in thousands)								
Provision (benefit) for income taxes	\$ (942)	\$ 592	\$ (1,534)	(259.1)%	\$ 2,302	\$ 2,367	\$ (65)	(2.8)%
Effective tax rate	17.9 %	(7.0) %	—	24.9%	(7.8) %	(10.1) %	—	2.3%

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

The decrease in income tax expense for the three and nine months ended October 31, 2019, respectively, as compared to the same periods in the prior fiscal year, was primarily due to an increase in tax benefits from excess stock-based compensation deductions, partially offset by a decrease in the proportion of profits generated in lower-tax jurisdictions.

Liquidity and Capital Resources

As of October 31, 2019 and January 31, 2019, we had cash, cash equivalents and marketable debt securities of approximately \$400.8 million and \$358.9 million, respectively. We invest in highly liquid, short-term marketable debt securities and hold these investments as available-for-sale securities. As of October 31, 2019, these securities had a fair value of approximately \$209.8 million with insignificant unrealized losses caused by fluctuations in market value.

Cash Flows

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

	Nine Months Ended October 31,	
	2019	2018
(in thousands)		
Net cash provided by operating activities	\$ 35,284	\$ 10,498
Net cash provided by (used in) investing activities	16,355	(50,650)
Net cash provided by (used in) financing activities	6,622	(94,180)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 58,261	\$ (134,332)

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased for the nine months ended October 31, 2019, as compared to the same period in the prior fiscal year, primarily due to increased cash receipts associated with the timing of payments from customers, decreased inventory and other asset purchases, and increased liabilities associated with the timing of payments to suppliers.

Net Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities increased for the nine months ended October 31, 2019, as compared to the same period in the prior fiscal year, primarily due to an additional \$87.2 million in cash receipts from the sale and maturity of debt securities, which was partially offset by approximately \$21.2 million of additional investments in debt securities. The increase was also attributable to approximately \$1.0 million reduction in expenditures on property and equipment purchases.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities increased for the nine months ended October 31, 2019, as compared to the same period in the prior fiscal year, primarily due to \$96.4 million of cash used for the repurchasing of our ordinary shares under the stock repurchase program during the nine months ended October 31, 2018 that was not incurred during the nine months ended October 31, 2019. The increase was also attributable to approximately \$4.8 million of additional cash proceeds from option exercises and employee stock purchase withholding. The increase was partially offset by additional payments of approximately \$0.4 million in cash for intangible assets purchased in fiscal year 2020.

Operating and Capital Expenditure Requirements

As of October 31, 2019, we had cash, cash equivalents and marketable debt securities of approximately \$400.8 million. We believe that our existing cash balances will be sufficient to meet our anticipated cash requirements through at least the next 12 months. In the future, we expect our operating and capital expenditures to increase as we increase headcount, expand our business activities, and implement and enhance our information technology platforms. As we expand our operations, we may require more working capital. If our available cash balances are insufficient to satisfy our future liquidity requirements, we may seek to sell equity or convertible debt securities or borrow funds commercially. The sale of equity and convertible debt securities may result in dilution to our shareholders, and those securities may have rights senior to those of our ordinary shares. If we raise additional funds through the issuance of convertible debt securities, these securities could contain covenants that would restrict our operations. We may require additional capital beyond our currently anticipated amounts. Additional capital may not be available to us on reasonable terms, or at all.

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

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

Contractual Obligations, Commitments and Contingencies

Manufacturing Purchase Obligations

As of October 31, 2019, we had purchase obligations with our independent contract manufacturers of \$27.6 million.

Leases

The Company adopted ASC 842, Leases on February 1, 2019. As a result, the contractual obligations related to future lease payments are reflected on the condensed consolidated balance sheets as the lease liabilities. In August 2019, VisLab, our wholly-owned subsidiary, was granted a land lease for 35 years with an obligation to construct a building on the land in Parma, Italy. We will be responsible for the costs of construction and occupy the building after completion of construction for the remainder of the lease term. We also signed a separate lease for an additional space for our U.S. office for a period of 56 months. The lease associated with the additional space of our U.S. office and the Parma lease will be recorded as ROU assets and lease liabilities in the balance sheet upon their respective lease commencement dates. The total estimated future undiscounted cash payments are approximately \$1.7 million for the additional space for the U.S. office and \$2.2 million for the Parma lease, of which \$1.8 million will be paid in the first two years and the remaining balance of \$0.4 million will be paid over the remainder of the lease term. See Note 7, "Leases" in the Notes to Condensed Consolidated Financial Statements for more details about these two lease liabilities.

Except as described above with respect to the manufacturing purchase obligations and leases, there were no other material changes in our contractual obligations, commitments and contingencies from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2019. Please see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations, Commitments and Contingencies" in our Annual Report on Form 10-K for the fiscal year ended January 31, 2019 for a description of our contractual obligations.

Off-Balance Sheet Arrangements

As of October 31, 2019, we did not engage in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

Recent Authoritative Accounting Guidance

See Note 1 of Notes to Condensed Consolidated Financial Statements for information regarding recently issued accounting pronouncements.

Critical Accounting Policies and Significant Management Estimates

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the 2019 fiscal year filed with the SEC on March 29, 2019, except for the recently adopted accounting guidance on leases as discussed in Notes 1 and 7 of Notes to Condensed Consolidated Financial Statements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

As of October 31, 2019 and January 31, 2019, we had cash, cash equivalents, marketable debt securities and restricted cash totaling \$400.8 million and \$358.9 million, respectively. Our cash is deposited in checking accounts with reputable financial institutions. The cash equivalents and marketable debt securities consist primarily of investments in money market funds, asset-backed securities, commercial paper, U.S. government securities, and debt securities of corporations. Our cash is held for working capital purposes. We do not enter into investments for trading or speculative purposes.

Interest Rate Fluctuation Risk

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

Foreign Currency Risk

To date, all of our product sales and inventory purchases have been denominated in U.S. dollars. We therefore have not had any foreign currency risk associated with these two activities. The functional currency of all of our entities is the U.S. dollar. Our operations outside of the United States incur operating expenses and hold assets and liabilities denominated in foreign currencies, principally the New Taiwan Dollar and the Chinese Yuan Renminbi. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly the exchange rates between the Chinese Yuan Renminbi and the U.S. dollar and between the New Taiwan Dollar and the U.S. dollar. As we grow our operations, our exposure to foreign currency risk could become more significant. To date, we have not entered into any foreign currency exchange contracts and currently do not expect to enter into foreign currency exchange contracts for trading or speculative purposes.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of October 31, 2019, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the Company's fiscal quarter ended October 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

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

Risks Related to Our Business and Our Industry

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

We sell our video and image processing system-on-a-chip, or SoC, solutions to original equipment manufacturers, or OEMs, who include our SoCs in their products, and to original design manufacturers, or ODMs, who include our SoCs in the products that they supply to OEMs. We refer to ODMs as our customers and OEMs as our end customers, except as otherwise indicated or as the context otherwise requires. Our video and image processing SoCs are generally incorporated into our customers' products at the design stage, which is referred to as a design win. As a result, we rely on OEMs to design our solutions into the products that they design and sell. Without these design wins, our business would be significantly harmed. We often incur significant expenditures developing a new SoC solution without any assurance that any OEM will select our solution for design into its own product. We anticipate that it will take longer and require more resources and greater expenditures to achieve design wins, and likely take longer to generate revenue from such design wins in the new markets we are targeting, such as the OEM automotive and robotics markets, than our current markets. In addition, trade tensions between the United States and China, as discussed in subsequent risk factors, may make it more difficult to secure future design wins with China customers. Once an OEM designs a competitor's device into its product, it becomes significantly more difficult for us to sell our SoC solutions to that OEM because changing suppliers involves significant cost, time, effort and risk for the OEM.

Even if an OEM designs one of our SoC solutions into its product, we cannot be assured that the OEM's product will be commercially successful over time or at all. For example, in the past we have secured design wins for camera products that were never commercially released by our customer as a result of factors beyond our control. If other products or other product categories incorporating our SoC solutions are not commercially successful or experience rapid decline, our revenue and business will suffer. For example, we have from time to time experienced declines in demand for our solutions in professional IP security, automotive and several consumer camera markets, including wearable cameras, virtual reality cameras and cameras incorporated into unmanned aerial vehicles, also referred to as UAVs or drones, which has negatively impacted our business.

Similarly, even if an OEM designs one of our SoC solutions into its product, we are not assured that we will receive or continue to receive new design wins from that OEM. For example, two of our largest OEMs in the consumer camera markets in the past few years, GoPro, Inc., or GoPro, and Dajiang Innovation Technology Inc., or DJI, have begun using competing solutions in their mainstream products, which has significantly reduced these OEMs' demand for our solutions and negatively impacted our revenue.

Our ability to sell our products to several China customers has been restricted.

On October 9, 2019, our security camera customers Hangzhou Hikvision Digital Technology Co., Ltd, or Hikvision, and Zhejiang Dahua Technology Co., Ltd., or Dahua, were added to the Entity List of the Bureau of Industry and Security, or BIS, of the U.S. Department of Commerce, which imposes limitations on the supply of certain U.S. items to the listed entities. While the addition of Hikvision and Dahua to the Entity List negatively impacts our ability to ship items subject to BIS regulations, including US-produced SoC solutions, to these entities, we have determined that that we are able to ship some foreign-produced SoC products to the listed entities in compliance with applicable law. Notwithstanding our ability to continue to supply some SoC products to the listed entities, these customers may seek to obtain similar or substitute products from our competitors that are not subject to these limitations, or to develop similar or substitute products themselves. We also cannot be certain what additional actions to the U.S. government may take with respect to Hikvision and Dahua, or our other China customers, including changes to the Entity List restrictions, export regulations, tariffs or other trade restrictions, or whether the Chinese government may take any actions in response to U.S. government action that may adversely affect our ability to do business with our China customers. We are unable to predict the duration of the restrictions imposed by the U.S. government in October 2019 or of any additional governmental actions, any of which could have a long-term adverse effect on our business, operating results and financial condition.

Global economic and political conditions, including possible trade tariffs and trade restrictions, may have an impact on our business and financial condition in ways that we currently cannot predict.

Beyond the BIS actions relating to Hikvision and Dahua, general trade tensions between the United States and China have been escalating, which has, in our view, created and will continue to create an uncertain business environment. If additional tariffs or trade restrictions are imposed on our SoC solutions or the products of our customers, or trade restrictions are imposed on our ability to conduct business with certain customers, there could be a negative impact on our operations and financial performance. H.R. 5515 - John S. McCain National Defense Authorization Act for Fiscal Year 2019, which was recently enacted into law, may negatively impact our two largest China IP security customers and decrease their demand for our solutions. Similarly, changes in export classification requirements, such as those proposed by U.S. Congress, could impact our ability to supply our solutions to certain companies or in certain countries. Even in the absence of new restrictions, tariffs or changes in export classifications, it is possible that foreign customers could take actions to reduce dependence on the supply of components, including our solutions, that could be subject to new export classifications or trade restrictions. For example, there are risks that the Chinese government may, among other things, require the use of local suppliers, compel companies that do business in China to partner with local companies to conduct business and provide incentives to government-backed local customers to buy from local suppliers, which could have a material adverse effect on our business and financial condition.

Our primary inventory warehouse is located in Hong Kong and may be affected by recent political, social and economic conditions in Hong Kong.

We operate a warehouse facility in Hong Kong through which the substantial majority of our finished SoCs are shipped to customers or logistic partners. Hong Kong has recently experienced significant political unrest and social strife, including protests that resulted in the closing of the Hong Kong international airport on August 12, 2019 for two days. While we have not been materially impacted by these problems to date, continued deterioration in political, social or economic conditions in Hong Kong or future unforeseen problems could affect deliveries of our SoCs to our customers or logistic partners, possibly resulting in business interruptions, substantially delayed or lost sales, loss of inventory, or increased expenses that cannot be passed on to customers, any of which could ultimately have a material adverse effect on our business and financial results. In such an eventuality, we could be forced to relocate our warehouse operations, either temporarily or permanently, to another potentially costlier location or find alternative potentially costlier methods of shipping our finished SoCs to customers and logistic partners. While we are taking measures to attempt to maintain the continuity of our product delivery operations notwithstanding the impact on the use of our Hong Kong facility of the continued or deteriorating conditions in Hong Kong or other future unforeseen problems there, we cannot ensure that these measures will be successful in eliminating disruptions in our business.

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

In the past several years, a substantial portion of our revenue was generated from sales of our SoCs to OEMs and ODMs of HD video cameras, including IP security cameras, wearable cameras and UAVs. Our revenue from several of these markets, however, has recently experienced significant declines. As a result, we believe that our future revenue growth, if any, will significantly depend on our ability to expand within the camera markets with our video and image processing SoC solutions, particularly in the professional IP security and home security and monitoring camera markets, as well as emerging markets such as the OEM automotive and robotics markets. Each of these markets presents distinct and substantial risks and, in many cases, requires us to develop new functionality or software to address the particular requirements of that market. For example, computer vision functionality has become an increasingly important requirement in many of our current and future markets, including the automotive, IP security camera and robotics markets. As a result, we believe that our ability to develop advanced computer vision technology and gain customer acceptance of our technology is critical to our future success and our efforts to develop such technology that gains market acceptance may not be successful. Development of products to address new markets, such as the OEM automotive and robotics markets, could negatively impact our ability to develop new products for our current markets, which may harm our financial condition, particularly in the near term. In addition, we anticipate that as we continue to move into new markets, such as the OEM automotive and robotics markets, we will likely face competition from larger competitors with greater resources and more history in these markets. If any of these markets do not develop as we currently anticipate or if we are unable to penetrate them successfully with our solutions, our revenue could decline, and our financial condition will be negatively impacted. Moreover, if we are successful in achieving design wins in these new markets, it will likely take longer to generate revenue from such design wins than in our current markets.

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

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

In the past few years, a substantial portion of our revenue has been derived from sales of our SoCs to the camera market and in particular, the IP security camera market, automotive camera market, wearable camera market and UAV market. While we will continue to provide solutions addressing these markets, we are focusing our development resources on addressing computer vision applications, primarily in the professional IP security and home security and monitoring camera markets, the OEM automotive and robotics markets, with our computer vision solutions. The application of computer vision functionality in these markets is relatively new, and we may be unable to predict the timing or development of these markets with accuracy. For example, a slower than expected adoption rate for computer vision technology in the IP security camera market could slow the demand for our new solutions. Similarly, a slower than anticipated adoption of electronic mirrors, advanced driving assistance systems and autonomous driving functionality could reduce demand for our new computer vision solutions. If our key target markets, such as automotive cameras, IP security cameras and cameras for robotic applications, do not grow or develop in ways that we currently expect, demand for our video and image processing SoCs may not materialize as expected, and our business and operating results could suffer.

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

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

Our SoCs are incorporated into products manufactured by or for our end customers, and as a result, demand for our solutions is influenced by the demand for our customers' products. Our ability to accurately forecast demand can be adversely affected by a number of factors, including inaccurate forecasting by our customers, miscalculations by our customers of their inventory requirements, changes in market conditions, adverse changes in our product order mix and fluctuating demand for our customers' products. For example, higher than normal customer inventory levels of our products has in the past impacted our revenue and it may occur again. For example, we recently experienced increased demand for our products from Hikvision and Dahua, which may result in higher than normal inventory levels of our products at these customers and result in reduced demand for our products from these customers in future periods as the customers exhaust their inventory. Even after an order is received, our customers may cancel these orders, request a decrease in production quantities or request a delay in the delivery of our solutions. Any such cancellation, decrease or delay subjects us to a number of risks, most notably that our projected sales will not materialize on schedule or at all, leading to unanticipated revenue shortfalls and excess or obsolete inventory that we may be unable to sell to other customers.

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

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

We derive a significant portion of our revenue from a limited number of ODMs who build products on behalf of a limited number of OEMs and from a limited number of OEMs to whom we ship directly. We anticipate that this customer concentration will continue for the foreseeable future. In fiscal year 2019, the customers representing 10% or more of our revenue were Wintech Microelectronics Co., Ltd., or Wintech, the Company's distributor, and Chicony Electronics Co., Ltd., or Chicony, a direct ODM customer, which accounted for approximately 58% and 16% of total revenue, respectively. For the nine months ended October 31, 2019, the customers representing 10% or more of revenue were Wintech and Chicony which accounted for approximately 59% and 18% of total revenue, respectively. We believe that our operating results for the foreseeable future will continue to depend on sales to a relatively small number of customers and end customers. In the future, these customers may decide not to purchase our SoC solutions at all, may purchase fewer solutions than they did in the past or may alter their purchasing patterns. As substantially all of our sales to date have been made on a purchase order basis, these customers may cancel, change or delay product purchase commitments with little or no notice to us and often without penalty and may make our revenue volatile from period to period. In the past, we have had significant customers decrease their demand for our solutions with little advance notice to us. For example, GoPro, our largest OEM customer in fiscal year 2017, has recently used a competing solution in its mainstream cameras, which had a significantly negative impact on our revenue. Similarly, our customer DJI recently introduced UAVs incorporating competing solutions that have reduced, and will continue to reduce, DJI's demand for our solutions. The loss of a significant customer, or substantial reduction in purchases by a significant customer, could happen again at any time and without notice, and such loss would likely harm our financial condition and results of operations. Moreover, because several of our largest OEM customers have a dominant position in their markets, a loss of a significant customer may not be easily replaced through sales to other customers in that market.

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

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

The semiconductor industry is subject to intense competitive pricing pressure from customers and competitors. Accordingly, any increase in the cost of our solutions, whether by adverse purchase price variances or adverse manufacturing cost variances, will reduce our gross margins and operating profit. We currently do not have long-term supply contracts with most of our primary third-party vendors, and we negotiate pricing with our main vendors on a purchase order-by-purchase order basis. Therefore, they are not obligated to perform services or supply product to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. The ability of our foundry vendors to provide us with a product, which is solely sourced at each foundry, is limited by their available capacity, existing obligations and technological capabilities. Foundry capacity may not be available when we need it or at reasonable prices. None of our third-party foundry or assembly and test vendors have provided contractual assurances to us that adequate capacity will be available to us to meet our anticipated future demand for our solutions. Moreover, availability of foundry capacity at our primary foundry vendor has tightened recently, which could limit the volume of products we can produce and/or delay production of new products, both of which would negatively impact our business and operations. Our foundry and assembly and test vendors may allocate capacity to the production of other companies' products while reducing deliveries to us on short notice. In particular, other companies that are larger and better financed than we are or that have long-term agreements with our foundry or assembly and test vendors may cause our foundry or assembly and test vendors to reallocate capacity to them, decreasing the capacity available to us. Converting or transferring manufacturing from a primary location or supplier to a backup provider could be expensive and would likely take at least two or more quarters. There are only a few foundries, including Samsung and Taiwan Semiconductor Manufacturing Co., Ltd., or TSMC, that are currently available for certain advanced process technologies that we utilize or may utilize, such as 10 or 7 nanometer, or nm. Accordingly, as we continue to develop solutions in advanced process nodes, we will be increasingly dependent upon such foundries. The unavailability of one or both of these foundries could significantly impact our ability to produce our new products or delay production, which would negatively impact our business.

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

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

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

Our failure to anticipate or timely develop new or enhanced solutions in response to technological shifts could result in decreased revenue and our competitors achieving design wins that we sought. In particular, we may experience difficulties with product design, development of new software, manufacturing, marketing or qualification that could delay or prevent our development, introduction or marketing of new or enhanced solutions. In addition, for some markets, such as the automotive OEM market, we expect that we will need to establish relationships with third-party suppliers or software providers in order to effectively market our solutions to end-customers. Failure to establish these relationships could harm our ability to achieve design wins. Delays in product development could impair our relationships with our customers and negatively impact sales of our solutions under development. Moreover, it is possible that our customers may develop their own product or adopt a competitor's solution for products that they currently buy from us. If we fail to introduce new or enhanced solutions that meet the needs of our customers or penetrate new markets in a timely fashion, we will lose market share, and our operating results will be adversely affected.

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

We are focused on selling our video and image processing solutions to ODMs and OEMs for incorporation into their products at the design stage. These efforts to achieve design wins typically are lengthy, especially in emerging markets we intend to address such as the OEM automotive market, and in any case can require us to both incur design and development costs and dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not prevail in the competitive selection process, and even when we do achieve a design win, we may never generate any revenue despite incurring development expenditures. For example, in the past we had achieved certain design wins and projected substantial future revenue as a result of such design wins. Subsequently, based on factors outside of our control, the applicable end customers abruptly cancelled the projects, with no notice to us, resulting in a loss of projected revenue. In addition, even if an OEM designs one of our SoC solutions into one of its products, we cannot be assured that we will secure new design wins from that OEM for future products. For example, GoPro and DJI have used competing solutions in recently introduced camera products, which has had a significant negative impact on our revenue.

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

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

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

The global semiconductor market in general, and the video and image processing markets in particular, are highly competitive. We compete in different target markets to various degrees on the basis of a number of competitive factors, including our solutions' performance, features, functionality, energy efficiency, size, ease with which our solution may be integrated into our customers' products, customer support, reliability and price, as well as on the basis of our reputation. We expect competition to increase and intensify as more and larger semiconductor companies enter our markets and as existing competitors improve or expand their product offerings. We also expect that the trend among large OEMs to seek to develop their own semiconductor solutions will continue and expand, particularly in camera markets experiencing consolidation, such as the IP security market. In addition, as we move into new markets, such as the OEM automotive and robotics markets, we will face competition from larger competitors with longer histories in these markets. Increased competition could result in price pressure, reduced profitability and loss of market share, any of which could harm our business, revenue and operating results.

Our competitors range from large, international companies offering a wide range of semiconductor products to smaller companies specializing in narrow markets. In the IP security camera market, our primary competitors include AMLogic Inc., Fullhan Microelectronics Co., Ltd., Geo Semiconductor, Inc., HiSilicon Technologies Co., Ltd., or HiSilicon, which is owned by Huawei Technologies Co., Ingenic Semiconductor Co., Ltd., Intel Corporation, or Intel, Movidius Ltd., a subsidiary of Intel, Novatek Microelectronics Corp., or Novatek, OmniVision Technologies, Inc., or OmniVision, Qualcomm Incorporated, or Qualcomm, Realtek Semiconductor Corp., SigmaStar Technology Corp., or SigmaStar, Socionext Inc., or Socionext, an entity created from the merger of the system LSI businesses of Fujitsu Ltd. and Panasonic Corporation, or Panasonic, and Texas Instruments Incorporated, or Texas Instruments, as well as vertically integrated divisions of IP Security camera device OEMs, including Axis Communications AB and Sony Corporation, or Sony. In the automotive camera market, we currently compete against Allwinner Technology Co., Ltd., Alpha Imaging Technology Corp., Core Logic, Inc., Novatek, NXP Semiconductors N.V., OmniVision, Qualcomm, Renesas Electronics Corporation, SigmaStar, Sunplus Technology Co. Ltd., Texas Instruments and Xilinx Inc. In the wearable sports camera market, our primary competitors are vertically integrated divisions of camera device OEMs, including Sony, Panasonic, HiSilicon and Socionext. Our primary competitors in the UAV camera market include HiSilicon, Intel, NVIDIA Corporation and Qualcomm.

Certain of our customers and suppliers also have divisions that produce products competitive with ours and other customers may seek to vertically integrate competitive solutions in the future. In addition, certain third-party developers of technology competitive to our solutions have licensed their technology, including image signal processing and computer vision IP, which potentially enables a greater number of competitors to offer competitive solutions.

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

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

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

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

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

Factors that may affect our operating results include:

- fluctuations in demand, sales cycles, product mix, and prices for our products;
- the forecasting, scheduling, rescheduling or cancellation of orders by our customers;
- shifts in consumer or manufacturer preferences and any resultant change in demand for video and image capture devices into which our solutions are incorporated;
- changes in the competitive dynamics of our markets, including new entrants or pricing pressures;
- delays in our customers' ability to manufacture and ship products that incorporate our solutions caused by internal and external factors beyond our control;
- our ability to successfully define, design and release new solutions in a timely manner that meet our customers' needs;
- changes in manufacturing costs, including wafer, test and assembly costs, mask costs, manufacturing yields and product quality and reliability;

- timely availability of adequate manufacturing capacity from our manufacturing subcontractors;
- the timing of product announcements by our competitors or by us;
- incurrence of research and development and related new products expenditures;
- write-downs of inventory for excess quantities and technological obsolescence;
- future accounting pronouncements and changes in accounting policies;
- volatility in our share price, which may lead to higher stock-based compensation expense;
- volatility in our effective tax rate;
- general socioeconomic and political conditions in the countries where we operate or where our products are sold or used, including U.S.-China relations and the conditions in Hong Kong; and
- costs associated with litigation, especially related to intellectual property.

Moreover, the semiconductor industry has historically been cyclical in nature, reflecting overall economic conditions as well as budgeting and buying patterns of consumers. We expect these cyclical conditions to continue. As a result, our quarterly operating results are difficult to predict, even in the near term. Our expense levels are relatively fixed in the short term and are based, in part, on our expectations of future revenue. If revenue levels are below our expectations, we may experience material impacts on our business, including declines in margins and profitability, or incur losses. For example, our revenue declined 23% in fiscal year 2019 compared to fiscal year 2018, and we incurred our first annual net losses since our initial public offering, or IPO, in 2012. For the nine months ended October 31, 2019, our revenue declined 3% compared to the same period in fiscal year 2019, and we incurred net loss of \$31.8 million. We may experience similar declines in the future, which would harm our operating results.

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

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

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

We currently derive substantially all of our revenue from the sale of a relatively small number of our video and image processing SoCs for use in a relatively small number of camera markets and we expect to do so for the next several years. As a result, continued market adoption of our SoC solutions in these camera markets is critical to our future success. If demand for our SoC solutions were to decline, or demand for products incorporating our solutions declines, or does not grow as expected, our revenue would decline and our business would be harmed.

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

We sell a significant percentage of our solutions through a single distributor, Wintech Microelectronics Co., Ltd., or Wintech, which serves as our non-exclusive sales representative in Asia, other than Japan. Approximately 58%, 59% and 60% of our revenue was derived from sales through Wintech for the fiscal years ended January 31, 2019, 2018 and 2017, respectively, and approximately 59% of our revenue was derived from sales through Wintech for the nine months ended October 31, 2019. We anticipate that a significant portion of our revenue will continue to be derived from sales through Wintech in the foreseeable future. In November 2019, WPG Holdings Co., or WPG, a Taiwan distributor, announced an unsolicited bid to acquire up to 30% of Wintech. While the outcome of WPG's bid is unknown at this time, an acquisition of Wintech by WPG could have an adverse impact on our relationship with Wintech. Our current agreement with Wintech is effective until September 2022, unless it is terminated earlier by either party for any or no reason with 60 days written notice or by failure of the breaching party to cure a material breach within 30 days following written notice of such material breach by the non-breaching party. Our agreement with Wintech will automatically renew for additional successive 12-month terms unless at least 60 days before the end of the then-current term either party provides written notice to the other party that it elects not to renew the agreement. Termination of the relationship with Wintech, either by us or by Wintech, could result in a temporary or permanent loss of revenue. We may not be successful in finding suitable alternative distributors on satisfactory terms, or at all, and this could adversely affect our ability to effectively sell our solutions in certain geographical locations or to certain end customers. Furthermore, Wintech, or any successor or other distributors we do business with, may face issues obtaining credit, which could impair their ability to make timely payments to us.

We are subject to risks associated with our distributors' product inventories.

We sell many of our products to customers through distributors who maintain their own inventory of our products for sale to ODMs and end customers. We allow limited price adjustments on sales to distributors. Price adjustments may be effected by way of credits for future product or by cash payments to the distributor, either in arrears or in advance, using estimates based on historical transactions. Upon the adoption of ASC 606 on February 1, 2018, we recognize revenue on sales to distributors upon shipment and transfer of control (known as "sell-in" revenue recognition) based on the amount of consideration expected to be received. To the extent that the actual consideration received is materially different from estimated variable consideration recognized, we may be required to adjust revenue in subsequent periods.

If our distributors are unable to sell an adequate amount of their inventory of our products in a given quarter to ODMs and end customers, or if they decide to decrease their inventories for any reason, such as adverse global economic conditions or a downturn in technology spending, our sales to these distributors and our revenues may decline. We also face the risk that our distributors may purchase, or for other reasons accumulate, inventory levels of our products in any particular quarter in excess of future anticipated sales to end customers. If such sales do not occur in the time frame anticipated by these distributors for any reason, these distributors may substantially decrease the amount of product they order from us in subsequent periods until their inventory levels realign with end-customer demand, which would harm our business and could adversely affect our revenues in such subsequent periods. Our reserve estimates associated with products stocked by our distributors are based largely on reports that our distributors provide to us on a weekly or monthly basis. To date, we believe this resale and channel inventory data have been generally accurate. To the extent that these data are inaccurate or not received in a timely manner, we may not be able to make reserve estimates for future periods accurately or at all.

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

Deterioration of the financial condition of our distributors or customers could adversely impact our collection of accounts receivable. We regularly review the collectability and creditworthiness of our distributors and customers to determine an appropriate allowance for doubtful receivables. Based on our review of our distributors and customers, we currently have only immaterial reserves for uncollectible accounts. If our uncollectible accounts, however, were to exceed our current or future allowance for doubtful receivables, our operating results would be negatively impacted.

The loss of any of our key personnel could seriously harm our business.

We believe our future success depends in large part upon the continuing services of the members of our senior management team and various engineering and other technical personnel. If one or more of our senior executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our business may be disrupted, and our financial condition and results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may experience material disruption of our operations and development plans and lose customers, know-how and key professionals and staff members, and we may incur increased operating expenses as the attention of other senior executives is diverted to recruit replacements for key personnel.

We rely on highly skilled personnel and, if we are unable to hire, retain or motivate key personnel, we may not be able to grow effectively.

Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of our organization. Our industry is characterized by high demand and intense competition for talent. The pool of qualified candidates is limited, particularly in Silicon Valley and parts of Asia for very-large-scale integration, or VLSI, and computer vision engineers, and certain of our competitors and potential competitors with greater resources have directly targeted our employees. In addition, our compensation arrangements, such as our equity award programs, may not always be successful in attracting new employees and retaining and motivating our existing employees. Our continued ability to compete effectively, and to grow our business, depends on our ability to attract new employees and to retain and motivate our existing employees.

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

You should not rely on our revenue growth, gross margins or operating results for any prior quarterly or annual periods as an indication of our future operating performance. In the past, we experienced significant growth in a short period of time. Our revenue increased from \$21.5 million in fiscal year 2008 to \$316.4 million in fiscal year 2016. Recently, however, we have not sustained this growth rate. Our revenue decreased to \$295.4 million in fiscal year 2018 and to \$227.8 million in fiscal year 2019, resulting in the first annual net losses since our IPO in 2012. For the nine months ended October 31, 2019, our revenue declined 3% compared to the same period in fiscal year 2019 and we incurred net loss of \$31.8 million. We continue to invest in the development of new technology and solutions and expect our research and development expenditures to increase compared to prior periods. Accordingly, if we are unable to generate or maintain adequate revenue growth, our financial results could suffer and our stock price could decline.

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

Our business has grown rapidly in the past. Our future operating results depend to a large extent on our ability to successfully manage any expansion and growth, including the challenges of managing a company with an executive management team in the United States and the majority of its employees in Asia. We are increasing our investment in research and development and other functions to grow our business and address new markets, such as the OEM automotive and robotics markets. To manage our growth successfully and handle the responsibilities of being a public company, we believe we must effectively, among other things:

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

We are likely to incur the costs associated with these increased investments earlier than some of the anticipated benefits, and the return on these investments, if any, may be lower, may develop more slowly than we expect or may not materialize. In addition, development of products to address emerging markets, such as the OEM automotive and robotics markets, could negatively impact our ability to develop new products for our current markets, which may harm our financial condition, particularly in the near term.

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

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

The semiconductor industry requires substantial investment in research and development in order to bring to market new and enhanced solutions. Our research and development expense was \$128.1 million, \$115.5 million and \$101.2 million in fiscal years 2019, 2018 and 2017, respectively. For the nine months ended October 31, 2019, our research and development expense was \$95.9 million. We expect to increase our research and development expenditures as compared to prior periods as part of our strategy of focusing on the development of innovative video and image processing solutions with increased functionality, such as computer vision capabilities, and as we target new markets, such as the automotive OEM and robotics markets. We are unable to predict whether we will have sufficient resources to maintain the level of investment in research and development required to remain competitive. For example, development in the latest process nodes, such as 10nm and 7nm, can cost significantly more than required to develop in larger process nodes, such as 28nm. This added cost could prevent us from being able to maintain a technology advantage over larger competitors that have significantly more resources to invest in research and development. In addition, we cannot assure you that the technologies which are the focus of our research and development expenditures will become commercially successful or generate any revenue.

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

The rapidly evolving nature of the markets in which we sell our solutions, combined with substantial uncertainty concerning how these markets may develop and other factors beyond our control, limits our ability to accurately forecast quarterly or annual revenue. We continue to expand our staffing and increase our expenditures in anticipation of future revenue growth. If our revenue does not increase as anticipated, we could incur significant losses due to our higher expense levels if we are not able to decrease our expenses in a timely manner to offset any shortfall in future revenue.

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

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

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

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

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

Our customers purchase components used in the manufacture of their cameras from various sources of supply, often involving several specialized components, including lenses, sensors, and memory chips. Any supply shortage or delay in delivery by third-party component suppliers, or a third-party supplier's cessation or shut down of its business, may prevent or delay production of our customers' products. In addition, replacement or substitute components may not be available on commercially reasonable terms, or at all. As a result of delays in delivery or supply shortages of third-party components, orders for our solutions may be delayed or canceled and our business may be harmed. For example, a disruption in the availability of image sensors from Sony Corporation as a result of the April 14, 2016 Kumamoto, Japan earthquake impacted our customers' ability to build or launch cameras and, as a result, negatively impacted the timing and scope of demand for our SoCs in the second and third quarters of fiscal year 2017. Similarly, our ability to generate design wins in some markets, such as the automotive OEM market, requires us to collaborate with third-party software suppliers in order to offer a complete solution to customers. Our inability to successfully collaborate with such third-party suppliers, or such suppliers' inability to develop and deliver software, could harm our ability to achieve design wins and harm our business. Errors or defects within a camera system or in the manner in which the various components interact could prevent or delay production of our customers' products, which could harm our business.

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

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

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

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

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

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

We aim to use the most advanced manufacturing process technology appropriate for our products that is available from our third-party foundries. As a result, we periodically evaluate the benefits of migrating our solutions to smaller geometry process technologies in order to improve performance and reduce costs. We believe this strategy will help us remain competitive. These ongoing efforts require us from time to time to modify the manufacturing processes for our products and to redesign some products, which in turn may result in delays in product deliveries. We may face difficulties, delays and increased expense as we transition our products to new processes, such as the 7nm process node, and potentially to new foundries. We depend on Samsung and TSMC, as the principal foundries for our products, to transition to new processes successfully. We cannot assure you that Samsung or TSMC will be able to effectively manage such transitions or that we will be able to maintain our relationship with Samsung or TSMC or develop relationships with new foundries. Moreover, as we utilize more advanced process nodes beyond 10nm, we are increasingly dependent upon Samsung and TSMC, who are the only foundries currently available for certain advanced process technologies. If we or our foundry vendors experience significant delays in transitioning to smaller geometries or fail to efficiently implement transitions, we could experience reduced manufacturing yields, delays in product deliveries and increased costs, all of which could harm our relationships with our customers and our operating results. As new processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as more end-customer and third-party intellectual property, into our solutions. We may not be able to achieve higher levels of design integration or deliver new integrated solutions on a timely basis.

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

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

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

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

Our success depends, in part, on our ability to protect our intellectual property. We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality and non-disclosure agreements and other contractual protections, to protect our proprietary technologies and know-how, all of which offer only limited protection. The steps we have taken to protect our intellectual property rights may not be adequate to prevent misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to prevent such misappropriation or infringement is uncertain, particularly in countries outside of the United States. The failure of our patents to adequately protect our technology might make it easier for our competitors to offer similar products or technologies, which would harm our business. For example, our patents and patent applications could be opposed, contested, circumvented, designed around by our competitors or be declared invalid or unenforceable in judicial or administrative proceedings. Our foreign patent protection is generally not as comprehensive as our U.S. patent protection and may not protect our intellectual property in some countries where our products are sold or may be sold in the future. Many U.S.-based companies have encountered substantial intellectual property infringement in foreign countries, including countries where we sell products. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. For example, the legal environment relating to intellectual property protection in certain emerging market countries where we operate is relatively weaker, often making it difficult to create and enforce such rights. We may not be able to effectively protect our intellectual property rights in these emerging markets or elsewhere. If such an impermissible use of our intellectual property or trade secrets were to occur, our ability to sell our solutions at competitive prices may be adversely affected and our business, financial condition, operating results and cash flows could be materially and adversely affected.

The legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and evolving. We cannot assure you that others will not develop or patent similar or superior technologies, products or services, or that our patents, trademarks and other intellectual property will not be challenged, invalidated or circumvented by others.

Unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without paying us for doing so, which could harm our business. Monitoring unauthorized use of our intellectual property is difficult and costly. Although we are not aware of any unauthorized use of our intellectual property in the past, it is possible that unauthorized use of our intellectual property may have occurred or may occur without our knowledge. We cannot assure you that the steps we have taken will prevent unauthorized use of our intellectual property. Our failure to effectively protect our intellectual property could reduce the value of our technology in licensing arrangements or in cross-licensing negotiations.

We may in the future need to initiate infringement claims or litigation in order to try to protect our intellectual property rights. Litigation, whether we are a plaintiff or a defendant, can be expensive, time-consuming and may divert the efforts of our technical staff and management, which could harm our business, whether or not such litigation results in a determination favorable to us. Litigation also puts our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not being issued. Additionally, any enforcement of our patents or other intellectual property may provoke third parties to assert counterclaims against us. If we are unable to protect our proprietary rights or if third parties independently develop or gain access to our or similar technologies, our business, revenue, reputation and competitive position could be harmed.

Third parties' assertions of infringement of their intellectual property rights could result in our having to incur significant costs and cause our operating results to suffer.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which has resulted in protracted and expensive litigation for many companies. Certain of our customers have received, and we expect, particularly to the extent we gain greater market visibility, that in the future we may receive, communications from others alleging our infringement of their patents, trade secrets or other intellectual property rights. In addition, certain of our end customers have been the subject of lawsuits alleging infringement of intellectual property rights by products incorporating our solutions, including the assertion that the alleged infringement may be attributable, at least in part, to our technology. Lawsuits resulting from such allegations could subject us to significant liability for damages and invalidate our proprietary rights, though this has not occurred to date. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling products or using technology that contain the allegedly infringing intellectual property;
- lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others;
- incur significant legal expenses;
- pay substantial damages to the party whose intellectual property rights we may be found to be infringing;
- redesign those products that contain the allegedly infringing intellectual property; or
- attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

Any significant impairment of our intellectual property rights from any litigation we face could harm our business and our ability to compete.

Any potential dispute involving our patents or other intellectual property could affect our customers, which could trigger our indemnification obligations to them and result in substantial expense to us.

In any potential dispute involving our patents or other intellectual property, our customers could also become the target of litigation. Certain of our customers have received notices from third parties claiming to have patent rights in certain technology and inviting our customers to license this technology, and certain of our end customers have been the subject of lawsuits alleging infringement of patents by products incorporating our solutions, including the assertion that the alleged infringement may be attributable, at least in part, to our technology. Because we generally indemnify our customers for intellectual property claims made against them for products incorporating our technology, any litigation could trigger technical support and indemnification obligations under some of our license agreements, which could result in substantial expense to us. Although we have not incurred significant indemnity expenses related to intellectual property claims to date, we anticipate that we will receive requests for indemnity in the future pursuant to our license agreements with our customers. In addition, other customers or end customers with whom we do not have formal agreements requiring us to indemnify them may ask us to indemnify them if a claim is made as a condition to awarding future design wins to us. Because some of our ODMs and OEMs are larger than we are and have greater resources than we do, they may be more likely to be the target of an infringement claim by third parties than we would be, which could increase our chances of becoming involved in a future lawsuit. Although we have not yet been subject to such claims, if any such claims were to succeed, we might be forced to pay damages on behalf of our ODMs or OEMs that could increase our expenses, disrupt our ability to sell our solutions and reduce our revenue. In addition to the time and expense required for us to supply support or indemnification to our customers, any such litigation could severely disrupt or shut down the business of our customers, which in turn could hurt our relations with our customers and cause the sale of our products to decrease.

We are subject to warranty and product liability claims and to product recalls.

From time to time, we are subject to warranty claims that may require us to make significant expenditures to defend these claims or pay damage awards. In the future, we may also be subject to product liability claims resulting from failure of our solutions or if products we design, manufacture, or sell, cause personal injury or property damage, even where the cause is unrelated to product defects. These risks will likely increase as our products are introduced into new devices, markets, or applications, including autonomous and semi-autonomous automotive, UAV and robotic applications. In the event of a warranty claim, we may also incur costs if we compensate the affected customer. We maintain product liability insurance, but this insurance is limited in amount and subject to significant deductibles. There is no guarantee that our insurance will be available or adequate to protect against all claims. We also may incur costs and expenses relating to a recall of one of our customers' products containing one of our devices. The process of identifying a recalled product in consumer devices that have been widely distributed may be lengthy and require significant resources, and we may incur significant replacement costs, contract damage claims from our customers and reputational harm. Costs or payments made in connection with warranty and product liability claims and product recalls could harm our financial condition and results of operations, as well as harm our reputation and cause the market value of our ordinary shares to decline.

A breach of our security systems may have a material adverse effect on our business.

Our security systems are designed to maintain the physical security of our facilities and information systems and protect our customers', suppliers' and employees' confidential information. Accidental or willful security breaches or other unauthorized access by third parties to our facilities or our information systems or the existence of computer viruses in our data or software could expose us to a risk of information loss and misappropriation of proprietary and confidential information. Security breaches, computer malware and computer hacking attacks have become more prevalent and sophisticated. Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise our confidential information or that of third parties or create system disruptions. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our information systems and cause disruptions of our business. Data security breaches may also result from non-technical means, for example, actions by an employee. Any theft or misuse of this information could result in, among other things, damage to our reputation, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for liabilities and damages related to the theft or misuse of this information, any of which could have a material adverse effect on our business, financial condition, our reputation, and our relationships with our customers and partners. We also rely on a number of third-party "cloud-based" service providers of corporate infrastructure services relating to, among other things, human resources, electronic communication services and some finance functions, and we are, of necessity, dependent on the security systems of these providers. Any security breaches or other unauthorized access by third parties to the systems of our cloud-based service providers or the existence of computer viruses in their data or software could expose us to a risk of information loss and misappropriation of confidential information. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

We rely on third parties to provide services and technology necessary for the operation of our business. Any failure of one or more of our vendors, suppliers or licensors to provide such services or technology could harm our business.

We rely on third-party vendors to provide critical services, including, among other things, services related to accounting, human resources, information technology and network monitoring that we cannot or do not create or provide ourselves. We depend on these vendors to ensure that our corporate infrastructure will consistently meet our business requirements. The ability of these third-party vendors to successfully provide reliable and high-quality services is subject to technical and operational uncertainties that are beyond our control. While we may be entitled to damages if our vendors fail to perform under their agreements with us, our agreements with these vendors limit the amount of damages we may receive. In addition, we do not know whether we will be able to collect on any award of damages or that these damages would be sufficient to cover the actual costs we would incur as a result of any vendor's failure to perform under its agreement with us. Upon expiration or termination of any of our agreements with third-party vendors, we may not be able to replace the services provided to us in a timely manner or on terms and conditions, including service levels and cost, that are favorable to us, and a transition from one vendor to another vendor could subject us to operational delays and inefficiencies until the transition is complete.

Additionally, we incorporate third-party technology into some of our products, and we may do so in future products. The operation of our products could be impaired if errors occur in the third-party technology we use. It may be more difficult for us to correct any errors in a timely manner, if at all, because the development and maintenance of the technology is not within our control. We cannot assure you that these third parties will continue to make their technology, or improvements to the technology, available to us, or that they will continue to support and maintain their technology. Further, due to the limited number of vendors of some types of technology, it may be difficult to obtain new licenses or replace existing technology. Any impairment of the technology of or our relationship with these third parties could harm our business.

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

The U.S. and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of certain products, technologies and software. We must export our products in compliance with U.S. export controls, including the Commerce Department's Export Administration Regulations. We may not always be successful in obtaining necessary export licenses, and our failure to obtain required import or export approval for our products or limitations on our ability to export or sell our products imposed by these laws may harm both our international and domestic sales and adversely affect our revenue. Noncompliance with these laws could have negative consequences, including government investigations, penalties and reputational harm.

Compliance with export and import regulations have not had a significant impact on our business to date, but changes in our products or changes in export, import and economic sanctions laws and regulations may delay our introduction of new products in international markets, prevent our customers from deploying our products internationally or, in some cases, prevent the export or import of our products to or from certain countries altogether. Any change in export or import regulations or legislation, shift or change in enforcement, or change in the countries, persons or technologies targeted by these regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. In such event, our business and results of operations could be adversely affected.

We are subject to governmental laws, regulations and other legal obligations related to privacy and data protection.

The legislative and regulatory framework for privacy and data protection issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. We collect personally identifiable information, or PII, and other data as part of our business processes and activities. This data is subject to a variety of U.S. and international laws and regulations, including oversight by various regulatory or other governmental bodies. Many foreign countries and governmental bodies, including the European Union and other relevant jurisdictions where we conduct business, have laws and regulations concerning the collection and use of PII and other data obtained from their residents or by businesses operating within their jurisdictions that are currently more restrictive than those in the U.S. For example, effective May 2018, the European Union adopted the General Data Protection Regulation that imposed more stringent data protection requirements and provided for greater penalties for noncompliance. Any inability, or perceived inability, to adequately address privacy and data protection concerns, even if unfounded, or to comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations, could result in additional cost and liability to us, damage our reputation and adversely affect our business.

Failure to comply with the U.S. Foreign Corrupt Practices Act, or FCPA, and similar laws associated with our activities outside of the United States could subject us to penalties and other adverse consequences.

We face significant risks if we fail to comply with the FCPA and other anti-corruption laws that prohibit improper payments or offers of payment to foreign governments and political parties by us for the purpose of obtaining or retaining business. In many foreign countries, particularly in countries with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other applicable laws and regulations. Although we implemented an FCPA compliance program, we cannot assure you that all of our employees and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any violation of the FCPA or other applicable anti-corruption laws could result in severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracting, which could have a material and adverse effect on our reputation, business, financial condition, operating results and cash flows.

We, our customers and third-party contractors are subject to increasingly complex environmental regulations and compliance with these regulations may delay or interrupt our operations and adversely affect our business.

We face increasing complexity in our procurement, design, and research and development operations as a result of requirements relating to the materials composition of our products, including the European Union's, or EU's, Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, or RoHS, directive, which restricts the content of lead and certain other hazardous substances in specified electronic products put on the market in the EU and similar Chinese legislation relating to marking of electronic products which became effective in March 2007. Failure to comply with these and similar laws and regulations could subject us to fines, penalties, civil or criminal sanctions, contract damage claims, and take-back of non-compliant products, which could harm our business, reputation and operating results. The passage of similar requirements in additional jurisdictions or the tightening of these standards in jurisdictions where our products are already subject to such requirements could cause us to incur significant expenditures to make our products compliant with new requirements, or could limit the markets into which we may sell our products.

Some of our operations, as well as the operations of our contract manufacturers and foundry vendors and other suppliers, are also regulated under various other federal, state, local, foreign and international environmental laws and requirements, including those governing, among other matters, the management, disposal, handling, use, labeling of, and exposure to hazardous substances, and the discharge of pollutants into the air and water. Liability under environmental laws can be joint and several and without regard to comparative fault. We cannot assure you that violations of these laws will not occur in the future, as a result of human error, accident, equipment failure or other causes. Environmental laws and regulations have increasingly become more stringent over time. We expect that our products and operations will be affected by new environmental requirements on an ongoing basis, which will likely result in additional costs, which could adversely affect our business.

Our failure to comply with present and future environmental, health and safety laws could cause us to incur substantial costs, result in civil or criminal fines and penalties and decreased revenue, which could adversely affect our operating results. Failure by our foundry vendors or other suppliers to comply with applicable environmental laws and requirements could cause disruptions and delays in our product shipments, which could adversely affect our relations with our ODMs and OEMs and adversely affect our business and results of operations.

Regulations related to "conflict minerals" may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the Securities and Exchange Commission, or the SEC, has adopted requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These requirements require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of the Congo and adjoining countries. These requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of semiconductor devices, including our products. While these requirements continue to be subject to administrative uncertainty, we have incurred, and may continue to incur, costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

Rapidly changing industry standards could make our video and image processing solutions obsolete, which would cause our operating results to suffer.

We design our video and image processing solutions to conform to video compression standards, including MPEG-2, H.264 and H.265, set by industry standards setting bodies such as ITU-T Video Coding Experts Group and the ISO/IEC Moving Picture Experts Group. Generally, our solutions comprise only a part of a camera device. All components of these devices must uniformly comply with industry standards in order to operate efficiently together. We depend on companies that provide other components of the devices to support prevailing industry standards. Many of these companies are significantly larger and more influential in driving industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our customers or by consumers. If our customers or the suppliers that provide other device components adopt new or competing industry standards with which our solutions are not compatible, or if the industry groups fail to adopt standards with which our solutions are compatible, our existing solutions would become less desirable to our customers. As a result, our sales would suffer, and we could be required to make significant expenditures to develop new SoC solutions. For example, if the new H.265 video compression standard is not broadly adopted by our customers or potential customers, sales of our H.265 compliant solutions would suffer and we may be required to expend substantial resources to comply with an alternative video compression standard. In addition, existing standards may be challenged as infringing upon the intellectual property rights of other companies or may be superseded by new innovations or standards.

Products for communications applications are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards, including any new video compression standards. The emergence of new industry standards could render our solutions incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our solutions to ensure compliance with relevant standards. If our solutions are not in compliance with prevailing industry standards for a significant period of time, we could miss opportunities to achieve crucial design wins, which could harm our business.

We are subject to the cyclical nature of the semiconductor industry.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence, price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The industry experienced a significant downturn during the recent global recession. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Any future downturns could harm our business and operating results. Furthermore, any significant upturn in the semiconductor industry could result in increased competition for access to third-party foundry and assembly capacity. We are dependent on the availability of this capacity to manufacture and assemble our SoC solutions. None of our third-party foundry or assembly contractors has provided assurances that adequate capacity will be available to us in the future.

The use of open source software in our products, processes and technology may expose us to additional risks and compromise our proprietary intellectual property.

Our products, processes and technology sometimes utilize and incorporate software that is subject to an open source license. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses, such as the GNU General Public License, require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on terms unfavorable to us or at no cost. This can subject previously proprietary software to open source license terms.

While we monitor the use of open source software in our products, processes and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product, processes or technology when we do not wish to do so, such use could inadvertently occur. Additionally, if a third-party software provider has incorporated certain types of open source software into software we license from such third-party for our products, processes or technology, we could, under certain circumstances, be required to disclose the source code to our products, processes or technology. This could harm our intellectual property position and our business, results of operations and financial condition.

Some of our operations and a significant portion of our customers and our subcontractors are located outside of the United States, which subjects us to additional risks, including increased complexity and costs of managing international operations and geopolitical instability.

We have research and development design centers and business development offices in China, Japan, Italy, South Korea and Taiwan, and we expect to continue to conduct business with companies that are located outside the United States, particularly in Asia. We purchase wafers from foreign foundries, have our solutions assembled and tested by subcontractors located in Asia, and supply our solutions to customers located outside of the United States. Even customers of ours that are based in the United States often use contract manufacturers based in Asia to manufacture their products, and these contract manufacturers typically purchase products directly from us. As a result of our international focus, we face numerous challenges and risks, including:

- increased complexity and costs of managing international operations;
- longer and more difficult collection of receivables;
- difficulties in enforcing contracts generally;
- regional economic instability;
- geopolitical instability and military conflicts;
- limited protection of our intellectual property and other assets;
- compliance with local laws and regulations and unanticipated changes in local laws and regulations, including tax laws and regulations;
- trade and foreign exchange restrictions and higher tariffs;
- travel restrictions;
- timing and availability of import and export licenses and other governmental approvals, permits and licenses, including export classification requirements;
- foreign currency exchange fluctuations relating to our international operating activities;
- restrictions imposed by the U.S. government on our ability to do business with certain companies or in certain countries as a result of international political conflicts;
- transportation delays and other consequences of limited local infrastructure, and disruptions, such as large scale outages or interruptions of service from utilities or telecommunications providers;
- difficulties in staffing international operations;
- heightened risk of terrorist acts;
- local business and cultural factors that differ from standards and practices in the U.S.;
- differing employment practices and labor relations;
- regional health issues and natural disasters; and
- work stoppages.

Our third-party contractors and their suppliers are concentrated in South Korea, Taiwan and Japan, a region subject to earthquakes and other natural disasters. Any disruption to the operations of these contractors could cause significant delays in the production or shipment of our products.

The majority of our products are manufactured by or receive components from third-party contractors located in South Korea, Taiwan and Japan. The risk of an earthquake or tsunami in South Korea, Taiwan, Japan and elsewhere in the Pacific Rim region is significant due to the proximity of major earthquake fault lines. For example, in December 2006 a major earthquake occurred in Taiwan and in March 2011 a major earthquake and tsunami occurred in Japan. Although we are not aware of any significant damage suffered by our third-party contractors as a result of those natural disasters, the occurrence of additional earthquakes or other natural disasters could result in the disruption of our foundry vendor or assembly and test capacity. A disruption in the availability of image sensors from Sony Corporation as a result of the April 14, 2016 Kumamoto, Japan earthquake impacted our customers' ability to build or launch cameras and, as a result, negatively impacted the timing and scope of demand for our SoCs in fiscal year 2017. Any disruption resulting from such events could cause significant delays in the production or shipment of our products until we are able to shift our manufacturing, assembling or testing from the affected contractor to another third-party vendor. We may not be able to obtain alternate capacity on favorable terms, or at all.

If our operations are interrupted, our business and reputation could suffer.

Our operations and those of our manufacturers are vulnerable to interruption caused by technical breakdowns, computer hardware and software malfunctions, software viruses, infrastructure failures, fires, earthquakes, floods, power losses, telecommunications failures, terrorist attacks, wars, Internet failures and other events beyond our control. Any disruption in our services or operations could result in a reduction in revenue or a claim for substantial damages against us, regardless of whether we are responsible for that failure. We rely on our computer equipment, database storage facilities and other office equipment, which are located primarily in the seismically active San Francisco Bay Area and Taiwan. If we suffer a significant database or network facility outage, our business could experience disruption until we fully implement our back-up systems.

We are subject to regulatory compliance requirements, including Section 404 of the Sarbanes-Oxley Act of 2002, which are costly to comply with, and our failure to comply with these requirements could harm our business and operating results.

We are subject to disclosure and compliance requirements associated with being a public company, including but not limited to compliance with Section 404 of the Sarbanes-Oxley Act of 2002. For example, Section 404 of the Sarbanes-Oxley Act requires that our management report on, and our independent auditors attest to, the effectiveness of our internal control structure and procedures for financial reporting. Compliance with Section 404 requires a significant amount of time, expenses and diversion of internal resources. If we or our auditors discover a material weakness in our internal controls, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price. In addition, if we fail to maintain effective controls over financial reporting, we could be subject to sanctions or investigations by The NASDAQ Stock Market, the SEC, or other regulatory authorities. Furthermore, investor perceptions of our company may suffer, and this could cause a decline in the market price of our ordinary shares. Any inability to provide reliable financial reports or prevent fraud could harm our business. We may not be able to effectively and timely implement necessary control changes and employee training to ensure continued compliance with the Sarbanes-Oxley Act and other regulatory and reporting requirements. We cannot assure you that in the future we will be able to continue to fully comply with the requirements of the Sarbanes-Oxley Act or that management or our auditors will conclude that our internal controls are effective in future periods. Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation.

Changes to financial accounting standards may affect our results of operations and could cause us to change our business practices.

We prepare our consolidated financial statements to conform to generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create accounting rules and regulations. Changes in those accounting rules, including the new revenue recognition guidance and the associated adoption efforts, which are currently underway, could have a significant effect on our financial results, require significant resources, pose challenges in forecasting revenue and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

Upon the adoption of ASC 606 on February 1, 2018, we recognize revenue on sales to distributors upon shipment and transfer of control (known as "sell-in" revenue recognition) based on the amount of consideration expected to be received. To the extent that the actual consideration received is materially different from estimated variable consideration recognized, we may be required to adjust revenue in subsequent periods.

The complexity of calculating our tax provision may result in errors that could result in restatements of our financial statements.

We are incorporated in the Cayman Islands and our operations are subject to income and transaction taxes in the United States, China, Hong Kong, Japan, Italy, South Korea, Taiwan and other jurisdictions in which we do business. Due to the complexity associated with the calculation of our tax provision, we have hired independent tax advisors to assist us. If we or our independent tax advisors fail to resolve or fully understand certain issues, there may be errors that could result in us having to restate our financial statements. Restatements are generally costly and could adversely impact our results of operations or have a negative impact on the trading price of our ordinary shares.

Changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

Our future effective tax rates could be adversely affected if our earnings are lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, tax effects of share-based compensation, or by changes in tax laws, regulations, accounting principles or interpretations thereof. For example, changes in tax laws, including the U.S. federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (Tax Act), as well as other factors, could cause us to experience fluctuations in our tax obligations and effective tax rates and otherwise adversely affect our tax positions and/or our tax liabilities.

The Tax Act requires complex computations not previously provided in U.S. tax law. The U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued. As such, the application of accounting guidance for such items is currently uncertain. Further, compliance with the Tax Act and the accounting for such provisions require accumulation of information not previously required or regularly produced. While we have completed our accounting for the effects of the Tax Act, additional regulatory guidance may still be issued by the applicable taxing authorities which could materially affect our tax obligations and effective tax rate.

In addition, our income tax returns are subject to continuous examination by the Internal Revenue Service, or IRS, 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. We cannot assure you that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

Unfavorable tax law changes, an unfavorable governmental review of our tax returns, changes in our geographical earnings mix or imposition of withholding taxes on repatriated earnings could adversely affect our effective tax rate and our operating results.

Our operations are subject to certain taxes, such as income and transaction taxes, in the Cayman Islands, the United States, China, Hong Kong, Japan, Italy, South Korea, Taiwan and other jurisdictions in which we do business. A change in the tax laws in the jurisdictions in which we do business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, possibly with retroactive effect, could result in a material increase in the amount of taxes we incur. In particular, past proposals have been made to change certain U.S. tax laws relating to foreign entities with U.S. connections, which may include us. For example, previously proposed legislation has considered treating certain foreign corporations as U.S. domestic corporations (and therefore taxable on all of their worldwide income) if the management and control of the foreign corporation occurs, directly or indirectly, primarily within the United States. If such legislation were enacted, we could, depending on the precise form, be subject to U.S. taxation notwithstanding our domicile outside the United States. In addition, on October 5, 2015 the Organization for Economic Co-operation and Development, or OECD, which represents a coalition of member countries, released its final reports from the BEPS Action Plans. The final reports include recommendations covering a number of issues, including country-by-country reporting, permanent establishment rules, transfer pricing rules and tax treaties. These changes, which have been or are in the process of being adopted by numerous countries, could increase uncertainties and may adversely affect our provision for income taxes. In December, 2018, the Cayman Islands passed the International Tax Co-Operation (Economic Substance) Law, 2018. Effective as of January 1, 2019, the new legislation requires Cayman Islands companies carrying one or more relevant activity to maintain a substantial economic presence in the Cayman Islands. This legislation may require us to make changes to the activities we carry on in the Cayman Islands, which could increase our cost of operations, and we could be subject to penalties for lack of compliance. We are not able to determine the impact on our operations and net income as of the current period, as the legislation remains subject to further clarification and interpretation.

We are subject to periodic audits or other reviews by tax authorities in the jurisdictions in which we conduct our activities. Any such audit, examination or review requires management's time, diverts internal resources and, in the event of an unfavorable outcome, may result in additional tax liabilities or other adjustments to our historical results.

Because we conduct operations in multiple jurisdictions, our effective tax rate is influenced by the amounts of income and expense attributed to each such jurisdiction. If such amounts were to change so as to increase the amounts of our net income subject to taxation in higher-tax jurisdictions, or if we were to commence operations in jurisdictions assessing relatively higher tax rates, our effective tax rate could be adversely affected. In addition, we may determine that it is advisable from time to time to repatriate earnings from subsidiaries under circumstances that could give rise to imposition of potentially significant withholding taxes by the jurisdictions in which such amounts were earned, without our receiving the benefit of any offsetting tax credits, which could also adversely impact our effective tax rate.

We may be classified as a passive foreign investment company which could result in adverse U.S. federal income tax consequences for U.S. holders of our ordinary shares.

Based on the current and anticipated valuation of our assets and the composition of our income and assets, we do not expect to be considered a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our 2020 fiscal year or the foreseeable future. However, a separate determination must be made at the close of each taxable year as to whether we are a PFIC for that taxable year, and we cannot assure you that we will not be a PFIC for our 2020 fiscal year or any future taxable year. Under current law, a non-U.S. corporation will be considered a PFIC for any taxable year if either (a) at least 75% of its gross income is passive income or (b) at least 50% of the value of its assets, generally based on an average of the quarterly values of the assets during a taxable year, is attributable to assets that produce or are held for the production of passive income. PFIC status depends on the composition of our assets and income and the value of our assets (which may be based in part on the value of our ordinary shares which may fluctuate), including, among others, a pro rata portion of the income and assets of each subsidiary in which we own, directly or indirectly, at least 25% by value of the subsidiary's equity interests, from time to time. Because we currently hold, and expect to continue to hold, a substantial amount of cash or cash equivalents, and because the calculation of the value of our assets may be based in part on the value of our ordinary shares which may fluctuate and may fluctuate considerably given that market prices of technology companies historically often have been volatile, we may be a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a U.S. holder held ordinary shares, certain adverse U.S. federal income tax consequences could apply for such U.S. holder.

Changes in our United States federal income tax classification, or that of our subsidiaries, could result in adverse tax consequences to our 10% or greater U.S. shareholders.

The Tax Act may have changed the consequences to U.S. shareholders that own, or are considered to own, as a result of the attribution rules, ten percent or more of the voting power or value of the stock of a non-U.S. corporation (a 10% U.S. shareholder) under the U.S. Federal income tax law applicable to owners of U.S. controlled foreign corporations, or CFCs.

Prior to the Tax Act, we did not believe that we, or any of our non-U.S. subsidiaries, were considered a CFC, which is a determination made daily based on whether the 10% U.S. shareholders together own, or are considered to own as a result of the attribution rules, more than fifty percent of the voting power or value of a non-U.S. corporation. The Tax Act repealed Internal Revenue Code Section 958(b)(4), which, unless clarified in future regulations or other guidance, may result in classification of certain of the Company's foreign subsidiaries as CFCs with respect to any single 10% U.S. shareholder. This may be the result without regard to whether 10% U.S. shareholders together own, directly or indirectly, more than fifty percent of the voting power or value of the Company as was the case under prior rules. The repeal is effective as of the last taxable year of CFCs beginning before January 1, 2018 and for the taxable year of 10% U.S. shareholders in which the CFCs' taxable year ends.

Fluctuations in exchange rates between and among the currencies of the countries in which we do business may adversely affect our operating results.

Our sales have been historically denominated in U.S. dollars. An increase in the value of the U.S. dollar relative to the currencies of the countries in which our end customers operate could impair the ability of our end customers to cost-effectively integrate our SoCs into their devices which may materially affect the demand for our solutions and cause these end customers to reduce their orders, which would adversely affect our revenue and business. We may experience foreign exchange gains or losses due to the volatility of other currencies compared to the U.S. dollar. A significant portion of our solutions are sold to camera manufacturers located outside the United States, primarily in Asia. Sales to customers in Asia accounted for approximately 87%, 79% and 73% of our total revenue in fiscal years 2019, 2018 and 2017, respectively. Sales to customers in Asia accounted for approximately 88% of our total revenue for the nine months ended October 31, 2019. Because most of our end customers or their ODM manufacturers are located in Asia, we anticipate that a majority of our future revenue will continue to come from sales to that region. Although a large percentage of our sales are made to customers in Asia, we believe that a significant number of the products designed by these customers and incorporating our SoCs are then sold to consumers globally. In addition, if in the future we sell products or purchase inventory in currencies other than the U.S. dollar, our exposure to foreign currency risk could become more significant.

A significant number of our employees are located in Asia, principally Taiwan and China. Therefore, a portion of our payroll as well as certain other operating expenses are paid in currencies other than the U.S. dollar, such as the New Taiwan Dollar and the Chinese Yuan Renminbi. Our operating results are denominated in U.S. dollars and the difference in exchange rates in one period compared to another may directly impact period-to-period comparisons of our operating results. Furthermore, currency exchange rates, particularly the exchange rates between the Chinese Yuan Renminbi and the U.S. dollar and between the New Taiwan Dollar and the U.S. dollar, have been especially volatile in the recent past and these currency fluctuations may make it difficult for us to predict our operating results.

We have not implemented any hedging strategies to mitigate risks related to the impact of fluctuations in currency exchange rates. Even if we were to implement hedging strategies, not every exposure can be hedged and, where hedges are put in place based on expected foreign exchange exposure, they are based on forecasts which may vary or which may later prove to have been inaccurate. Failure to hedge successfully or anticipate currency risks accurately could adversely affect our operating results.

We may make acquisitions in the future that could disrupt our business, cause dilution to our shareholders, reduce our financial resources and harm our business.

In the future, we may acquire other businesses, products or technologies. Other than our acquisition of VisLab S.r.l., or VisLab, in June 2015, we have not made any acquisitions to date and do not have any agreements or commitments for any specific acquisition at this time. Our ability to make and successfully integrate acquisitions is unproven. Our acquisition of VisLab and any future acquisitions may not strengthen our competitive position and may be viewed negatively by our customers, financial markets or investors, and we may not achieve our goals in a timely manner, or at all. In addition, any acquisitions we make could lead to difficulties in integrating personnel, technologies and operations from the acquired businesses and in retaining and motivating key personnel from these businesses. Acquisitions may disrupt our ongoing operations, divert management from their primary responsibilities, subject us to additional liabilities, increase our expenses and adversely impact our business, operating results, financial condition and cash flows. Acquisitions may also reduce our cash available for operations and other uses, and could also result in an increase in amortization expense related to identifiable assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt, any of which could harm our business.

We cannot predict our future capital needs, and we may not be able to obtain additional financing to fund our operations.

We may need to raise additional funds in the future. Any required additional financing may not be available on terms acceptable to us, or at all. If we raise additional funds by issuing equity securities or convertible debt, investors may experience significant dilution of their ownership interest, and the newly-issued securities may have rights senior to those of the holders of our ordinary shares. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility and would also require us to incur interest expense. If additional financing is not available when required or is not available on acceptable terms, we may have to scale back our operations or limit our production activities, and we may not be able to expand our business, develop or enhance our products, take advantage of business opportunities or respond to competitive pressures which could result in lower revenue and reduce the competitiveness of our products.

Our marketable securities portfolio could experience a decline in market value, which could materially and adversely affect our financial results.

As of October 31, 2019, we had approximately \$209.8 million in debt security investments. These investments consisted primarily of money market funds, commercial paper, asset-backed securities, U.S. government securities and debt securities of corporations which are focused on the preservation of our capital. We currently do not use derivative financial instruments to adjust our investment portfolio risk or income profile. These investments, as well as any cash deposited in bank accounts, are subject to general credit, liquidity, market and interest rate risks, which may be exacerbated by unusual events, such as the Eurozone crisis and the U.S. debt ceiling crisis, which affected various sectors of the financial markets and led to global credit and liquidity issues. If the global credit market continues to experience volatility or deteriorates, our investment portfolio may be impacted and some or all of our investments may experience other-than-temporary impairment which could adversely impact our financial results and position.

Risks Related to Ownership of Our Ordinary Shares

The market price of our ordinary shares may be volatile, which could cause the value of your investment to decline.

Since our initial public offering in October 2012, the market price of our ordinary shares has been highly volatile. The trading price of our ordinary shares is likely to remain volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include:

- changes in financial estimates, including our ability to meet our future revenue and operating profit or loss projections;
- fluctuations in our operating results or those of other semiconductor or comparable companies;
- fluctuations in the economic performance or market valuations of companies perceived by investors to be comparable to us;
- economic developments in the semiconductor industry as a whole;
- general economic conditions and slow or negative growth of related markets;

- announcements by us or our competitors of acquisitions, new products, significant contracts or orders, commercial relationships or capital commitments;
- our ability to develop and market new and enhanced solutions on a timely basis;
- changes in the demand for our customers' products;
- commencement of or our involvement in litigation;
- disruption to our operations;
- any major change in our board of directors or management;
- political or social conditions in the markets where we sell our products;
- changes in governmental regulations; and
- changes in earnings estimates or recommendations by securities analysts.

In addition, the stock market in general, and the market for semiconductor and other technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may cause the market price of our ordinary shares to decrease, regardless of our actual operating performance. These trading price fluctuations may also make it more difficult for us to use our ordinary shares as a means to make acquisitions or to use options to purchase our ordinary shares to attract and retain employees. If the market price of our ordinary shares declines, you may not realize any return on your investment in us and may lose some or all of your investment. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

If securities analysts or industry analysts downgrade our ordinary shares, publish negative research or reports or fail to publish reports about our business, our stock price and trading volume could decline.

The trading market for our ordinary shares will be influenced by the research and reports that industry or securities analysts publish about us, our business and our market. If one or more analysts adversely changes their recommendation regarding our stock or our competitors' stock, our stock price would likely decline. If one or more analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets which in turn could cause our stock price or trading volume to decline.

Our actual operating results may differ significantly from our guidance and investor expectations, which would likely cause our stock price to decline.

From time to time, we may release guidance in our earnings releases, earnings conference calls or otherwise, regarding our future performance that represent our management's estimates as of the date of release. If given, this guidance, which will include forward-looking statements, will be based on projections prepared by our management. Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. The principal reason that we expect to release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. With or without our guidance, analysts and other investors may publish expectations regarding our business, financial performance and results of operations. We do not accept any responsibility for any projections or reports published by any such third persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. If our actual performance does not meet or exceed our guidance or investor expectations, the trading price of our ordinary shares is likely to decline.

The price of our ordinary shares could decrease as a result of shares being sold in the market.

Sales of a substantial number of our ordinary shares in the public market, or the perception that these sales might occur, could cause the market price of our ordinary shares to decline. We filed registration statements on Form S-8 under the Securities Act to register shares for issuance under our 2004 Stock Plan, 2012 Equity Incentive Plan and the Amended and Restated 2012 Employee Stock Purchase Plan. Our 2012 Equity Incentive Plan and the Amended and Restated 2012 Employee Stock Purchase Plan provide for automatic increases in the shares reserved for issuance under these plans which could result in additional dilution to our shareholders. These shares can be freely sold in the public market upon issuance and vesting, subject to restrictions provided under the terms of the applicable plan and/or the option agreements entered into with option holders.

We may also issue ordinary shares or securities convertible into ordinary shares from time to time in connection with a financing, acquisition or otherwise. Any such issuance could result in substantial dilution to our existing shareholders and cause the trading price of our stock to decline.

We do not intend to pay dividends on our ordinary shares and, consequently, a shareholder's ability to achieve a return on its investment will depend on appreciation in the price of our ordinary shares.

We have never declared or paid any cash dividends on our ordinary shares and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, shareholders are not likely to receive any dividends on their ordinary shares for the foreseeable future and the success of an investment in our ordinary shares will depend upon any future appreciation in their value. There is no guarantee that our ordinary shares will appreciate in value or even maintain the price at which our shareholders have purchased their shares. Investors seeking cash dividends should not purchase our ordinary shares.

Provisions of our memorandum and articles of association and Cayman Islands corporate law may discourage or prevent an acquisition of us which could adversely affect the value of our ordinary shares.

Provisions of our memorandum and articles of association and Cayman Islands law may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the division of our board of directors into three classes;
- the right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or due to the resignation or departure of an existing board member;
- prohibition of cumulative voting in the election of directors which would otherwise allow less than a majority of shareholders to elect director candidates;
- the requirement for the advance notice of nominations for election to our board of directors or for proposing matters that can be acted upon at a shareholders' meeting;
- the ability of our board of directors to issue, without shareholder approval, such amounts of preference shares as the board of directors deems necessary and appropriate with terms set by our board of directors, which rights could be senior to those of our ordinary shares;
- the elimination of the rights of shareholders to call a special meeting of shareholders and to take action by written consent in lieu of a meeting; and
- the required approval of a special resolution of the shareholders, being a two-thirds vote of shares held by shareholders present and voting at a shareholder meeting, to alter or amend the provisions of our post-offering memorandum and articles of association.

Holders of our ordinary shares may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, by the Companies Law (as the same may be supplemented or amended from time to time) of the Cayman Islands and by the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. There is no legislation specifically dedicated to the rights of investors in securities and thus no statutorily defined private cause of action specific to investors such as those provided under the Securities Act or the Securities Exchange Act of 1934, as amended. In addition, shareholders of Cayman Islands companies may not have standing to initiate shareholder derivative actions in U.S. federal courts. Therefore, you may have more difficulty in protecting your interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States due to the comparatively less developed nature of Cayman Islands law in this area.

Shareholders of Cayman Islands exempted companies, such as our company, have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of the company. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors.

Holders of our ordinary shares may have difficulty obtaining or enforcing a judgment against us because we are incorporated under the laws of the Cayman Islands.

It may be difficult or impossible for you to bring an action against us in the Cayman Islands if you believe your rights have been infringed under U.S. securities laws. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. While there is no binding authority on this point, this is likely to include, in certain circumstances, a non-penal judgment of a United States court imposing a monetary award based on the civil liability provisions of the U.S. federal securities laws. The Grand Court of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere. There is uncertainty as to whether the Grand Court of the Cayman Islands would recognize or enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof and whether the Grand Court of the Cayman Islands would hear original actions brought in the Cayman Islands against us predicated upon the securities laws of the United States or any state thereof.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report.

EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	<u>Amended and Restated Memorandum of Association and Second Amended and Restated Articles of Association of the Registrant.</u>
10.1+	<u>Standard Lease between Ambarella Corporation and The Realty Associates Fund XI Portfolio, L.P., dated as of August 8, 2019.</u>
31.1	<u>Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>
31.2	<u>Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>
32.1±	<u>Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.</u>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended July 31, 2019, has been formatted in Inline XBRL and included in Exhibit 101.
<hr/>	
(1)	Incorporated by reference to the Registrant’s registration statement on Form S-1 (No. 333-174838) Amendment No. 3 as filed with the Securities and Exchange Commission on September 12, 2012.
+	Certain portions of this exhibit (indicated by "[*]") have been omitted as Registrant determined the omitted information (i) is not material and (ii) would be competitively harmful to Registrant if publicly disclosed.
±	In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management’s Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 hereto are deemed to accompany this Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, 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.

AMBARELLA, INC.

Date: December 6, 2019

By: _____
/s/ Feng-Ming Wang
Feng-Ming Wang
President and Chief Executive Officer

Date: December 6, 2019

By: _____
/s/ Kevin C. Eichler
Kevin C. Eichler
Chief Financial Officer

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED, AND THE EXCLUDED TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH AN ASTERISK [*].

STANDARD LEASE

(Multiple Tenant – Tenant Pays its Percentage Share of Operating Expenses, Real Property Taxes and Insurance Costs – NO Base Year)

1. **BASIC LEASE PROVISIONS.**

- 1.1 **DATE FOR REFERENCE PURPOSES:** August 8, 2019
- 1.2 **LANDLORD:** The Realty Associates Fund XI Portfolio, L.P.,
a Delaware limited partnership
- 1.3 **TENANT:** Ambarella Corporation,
a Delaware corporation
- 1.4 **PREMISES ADDRESS:** Original Premises: Suites 101, 110 and 210, 3101 Jay Street, Santa Clara, California
Expansion Premises: Suite 201, 3131 Jay Street, Santa Clara, California

- 1.5 **APPROXIMATE RENTABLE AREA OF PREMISES:** Original Premises: 47,015 (in square feet)
Expansion Premises: 11,722
Total: 58,737

- 1.6 **USE:** General office and research and development, and any other related use to the extent permitted by the City of Santa Clara and all agencies and governmental authorities having jurisdiction thereof

- 1.7 **TERM:** Original Premises: June 1, 2020 – August 31, 2025
Expansion Premises: Expansion Premises Commencement Date (as defined in Section 3.2) – August 31, 2025

- 1.8 **COMMENCEMENT DATE:** Original Premises: June 1, 2020 (the "Original Premises Commencement Date")
Expansion Premises: Expansion Premises Commencement Date

- 1.9 **MONTHLY BASE RENT:** Base Rent due for the Original Premises:

Period	Base Rent Due Each Month for Original Premises
June 1, 2020 – May 31, 2021:	[*]
June 1, 2021 – May 31, 2022:	[*]
June 1, 2022 – May 31, 2023:	[*]
June 1, 2023 – May 31, 2024:	[*]
June 1, 2024 – May 31, 2025:	[*]
June 1, 2025 – August 31, 2025:	[*]

In addition to the Base Rent payable by Tenant for the Original Premises, Tenant shall pay the following additional Base Rent for the Expansion Premises:

Period	Base Rent Due Each Month for Expansion Premises
Expansion Premises Commencement Date – May 31, 2021:	[*]
June 1, 2021 – May 31, 2022:	[*]
June 1, 2022 – May 31, 2023:	[*]
June 1, 2023 – May 31, 2024:	[*]
June 1, 2024 – May 31, 2025:	[*]
June 1, 2025 – August 31, 2025:	[*]

*See Section 2 of the Addendum to this Lease for conditionally waived Base Rent.

1.10 **BASE RENT AND ESTIMATED OPERATING EXPENSES PAID UPON EXECUTION:**

BASE RENT: \$0

APPLIED TO: N/A
(insert month(s))

OPERATING EXPENSES: \$0

APPLIED TO: N/A
(insert month(s))

1.11 **TENANT'S PERCENTAGE SHARE:** See Section 6.4

1.12 **SECURITY DEPOSIT:** \$173,635.32 (See Addendum)

1.13 **NUMBER OF PARKING SPACES:** From the Original Premises Commencement Date through the Expansion Premises Commencement Date: 171 unreserved spaces

From and after the Expansion Premises Commencement Date: 214 unreserved spaces

1.14 **REAL ESTATE BROKER:**

LANDLORD: Colliers International

TENANT: Newmark Knight Frank (Ben Stern and Phil Mahoney)

1.15 **EXHIBITS ATTACHED TO LEASE:** Exhibit A – "Premises;" Exhibit B – "Verification Letter;" Exhibit C – "Rules and Regulations;" Exhibit D – "Form of HazMat Certificate"; Exhibit E – "Addendum to Lease"

1.16 **ADDRESSES FOR NOTICES:**

LANDLORD: The Realty Associates Fund XI Portfolio, L.P.
c/o TA Realty 1301 Dove Street, Suite 860 Newport Beach, CA 92660 Attention: Asset Manager/Jay Technology

and

The Realty Associates Fund XI Portfolio, L.P.
c/o TA Realty 28 State Street, Tenth Floor

Manager/Jay Technology Centre

WITH A COPY TO: Davis Property Management, Inc.
1735 North 1st Street, Suite 290
San Jose, CA 95112
Attention: Property Manager/Jay Technology Centre

and

Davis Property Management, Inc.
1420 Bristol Street North, Suite 100
Newport Beach, CA 92660
Attention: Property Manager/Jay Technology Centre

TENANT: Ambarella Corporation
3101 Jay Street, Suite 110
Santa Clara, CA 95054

1.17 **BUSINESS HOURS:** 8:00 a.m. through 6:00 p.m. Monday through Friday,
excluding Holidays

2. **PREMISES.**

2.1 **ACCEPTANCE.** Unless the context otherwise requires, references in this Lease to the "**Premises**" shall mean the Original Premises and the Expansion Premises collectively. Landlord leases to Tenant, and Tenant leases from Landlord, the Premises, to have and to hold for the term of this Lease, subject to the terms, covenants and conditions of this Lease. The Original Premises and the Expansion Premises are separately depicted on Exhibit "A" attached hereto. The Original Premises depicted on Exhibit "A" constitutes all of the rentable space in the building located at 3101 Jay Street, San Jose, California (the "**3101 Building**") and the Expansion Premises depicted on Exhibit "A" constitutes a portion of the rentable space in the building located at 3131 Jay Street, San Jose, California (the "**3131 Building**"). The 3101 Building and the 3131 Building are sometimes collectively referred to as the "**Building**" or the "**Buildings**". Tenant accepts the Original Premises in its condition on the Original Premises Commencement Date, subject to all applicable laws, ordinances, regulations, covenants, conditions, restrictions and easements, and except as may be otherwise expressly provided herein, Landlord shall not be obligated to make any repairs or alterations to the Original Premises. Subject to Section 2.2 below, Tenant accepts the Expansion Premises in its condition on the Expansion Premises Commencement Date, subject to all applicable laws, ordinances, regulations, covenants, conditions, restrictions and easements, and except as may be otherwise expressly provided herein, Landlord shall not be obligated to make any repairs or alterations to the Expansion Premises. Tenant acknowledges that Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes. The number of rentable square feet set forth in Section 1.5 is an approximation, and the Base Rent and Tenant's Percentage Share shall not be changed if the actual number of rentable square feet in the Original Premises or the Expansion Premises is different than the number of square feet set forth in Section 1.5. Landlord shall determine the number of rentable square feet in the Buildings, in Landlord's sole discretion.

2.2 **CONDITION OF EXPANSION PREMISES.** Landlord represents and warrants to Tenant that on the Expansion Premises Commencement Date the roof of the Expansion Premises will be in good condition and repair and the following parts of the Expansion Premises shall be in good working order: (a) plumbing systems, (b) electrical systems and (c) all HVAC units (collectively, the "**Building Systems**"). In the event that it is determined that this warranty is untrue, Landlord shall not be in default under the Lease if after Landlord receives written notice of the representation or warranty that is untrue, Landlord promptly takes the actions, at Landlord's sole expense, necessary to put the applicable Building System in working order. The foregoing representation and warranty shall apply only to the condition of the Building Systems as of the Expansion Premises Commencement Date and shall not apply to any point in time thereafter. Tenant shall notify Landlord in writing (the "**Warranty Notice**") within thirty (30) days after the Expansion Premises Commencement Date, time being of the essence, (the "**Notice Date**") of each way, if any, that the forgoing representation and warranty was untrue on the Expansion Premises Commencement Date (an "**Untrue Warranty**"). The Warranty Notice shall state the specific way in which one or more Building System was not in good working order on the Expansion Premises Commencement Date. Landlord shall have no responsibility to repair any Building System unless Tenant notifies Landlord on or before the Notice Date in a Warranty Notice of the Untrue Warranty, and if Tenant notifies Landlord that a Building System was not in good working order on the Expansion Premises Commencement Date after the Notice Date, Landlord shall have no obligation pursuant to this section to repair the Building System that is not in good working order. Notwithstanding the forgoing, Landlord shall have no obligation pursuant to this section to repair a Building System if the repair is necessitated by the negligence or misuse of Tenant or by Alterations or other modifications made to the Expansion Premises by Tenant.

2.3 **COMMON AREAS.** Landlord hereby grants to Tenant for the benefit of Tenant and its employees, suppliers, shippers, customers and invitees during the term of this Lease, the nonexclusive right to use, in common with others entitled to such use (including Landlord), the Common Areas (as hereinafter defined) as they exist from time to time, subject to all rights

reserved by Landlord hereunder and under the terms of all rules and regulations promulgated by Landlord from time to time with respect thereto. Landlord reserves the right from time to time to (a) make changes in the Common Areas, including, without limitation, changes in location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) construct additional buildings, parking areas, loading dock facilities and other improvements within the Common Areas; and (d) do and perform such other acts and make such other changes in, to or with respect to the Common Areas as Landlord may deem appropriate; provided, however, any such permanent changes or alterations to the layout of the Common Areas (as defined below) that substantially and adversely affect parking, loading or unloading or substantially and adversely interfere with Tenant's use of the Premises or the Common Areas (as defined below) shall require Tenant's prior written consent, which consent shall not be unreasonably withheld or delayed. As used herein, the term "**Common Areas**" means all areas and facilities outside the Premises and within the exterior boundary lines of the land owned by Landlord that are provided and designated by Landlord as such from time to time for general nonexclusive use of Tenant and others, including, if designated by Landlord as Common Areas, common entrances, lobbies, corridors, stairwells, public restrooms, elevators, roadways and sidewalks parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways and landscaped areas, and Tenant shall have no leasehold interest in the Common Areas. The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements designated by Landlord, are herein collectively referred to as the "**Project**." Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas, including, without limitation, the storage of trucks or other vehicles. Any such storage shall be permitted only with the prior written consent of Landlord, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord.

3. **TERM AND COMMENCEMENT DATE.**

3.1 **ORIGINAL PREMISES.** The term of Tenant's lease of the Original Premises is set forth in Section 1.7 and the date Tenant's lease of the Original Premises commences is set forth in Section 1.8. Tenant currently occupies the Original Premises pursuant to an existing lease it has entered into with Landlord. Tenant shall be deemed to have accepted possession of the Original Premises in its "as is" condition on the Original Premises Commencement Date.

3.2 **EXPANSION PREMISES.** The term of Tenant's lease of the Expansion Premises is set forth in Section 1.7. Tenant's lease of the Expansion Premises shall commence on the later to occur of the following dates (the "**Expansion Premises Commencement Date**"): (i) date Landlord provides Tenant with written notice that the Expansion Premises is available for Tenant's occupancy or (ii) January 1, 2021. When the actual Expansion Premises Commencement Date is established by Landlord, Landlord shall accurately complete the letter attached hereto as Exhibit B and Tenant shall, within ten (10) days after Landlord's request, execute the letter and deliver it to Landlord. Tenant's failure to execute the letter within said ten (10) day period shall be a default hereunder and shall constitute Tenant's acknowledgment of the truth of the facts contained in the letter delivered by Landlord to Tenant.

4. **USE.**

4.1 **PERMITTED USE.** The Premises shall be used only for the purpose described in Section 1.6 and for no other purpose. In no event shall any portion of the Premises be used for retail sales. Tenant shall not initiate, submit an application for, or otherwise request, any land use approvals or entitlements with respect to the Premises or any other portion of the Project, including, without limitation, any variance, conditional use permit or rezoning, without first obtaining Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion. Tenant shall not (a) permit any animals or pets to be brought to or kept in the Premises, (b) install any antenna, dish or other device on the roof of the Building or outside of the Premises, (c) make any penetrations into the roof of the Building, (d) place loads upon floors, walls or ceilings in excess of the load such items were designed to carry, (e) place or store, nor permit any other person or entity to place or store, any property, equipment, materials, supplies or other items outside of the Building in which the Premises is located or (f) change the exterior of the Premises or the Building in which the Premises is located. In no event shall Tenant use all or any part of the Premises for the production, processing, sale or distribution of marijuana. Tenant acknowledges that it has satisfied itself by its own independent investigation that the Premises and the Project are suitable for its intended use and that its use is permitted by applicable laws and regulations, and that neither Landlord nor Landlord's agents have made any representation or warranty as to the present or future suitability of the Premises, or the Project for the conduct of Tenant's business.

4.2 **COMPLIANCE WITH LAWS.** Tenant shall, at Tenant's sole expense, promptly comply with all applicable laws, ordinances, rules, regulations, orders, certificates of occupancy, conditional use or other permits, variances, covenants, conditions, restrictions, easements, the recommendations of Landlord's engineers or other consultants, and requirements of any fire insurance underwriters, rating bureaus or government agencies, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises or the occupation and use by Tenant of the Premises. Tenant shall, at Tenant's sole expense, comply with all accessibility requirements of State and Federal law that apply to the Premises, and all federal, state and local laws and regulations governing occupational safety and health. Tenant acknowledges that it will be responsible for complying with current and future laws and regulations even though such compliance requires Tenant to make substantial repairs or

modifications (including structural modifications) to the Premises and even though the application of the law or regulation is unrelated to Tenant's specific use of the Premises. Notwithstanding the foregoing, if Tenant is obligated to comply with a law or regulation (a "**Legal Requirement**") and due to the Legal Requirement a Capital Alteration (as defined below) must be made to the Premises, and such Capital Alteration is not required due to a Tenant Condition (as defined below), Landlord shall make the Capital Alteration and Tenant shall reimburse Landlord for the cost of the Capital Alteration as provided below. If Landlord makes a Capital Alteration, the cost of the Capital Alteration shall be amortized on a straight-line basis over its useful life, as reasonably determined by Landlord consistent with sound real estate practices and generally accepted accounting principles, and from and after the date that Landlord substantially completes the Capital Alteration Tenant shall reimburse Landlord on the first day of each calendar month during the remainder of the term of this Lease an amount equal to the product of multiplying the cost of the Capital Alteration by a fraction, the numerator of which is one (1), and the denominator of which is the number of months in the useful life of the Capital Alteration. A "**Capital Alteration**" shall mean any single alteration to the Premises (a) the cost of which is not fully deductible in the year incurred in accordance with generally accepted accounting principles and (b) which exceeds [*] in cost. A Capital Alteration shall be deemed to have been made due to a "**Tenant Condition**" if the alteration is triggered by or is the result of Tenant's negligence or misuse of the Premises, Tenant's alteration of the Premises, Tenant's particular use of the Premises or the Capital Alteration relates to any equipment or improvement installed by Tenant in the Premises. Any alteration to the Premises that is required to comply with a Legal Requirement due to a Tenant Condition or that does not constitute a Capital Alteration shall, subject to Section 13.1, be made by Tenant, at Tenant's sole cost and expense. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance, create a dangerous situation, or would disturb, unreasonably interfere with or endanger Landlord or any other tenants of the Project. Tenant shall obtain, at its sole expense, any permit or other governmental authorization required to operate its business from the Premises. Landlord shall not be liable for the failure of any other tenant or person to abide by the requirements of this section or to otherwise comply with applicable laws and regulations, and Tenant shall not be excused from the performance of its obligations under this Lease due to such a failure. To Landlord's actual knowledge, the Premises has not undergone an inspection by a certified access specialist. In addition, to Landlord's actual knowledge, a disability access inspection certificate for the Premises has not been issued. Pursuant to Section 1938 of the California Civil Code, Landlord hereby provides the following notification to Tenant: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction related accessibility standards within the premises." Landlord's actual knowledge shall mean and be limited to the actual knowledge of the person who is the Building owner's asset manager (not the Building's property manager) on the date set forth in Section 1.1, without any duty of inquiry or investigation, and such asset manager shall have no personal liability if such representation or warranty is untrue.

4.3 **OCCUPANT DENSITY.** Tenant shall maintain a ratio of not more than one Occupant (as defined below) for each [*] square feet of rentable area in the Premises (hereinafter, the "**Occupant Density**"). If Landlord has a reasonable basis to believe that Tenant is exceeding the Occupant Density, upon request by Landlord, Tenant shall maintain on a daily basis an accurate record of the number of employees, visitors, contractors and other people that visit the Premises (collectively "**Occupants**"). Landlord shall have the right to audit Tenant's Occupant record and, at Landlord's option, Landlord shall have the right to periodically visit the Premises without advance notice to Tenant in order to track the number of Occupants working at the Premises. For purposes of this section, "Occupants" shall not include people not employed by Tenant that deliver or pick up mail or other packages at the Premises, employees of Landlord or employees of Landlord's agents or contractors. Tenant's failure to comply with the requirements of this section shall constitute a default under Section 17.1 and Landlord shall have the right, in addition to any other remedies it may have at law or equity, to specifically enforce Tenant's obligations under this section. Nothing contained in this section shall be interpreted to entitle Tenant to use more parking spaces than the number permitted by Section 1.13.

5. **BASE RENT.** Tenant shall pay Base Rent in the amount set forth on the first page of this Lease. At the time Tenant executes this Lease it shall pay (or have paid) to Landlord the amounts set forth in Sections 1.10 and 1.12. Tenant promises to pay to Landlord in advance, without demand, deduction or set-off, monthly installments of Base Rent and Operating Expenses on or before the first day of each calendar month succeeding the Commencement Date. Payments of Base Rent and Operating Expenses for any fractional calendar month shall be prorated. All payments required to be made by Tenant to Landlord hereunder shall be payable at such address as Landlord may specify from time to time by written notice delivered in accordance herewith. Tenant shall have no right at any time to abate, reduce, or set off any rent due hereunder except where expressly provided in this Lease.

6. **OPERATING EXPENSE PAYMENTS.**

6.1 **OPERATING EXPENSES.** Tenant shall pay Tenant's Percentage Share (as defined below) of the Operating Expenses for the Project. If less than one hundred percent (100%) of the rentable square feet in the Building or the Project is occupied by tenants or Landlord is not supplying services to one hundred percent (100%) of the rentable square feet of the Building or the Project at any time during any calendar year, Operating Expenses for such calendar year shall be deemed to be an amount equal to the Operating Expenses which would normally be expected to be incurred had one hundred percent (100%)

of the Building's and the Project's rentable square feet been occupied and had Landlord been supplying services to one hundred percent (100%) of the Project's rentable square feet throughout such calendar year. For the purposes of this Lease, the term "**Operating Expenses**" shall mean all expenses and disbursements of every kind (subject to the limitations set forth below) which Landlord incurs, pays or becomes obligated to pay in connection with the ownership, operation, and maintenance of the Project (including the associated Common Areas), including, but not limited to, the following:

(a)wages and salaries (including management fees) of all employees, agents, consultants and other individuals or entities engaged in the operation, repair, replacement, maintenance, and security of the Project, including taxes, insurance and benefits relating thereto;

(b)all supplies and materials used in the operation, maintenance, repair, replacement, and security of the Project;

(c)annual cost of all Capital Improvements (as defined below) made to the Project which although capital in nature (i) can reasonably be expected to reduce the normal operating costs of the Project, (ii) are made in order to comply with any law now or hereafter promulgated by any governmental authority or (iii) are reasonably necessary replacement improvements to any portion of the Project after the Original Premises Commencement Date if a repair is no longer cost-effective. Capital Improvements shall be amortized on a straight-line basis over the useful economic life of such improvements as determined by Landlord in its reasonable discretion consistent with sound real estate practices and generally accepted accounting principles together with an interest factor on the unamortized cost of such item equal to [*] or the maximum rate of interest permitted by applicable law;

(d)cost of all utilities paid by Landlord;

(e)cost of any insurance or insurance related expense applicable to the Project and Landlord's personal property used in connection therewith, including, but not limited to, the insurance costs described in Section 10.2; provided, however, that Tenant's Percentage Share of insurance deductibles in any one year shall not exceed [*] for earthquake damages and [*] with respect to any other casualty;

(f)cost of repairs, replacements and general maintenance of the Project and all Common Areas (including all truck court areas, paving and parking areas, Common Area lighting facilities, fences, gates, water lines, electrical lines, sewer lines, rail spur areas and any other item Landlord is obligated to repair or maintain), other than costs necessary to assure the structural soundness of the roof, foundation and exterior walls of the Project which are payable solely by Landlord under Section 11;

(g)cost of service or maintenance contracts with independent contractors for the operation, maintenance, repair, replacement or security of the Project (including, without limitation, alarm service, exterior painting, trash collection, snow, ice, debris and waste removal and landscape maintenance);

(h)the cost of all accounting fees, management fees, legal fees and consulting fees attributable to the operation, ownership, management, maintenance or repair of the Project; provided, however, that in no event shall the property management fee exceed an amount equal to [*] of the Base Rent and Operating Expenses applicable to the Project;

(i)payments made by Landlord under any easement, license, operating agreement, declaration, restrictive covenant or other agreement relating to the sharing of costs among property owners;

(j)intentionally omitted;

(k)the cost of all business licenses, permits or similar fees relating to the operation, ownership, repair or maintenance of the Project;

(l)the cost of all Real Property Taxes;

(m) transportation taxes, fees or assessments, including but not limited to, mass transportation fees, metrorail fees, trip fees, regional and transportation district fees;

(n) all costs and expenses associated with or related to the implementation by Landlord of any transportation demand management program or similar program required to comply with any law or regulation;

(o) fees assessed by any air quality management district or other governmental or quasi-governmental entity regulating pollution;

(p) the cost of installing intrabuilding network cabling ("**INC**") and maintaining, repairing, securing and replacing existing INC;

(q) the cost of maintaining, repairing and replacing telecommunication equipment, elevators, tenant directories, building directories and monument signage; and

(r) the cost of any other item the cost of which is stated in this Lease to be an Operating Expense.

For purposes of this Lease, a "**Capital Improvement**" shall be an improvement to the Project that Landlord is obligated or permitted to make pursuant to this Lease, the cost of which is not fully deductible in the year incurred in accordance with generally accepted accounting principles; provided, however, that, at Landlord's option, the following items shall be treated as expenses and not Capital Improvements, and the entire cost of these items may be included in Operating Expenses in the year incurred: (i) the cost of painting all or part of the Project, (ii) the cost of resurfacing and restriping roadways and parking areas, (iii) the cost of any items Tenant is obligated to pay for pursuant to Section 12 that Landlord elects, in its sole discretion, to include in Operating Expenses and (iv) the cost of Capital Improvements incurred [*] to the extent the cost of the Capital Improvements are less than [*]. References to facilities, services, utilities or other items in this section shall not impose an obligation on Landlord to have said facilities or to provide said services unless such facilities and services already exist at the Project.

6.2 **OPERATING EXPENSE EXCLUSIONS.** Notwithstanding anything to the contrary contained herein, for purposes of this Lease, the term "**Operating Expenses**" shall not include the following: (i) costs (including permit, license and inspection fees) incurred for tenant improvements for other tenants within the Project; (ii) legal and auditing fees (other than those fees reasonably incurred in connection with the maintenance and operation of all or any portion of the Project), leasing commissions, advertising expenses and similar costs incurred in connection with the leasing of the Project; (iii) depreciation of the Building or any other improvements situated within the Project; (iv) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by any other tenant of the Project; (v) costs of repairs or other work necessitated by fire, windstorm or other casualty (excluding any deductibles) and/or costs of repair or other work necessitated by the exercise of the right of eminent domain to the extent insurance proceeds or a condemnation award, as applicable, is actually received by Landlord for such purposes; provided, such costs of repairs or other work shall be paid by the parties in accordance with the provisions of Sections 11 and 12, below; (vi) other than any interest charges for Capital Improvements referred to in Section 6.1(c) hereinabove, any interest or payments on any financing for the Building or the Project and interest and penalties incurred as a result of Landlord's late payment of any invoice; (vii) costs associated with the investigation and/or remediation of Hazardous Materials (hereafter defined) present in, on or about any portion of the Project, unless such costs and expenses are the responsibility of Tenant as provided in Section 27 hereof, in which event such costs and expenses shall be paid solely by Tenant in accordance with the provisions of Section 27 hereof; (viii) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Project to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; (ix) any payments under a ground lease or master lease; (x) except as provided above in Section 6.1, the cost of Capital Improvements; (xi) all costs associated with the operation of the business of the entity which constitutes "Landlord" (as distinguished from the costs of the operations of the Project) including, but not limited to, Landlord's general corporate overhead and general administrative expenses, (xii) costs incurred in connection with the sale of transfer of the Project (e.g., documentary transfer taxes, recording fees, title insurance premiums, appraisal costs and escrow fees), (xiii) costs arising from Landlord's negligence; (xiv) costs occasioned by the violation of any law by Landlord, any other occupant of the Project, or their respective agents, employees or contractors; (xv) increases in insurance costs caused by the activities of another occupant of the Project; (xvi) interest, charges and fees incurred on debt; (xvii), expense reserves; (xviii) wages, compensation, and labor burden for any employee not stationed on Project on a full-time basis unless the same are equitably allocated based on the amount of time devoted by the employee to the Project; (xix) expenses in connection with services or other benefits which are provided to another tenant or occupant of the Project and which do not benefit Tenant (e.g., a health club that is only available to one tenant); provided, however, general maintenance of the Project even though a general maintenance item may only benefit one Tenant (e.g. repairing the thermostat in that tenant's premises) may be included in Operating Expenses, and provided further, that Landlord's agreements with tenants relating to the cost of parking or HVAC shall not limit Landlord's right to include the cost of maintaining and repairing the Project's parking areas and HVAC units in Operating Expenses, (xx) any cost of any service or items sold or provided to tenants or other occupants for which Landlord or Landlord's managing agent has been reimbursed by such tenants or other occupants (other than through Operating Expenses) for such service or has been reimbursed by insurance or otherwise compensated by parties other than tenants of the Project, (xxi) any repair or maintenance cost caused by the negligence or willful misconduct of Landlord, (xxii) expenses that another tenant of the Project is obligated to pay based on its negligence or willful misconduct or the negligence or willful misconduct of its agents, employees or contractors and (xxiii) expenses another person or entity is obligated to pay (other than through Operating Expenses).

6.3 **PAYMENT.** Landlord shall, from time to time, estimate what Tenant's Percentage Share of Operating Expenses will be, and the same shall be payable by Tenant monthly during each calendar year of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Tenant pays Landlord's estimate of Tenant's Percentage Share of Operating Expenses, Landlord shall use its commercially reasonable efforts to deliver to Tenant by June 30th of each calendar year a reasonably detailed statement (the "**Statement**") showing Tenant's Percentage Share of the actual Operating Expenses incurred during the preceding calendar year. Landlord's failure to deliver the Statement to Tenant within said period shall not constitute Landlord's waiver of its right to collect said amounts or otherwise prejudice Landlord's rights hereunder; provided, however, Landlord shall not have the right to collect from Tenant any Operating Expense that was known by Landlord and which was not billed to Tenant within [*] after the Operating Expense was incurred. If Tenant's payments under this section during said calendar year exceed Tenant's Percentage Share as indicated on the Statement, Tenant shall be entitled to credit the

amount of such overpayment against Tenant's Percentage Share of Operating Expenses next falling due. If Tenant's payments under this section during said calendar year were less than Tenant's Percentage Share as indicated on the Statement, Tenant shall pay to Landlord the amount of the deficiency within thirty (30) days after delivery by Landlord to Tenant of the Statement. Landlord and Tenant shall forthwith adjust between them by cash payment any balance determined to exist with respect to that portion of the last calendar year for which Tenant is responsible for Operating Expenses, notwithstanding that the Lease term may have terminated before the end of such calendar year; and this provision shall survive the expiration or earlier termination of the Lease.

6.4 **TENANT'S PERCENTAGE SHARE.** "Tenant's Percentage Share" as used in this Lease shall mean the percentage of the cost of Operating Expenses for which Tenant is obligated to reimburse Landlord pursuant to this Lease. Notwithstanding anything to the contrary contained in Section 1.11, Landlord shall have the right to determine Tenant's Percentage Share of the cost of Operating Expenses using any one of the following methods or any combination of the following methods, and Tenant hereby agrees that the following methods of allocation are reasonable: (a) by multiplying the cost of all Operating Expenses by a fraction, the numerator of which is the number of square feet of rentable space in the Premises and the denominator of which is the number of square feet of rentable space in all buildings in the Project; or (b) with respect to an Operating Expense attributable solely to one of the Buildings in which the Premises is located, requiring Tenant to pay that portion of the cost of the Operating Expense that is obtained by multiplying such cost by a fraction, the numerator of which is the number of square feet of rentable space of the Premises in that Building and the denominator of which is the number of square feet of rentable space in that Building or (c) or with respect to an Operating Expense attributable solely to certain tenant's in a Building in which the Premises is located, requiring Tenant to pay that portion of the cost of the Operating Expense that is obtained by multiplying such cost by a fraction, the numerator of which is the number of square feet of rentable space in the Premises in that Building and the denominator of which is the number of square feet of rentable space occupied by the tenants in that Building to whom the Operating Expense is attributable.

6.5 **AUDITS.** If Tenant disputes the amount set forth in the Statement, Tenant shall have the right, at Tenant's sole expense, not later than ninety (90) days following receipt of such Statement, to review Landlord's books and records using a member of Tenant's finance department with respect to the calendar year which is the subject of the Statement. In addition, if Tenant disputes the amount set forth in the Statement, Tenant shall have the right, at Tenant's sole expense, not later than ninety (90) days following receipt of such Statement, to cause Landlord's books and records with respect to the calendar year which is the subject of the Statement to be audited by a certified public accountant mutually acceptable to Landlord and Tenant (an "Accountant"). The audit shall take place at the offices of Landlord where its books and records are located at a mutually convenient time during Landlord's regular business hours. If the audit is performed by a mutually acceptable Accountant, Tenant's Percentage Share of Operating Expenses shall be appropriately adjusted based upon the results of such audit, and the results of such audit shall be final and binding upon Landlord and Tenant. Tenant shall have no right to conduct an audit or to give Landlord notice that it desires to conduct an audit at any time Tenant is in material default under the Lease continuing beyond any notice and cure period. The accountant conducting the audit shall be compensated on an hourly basis and shall not be compensated based upon a percentage of overcharges it discovers. No subtenant shall have any right to conduct an audit, and no assignee shall conduct an audit for any period during which such assignee was not in possession of the Premises. Tenant's right to undertake an audit with respect to any calendar year shall expire ninety (90) days after Tenant's receipt of the Statement for such calendar year, and such Statement shall be final and binding upon Tenant and shall, as between the parties, be conclusively deemed correct, at the end of such ninety (90) day period, unless prior thereto Tenant shall have given Landlord written notice of its intention to audit Operating Expenses using an Accountant for the calendar year which is the subject of the Statement. If Tenant gives Landlord notice of its intention to audit Operating Expenses using an Accountant, it must commence such audit within sixty (60) days after such notice is delivered to Landlord, and the audit must be completed within one hundred twenty (120) days after such notice is delivered to Landlord. If Tenant does not commence and complete the audit within such periods, the Statement which Tenant elected to audit shall be deemed final and binding upon Tenant and shall, as between the parties, be conclusively deemed correct. Tenant agrees that the results of any Operating Expense audit shall be kept strictly confidential by Tenant and shall not be disclosed to any other person or entity. If as a result of an audit, it is determined that Landlord has overstated the Operating Expenses owed by Tenant on a Statement by more than [*] of the actual Operating Expenses owed by Tenant, Landlord shall reimburse Tenant for the reasonable out of pocket costs Tenant paid to unrelated third parties for the performance of the audit.

7. **SECURITY DEPOSIT.** Tenant shall deliver to Landlord at the time it executes this Lease the security deposit set forth in Section 1.12 as security for Tenant's faithful performance of Tenant's obligations hereunder. If Tenant fails to pay Base Rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Landlord may use all or any portion of said deposit for the payment of any Base Rent or other charge due hereunder, to pay any other sum to which Landlord may become obligated by reason of Tenant's default, or to compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of said deposit, Tenant shall within ten (10) days after written demand therefore deposit cash with Landlord in an amount sufficient to restore said deposit to its full amount. Landlord shall not be required to keep said security deposit separate from its general accounts. If Tenant performs all of Tenant's obligations hereunder, said deposit, or so much thereof as has not heretofore been applied by Landlord, shall be returned, without payment of interest or other amount for its use, to Tenant (or, at Landlord's option, to the last assignee, if any, of Tenant's interest hereunder) at the expiration of the term hereof, and after Tenant has vacated the Premises. No trust relationship is created herein between Landlord and Tenant with respect to said security deposit. Tenant acknowledges that the security deposit is not an advance payment of any kind or a measure of Landlord's damages in the event of Tenant's default.

8. **UTILITIES.**

8.1 **PAYMENT.** Tenant shall pay for all water, gas, electricity, telephone, sewer, sprinkler services, refuse and trash collection and other utilities and services used on the Premises, together with any taxes, penalties, surcharges or the like pertaining thereto. At Landlord's option, Tenant shall (a) contract directly with the applicable public utility for such services, (b) Landlord shall pay the cost of such services and Tenant shall reimburse Landlord for such costs as part of Operating Expenses or (c) Landlord shall pay the cost of such services and Tenant shall reimburse Landlord for such costs based on Landlord's estimate of Tenant's consumption, as reasonably determined by Landlord. Tenant agrees to limit use of water and sewer for normal restroom use, and nothing herein contained shall impose upon Landlord any duty to provide sewer or water usage for other than normal restroom usage. If some or all of the electricity used by Tenant is not separately metered by and paid directly by Tenant to a public utility company (such electricity is hereinafter referred to as "**Landlord Electricity**"), Landlord shall have the right, but not the obligation, to install separate meters or other measuring devices (e.g. E-Mon D-Mon meters) to measure Tenant's use of Landlord Electricity. Landlord shall have the right to estimate the amount of Landlord Electricity used by Tenant using a methodology selected by Landlord, in Landlord's reasonable discretion. Tenant acknowledges and agrees that Landlord's calculation of the cost of Landlord Electricity used in the Premises will not produce the exact actual cost of the Landlord Electricity used in the Premises, and that Landlord's estimate of the Landlord Electricity Cost shall nevertheless be final and binding on Tenant. From time to time Landlord shall have the right to notify Tenant of the cost of Landlord Electricity and Tenant shall thereafter pay such cost within ten (10) days after receiving Landlord's notice. Landlord's failure to bill Tenant for its Landlord Electricity for any given period shall not constitute Landlord's waiver of its right to collect such amount at a later date or otherwise prejudice Landlord's rights hereunder.

8.2 **INTERRUPTIONS.** Tenant agrees that Landlord shall not be liable to Tenant for its failure to furnish water, gas, electricity, telephone, sewer, refuse and trash collection or any other utility services or building services when such failure is occasioned, in whole or in part, by repairs, replacements or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, telephone service or other utility at the Project, by any accident, casualty or event arising from any cause whatsoever, including the negligence of Landlord, its employees, agents and contractors, by act, negligence or default of Tenant or any other person or entity, or by any other cause, and such failures shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from the obligation of paying rent or performing any of its obligations under this Lease. Furthermore, Landlord shall not be liable under any circumstances for loss of property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any such services or utilities. Landlord may comply with voluntary controls or guidelines promulgated by any governmental entity relating to the use or conservation of energy, water, gas, light or electricity or the reduction of automobile or other emissions without creating any liability of Landlord to Tenant under this Lease. Notwithstanding anything in this Section 8.2 to the contrary, if (a) the Premises, or a material portion of the Premises, is made untenantable for a period in excess of [*] after written notice to Landlord as a result of an interruption of essential utility services, such as electricity, telephone/telecommunication service, fire protection or water, that is a result of Landlord's negligence or willful misconduct or is otherwise within Landlord's reasonable control and (b) Tenant is unable to, and does not, conduct its normal business operations in all or any material portion of the Premises as a result thereof, then Tenant shall be entitled to abatement of Base Rent payable hereunder during the period beginning after the [*] of service failure and ending on the day the service has been restored; provided, however, that (i) the foregoing conditional abatement of Base Rent shall not apply if the interruption of such utility service is a result of Tenant's (or Tenant Parties (as defined below)) negligence, willful misconduct or breach of this Lease or for any other reason outside Landlord's reasonable control and (ii) such abatement shall be in proportion to the portion of the Premises which Tenant is unable to use and does not use.

8.3 **ALTERNATIVE UTILITY PROVIDERS.** If permitted by applicable laws, Landlord shall have the right at any time and from time to time during the term of this Lease to either contract for service from a different company or companies (each such company referred to as an "**Alternate Service Provider**") other than the company or companies presently providing electrical service for the Project (the "**Electric Service Provider**") or continue to contract for service from the Electric Service Provider, at Landlord's sole discretion. Tenant agrees to cooperate with Landlord, the Electric Service Provider, and an Alternate Service Provider at all times and, as reasonably necessary, shall allow Landlord, the Electric Service Provider, and any Alternate Service Provider reasonable access to the Building's electric lines, feeders, risers, wiring and any other machinery within the Premises.

8.4 **ENERGY USE.** Landlord shall have the right to require Tenant to provide Landlord with copies of bills from electricity, natural gas or similar energy providers (collectively, "**Energy Providers**") Tenant receives from Energy Providers relating to Tenant's energy use at the Premises ("**Energy Bills**") within ten (10) days after Landlord's written request.

8.5 (intentionally omitted)

8.6 (intentionally omitted)

8.7 **INTRABUILDING NETWORK CABLING.** Landlord shall have no obligation to provide Tenant with any INC, and any INC shall be installed by Tenant at Tenant's sole cost and expense. The Building's minimum point of entry for telephone service ("MPOE"), the INC risers and the telephone terminal rooms located on each floor of the Building may only be accessed with Landlord's prior consent and by contractors approved by Landlord, in Landlord's reasonable discretion. Landlord shall have the right to approve in its sole discretion the amount, location and method of installation of any INC installed by Tenant. Landlord makes no representation or warranty concerning the condition of any existing INC, and Landlord shall have no liability to Tenant arising out of the condition of any INC inside or outside of the Premises. Tenant shall be responsible for any loss, cost, damage, liability and expense (including attorneys' fees) arising out of or related to the installation, maintenance, repair and replacement of INC.

8.8 **PREMISES JANITORIAL SERVICES.** Tenant shall provide, at its sole cost and expense, janitorial service to the Premises five days per week, and Landlord shall have no obligation to provide such services. Landlord shall have the right in its reasonable discretion to approve the janitorial company selected by Tenant and the scope of the services provided by the janitorial company. Tenant's janitorial company shall comply with all of Landlord's rules and regulations relating to contractors operating in the Building including, but not limited to, insurance requirements and security requirements. If Tenant's janitorial company violates Landlord's rules and regulations such a violation shall constitute a breach of this Lease by Tenant, and in addition to any other right or remedy available to Landlord, Landlord shall have the right to require Tenant to hire a new janitorial company. Notwithstanding that Tenant pays its own janitorial costs, janitorial costs for the common areas of the Building and Project may be included in Operating Expenses.

8.9 **ABATEMENT OF RENT.** In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, for [*] (the "Eligibility Period") as a result of any repair, maintenance or alteration performed by Landlord to the Premises after the Commencement Date, which substantially interferes with Tenant's use of the Premises, or any failure to provide services or access to the Premises due to Landlord's default, then Tenant's rent shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises. However, in the event that Tenant is prevented from conducting, and does not conduct, its business in any portion of the Premises for a period of time in excess of the Eligibility Period, and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the rent for the entire Premises shall be abated; provided, however, if Tenant reoccupies and conducts its business from any portion of the Premises during such period, the rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date such business operations commence. To the extent Tenant shall be entitled to abatement of rent because of damage or destruction pursuant to Section 14 or a taking pursuant to Section 15, then the terms of this Section 8.9 shall not be applicable.

9. **REAL AND PERSONAL PROPERTY TAXES.**

9.1 **PAYMENT OF TAXES.** Tenant shall pay Real Property Taxes as part of Operating Expenses.

9.2 **DEFINITION OF REAL PROPERTY TAX.** AS used herein, the term "Real Property Taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, improvement bond or bonds imposed on the Project or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Landlord in the Project or in any portion thereof. Real Property Taxes shall not include (a) franchise, income, inheritance, documentary transfer, gift or state income taxes, (b) any penalty or fee imposed solely as a result of Landlord's failure to pay taxes when due, or (c) any items specifically excluded from Operating Expenses under Section 6.2.

9.3 **PERSONAL PROPERTY TAXES.** Tenant shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or related to Tenant's use of the Premises. If any of Tenant's personal property shall be assessed with Landlord's real or personal property, Tenant shall pay to Landlord the taxes attributable to Tenant within ten (10) days after receipt of a written statement from Landlord setting forth the taxes applicable to Tenant's property.

9.4 **REASSESSMENTS.** From time to time Landlord may challenge the assessed value of the Project as determined by applicable taxing authorities and/or Landlord may attempt to cause the Real Property Taxes to be reduced on other grounds. If Landlord is successful in causing the Real Property Taxes to be reduced or in obtaining a refund, rebate, credit or similar benefit (hereinafter collectively referred to as a "Reduction"), Landlord shall, to the extent practicable, credit the Reduction(s) to Real Property Taxes for the calendar year to which a Reduction applies and recalculate the Real Property Taxes owed by Tenant for that year based on the reduced Real Property Taxes. All costs incurred by Landlord in connection with obtaining and/or processing the Real Property Tax reductions (e.g., consulting fees, accounting fees etc.) may be included in Operating Expenses or deducted from the Reduction. Landlord shall have the right to reasonably compensate a person or entity it employs to obtain a Reduction by giving such person or entity a percentage of any Reduction obtained.

10. **INSURANCE.**

10.1 *INSURANCE-TENANT.*

(a) Tenant shall obtain and keep in force during the term of this Lease a commercial general liability policy of insurance with coverages acceptable to Landlord, in Landlord's reasonable discretion, which, by way of example and not limitation, protects Tenant and Landlord (as an additional insured) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing coverage in an amount not less than [*] per occurrence and not less than [*] in the aggregate with an "Additional Insured-Managers and Landlords of Premises Endorsement" and contain the "Amendment of the Pollution Exclusion" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Tenant's indemnity obligations under this Lease.

(b) Tenant shall obtain and keep in force during the term of this Lease "Causes of Loss – Special Form" extended coverage property insurance (previously known as "all risk" property insurance) with coverages acceptable to Landlord, in Landlord's reasonable discretion. Said insurance shall be written on a one hundred percent (100%) replacement cost basis on Tenant's personal property, all tenant improvements installed at the Premises by Landlord or Tenant, Tenant's trade fixtures and other property. By way of example, and not limitation, such policies shall provide protection against any peril included within the classification "fire and extended coverage," against vandalism and malicious mischief, theft and sprinkler leakage. Tenant's policy shall include endorsements to insure Tenant against losses to valuable papers, records and computer equipment and to compensate Tenant for the cost of recovering lost data. To the extent that Tenant's policy covers tenant improvements to the Premises, Landlord shall be a loss payee on such policy. Tenant shall also obtain earthquake insurance if such insurance is then customarily required for similar commercial buildings located in Santa Clara, California (or the surrounding metropolitan area) that are of comparable size, type and quality of the Premises, and if the Project is in Flood Zone A or V, Tenant shall obtain flood insurance, and the terms of such insurance policies shall be reasonably acceptable to Landlord.

(c) If customarily required for tenants of similar commercial buildings engaged in similar use of premises as Tenant's use of the Premises, Tenant shall obtain and keep in force during the term of this Lease insurance for pollution liability and clean-up costs with coverages acceptable to Landlord, in Landlord's reasonable discretion, which by way of example and not limitation, protects against liability for cleanup costs, bodily injury and property damage, defense costs and contractual liability. Such insurance shall provide coverage of not less [*] per occurrence and [*] in the aggregate.

(d) Tenant shall, at all times during the term hereof, maintain the following insurance with coverages reasonably acceptable to Landlord: (i) workers' compensation insurance as required by applicable law, (ii) employers liability insurance with limits of at least [*] per occurrence, (iii) automobile liability insurance for owned, non-owned and hired vehicles with limits of at least [*] per occurrence and (iv) business interruption and extra expense insurance. In addition to the insurance required in (i), (ii), (iii) and (iv) above, Landlord shall have the right to require Tenant to increase the limits of its insurance and/or obtain such additional insurance as is customarily required by landlords owning similar real property in the geographical area of the Project.

(e) Tenant shall have the right to provide insurance coverage which it is obligated to carry pursuant to the terms of this Lease under a blanket insurance policy, provided such blanket policy expressly affords coverage for the Premises and Landlord as required by this Lease and shall always be available for claims made by Landlord and such coverages shall not be reduced due to claims made under the blanket policy with respect to other property owned or leased by Tenant.

10.2 *INSURANCE-LANDLORD.*

(a) Landlord shall obtain and keep in force a policy of general liability insurance with coverage against such risks and in such amounts as Landlord deems advisable insuring Landlord against liability arising out of the ownership, operation and management of the Project.

(b) Landlord shall also obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Project in the amount of the replacement cost thereof (excluding foundations and similar items), as determined by Landlord from time to time. The terms and conditions of said policies, their deductibles and the perils and risks covered thereby shall be determined by Landlord, from time to time, in Landlord's sole discretion. By way of example, and not limitation, Landlord may purchase flood and/or earthquake insurance. In addition, at Landlord's option, Landlord shall obtain and keep in force, during the term of this Lease, a policy of rental interruption insurance, with loss payable to Landlord, which insurance shall, at Landlord's option, also cover all Operating Expenses. Tenant will not be named as an additional insured in any insurance policies carried by Landlord and shall have no right to any proceeds therefrom. The policies purchased by Landlord shall contain such deductibles as Landlord may determine. Tenant shall pay at Tenant's sole expense any increase in the property insurance premiums for the Project over what was payable immediately prior to the increase to the

extent the increase is specified by Landlord's insurance carrier as being caused by the nature of Tenant's occupancy or any act or omission of Tenant.

10.3 **INSURANCE POLICIES.** Tenant shall deliver to Landlord certificates of the insurance policies required under Section 10.1 concurrently with Tenant's execution of this Lease using an ACORD 28 form or a similar form approved by Landlord. Tenant's insurance policies shall not be cancelable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Landlord. Tenant shall, at least thirty (30) days prior to the expiration of such policies, furnish Landlord with renewals thereof. Tenant's insurance policies shall be issued by insurance companies authorized to do business in the state in which the Project is located, and said companies shall maintain during the policy term a "General Policyholder's Rating" of at least A:VII and a financial rating of at least "Class X" (or such other rating as may be required by any lender having a lien on the Project) as set forth in the most recent edition of "Best Insurance Reports." All insurance obtained by Tenant shall be primary to and not contributory with any similar insurance carried by Landlord, whose insurance shall be considered excess insurance only. Landlord, Landlord's property manager and lender(s), shall be included as additional insureds under Tenant's commercial general liability policy, [the pollution liability policy] and under the Tenant's excess or umbrella policy, if any, using ISO additional insured endorsement CG 20 11 or a substitute providing equivalent coverage. Tenant's insurance policies shall not include deductibles in excess of [*].

10.4 **WAIVER OF SUBROGATION.** Landlord waives any and all rights of recovery against Tenant and Tenant's employees and agents for or arising out of damage to, or destruction of, the Project to the extent that Landlord's insurance policies then in force insure against such damage or destruction (or to the extent of what would have been covered had Landlord maintained the insurance required to be carried under this Lease) and permit such waiver. Tenant waives any and all rights of recovery against Landlord and Landlord's employees and agents for or arising out of damage to, or destruction of, the Project to the extent that Tenant's insurance policies then in force insure against such damage or destruction (or to the extent of what would have been covered had Tenant maintained the insurance required to be carried under this Lease) and permit such waiver. Tenant shall cause the insurance policies it obtains in accordance with Section 10.1 relating to property damage to provide that the insurance company waives all right of recovery by subrogation against Landlord in connection with any liability or damage covered by Tenant's insurance policies. Landlord shall cause the insurance policies it obtains in accordance with Section 10.2 relating to property damage to provide that the insurance company waives all right of recovery by subrogation against Tenant in connection with any damage covered by such property insurance policies. This provision is intended to waive fully, and for the benefit of the parties hereto, any rights and/or claims which might give rise to a right of subrogation in favor of any insurance carrier.

10.5 **COVERAGE.** Landlord makes no representation to Tenant that the limits or forms of coverage specified above or approved by Landlord are adequate to insure Tenant's property or Tenant's obligations under this Lease, and the limits of any insurance carried by Tenant shall not limit Tenant's obligations or liability under any indemnity provision included in this Lease or under any other provision of this Lease.

11. **LANDLORD'S REPAIRS.**

11.1 **GENERALLY.** Landlord shall maintain in good condition, at Landlord's expense, only the structural elements of the roof of the Building (excluding the roof membrane which shall be paid for as provided by Section 11.2), the structural soundness of the foundation of the Building and the structural elements of the exterior walls of the Building. Tenant shall reimburse Landlord for the cost of any maintenance, repair or replacement of the foregoing necessitated by Tenant's misuse, negligence and alterations to the Premises or any breach of its obligations under this Lease. By way of example, and not limitation, the term "**exterior walls**" as used in this section shall not include windows, glass or plate glass, doors or overhead doors, special store fronts, dock bumpers, dock plates or levelers, or office entries. Tenant shall immediately give Landlord written notice of any repair required by Landlord pursuant to this section, after which Landlord shall have a reasonable time in which to complete the repair. Nothing contained in this section shall be construed to obligate Landlord to seal or otherwise maintain the surface of any foundation, floor or slab. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

11.2 **ROOF MEMBRANES.** Landlord shall maintain, repair and if necessary replace the roof membranes of the 3101 Building and the 3131 Building (collectively, the "**Roofs**"). Tenant's Percentage Share of the cost of repairing and maintaining the Roofs shall not exceed [*]. If Tenant's Percentage Share of the cost of the repair and maintenance of the Roofs exceeds [*], Tenant shall have no obligation to pay Tenant's Percentage Share of such costs to the extent they exceed [*]. Notwithstanding the foregoing, any repairs or maintenance necessitated by Tenant's negligence or misuse shall be paid entirely by Tenant and such amounts shall not be taken into consideration when calculating whether Tenant's Percentage Share of repairing and maintain the Roofs has exceeded [*].

11.3 **COMMON AREAS.** Subject to the other terms and conditions of this Lease, Landlord shall maintain, repair and if necessary replace the Common Areas. The cost of the maintenance, repair and replacement of the Common Areas shall be paid by Tenant as part of Operating Expenses.

11.4 **SERVER AND LABORATORY AREAS.** Nothing contained in this Lease shall be interpreted to obligate Landlord to repair or maintain any computer server area or laboratory area in the Premises, and Tenant shall be solely responsible for the repair and maintenance of any server area or laboratory area including, but not limited to, any HVAC, electrical and plumbing associated with a server or laboratory area.

12. **TENANT'S REPAIRS.**

12.1 **OBLIGATIONS OF TENANT.** Subject to Section 12.2 below, Tenant shall, at its sole cost and expense, keep and maintain all parts of the Premises (except those listed as Landlord's responsibility in Section 11 above) in good and sanitary condition, promptly making all necessary repairs and replacements, including but not limited to, windows, glass and plate glass, doors, skylights, any special store front or office entry, walls and finish work, floors and floor coverings, heating and air conditioning systems, dock boards, bumpers, plates, seals, levelers and lights, plumbing work and fixtures (including periodic backflow testing), electrical systems, lighting facilities and bulbs, sprinkler systems, alarm systems, fire detection systems, termite and pest extermination, sidewalks, landscaped areas, fencing, tenant signage and regular removal of trash and debris. Tenant shall notify Landlord in writing prior to making any repair or performing any maintenance pursuant to this section, and Landlord shall have the right to reasonably approve the contractor Tenant shall use to make any repair or to perform any maintenance on the roof, heating, ventilation and air conditioning systems ("**HVAC**"), plumbing systems, electrical systems, sprinkler systems, fire alarm systems or fire detection systems located at the Premises. Tenant shall not paint or otherwise change the exterior appearance of the Premises without Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion. The cost of maintenance and repair of any common party wall (any wall, divider, partition or any other structure separating the Premises from any adjacent premises occupied by other tenants) shall be shared equally by Tenant and the tenant occupying the adjacent premises; provided, however, if Tenant damages a party wall the entire cost of the repair shall be paid by Tenant, at Tenant's sole expense; and, provided further, that if another occupant damages a party wall Tenant shall have no obligation to pay any expense for the repair. Tenant shall not damage any party wall or disturb the integrity and support provided by any party wall. If Tenant fails to keep the Premises in good condition and repair, Landlord may, but shall not be obligated to, make any necessary repairs. If Landlord makes such repairs, Landlord may bill Tenant for the cost of the repairs as additional rent, and said additional rent shall be payable by Tenant within ten (10) days after demand by Landlord.

12.2 **PERFORMANCE OF WORK BY LANDLORD.** Notwithstanding Tenant's obligation to keep the HVAC units, sprinkler systems, fire alarm systems, fire detection systems and exterior walls of the Premises in good condition and repair, at Landlord's option, Landlord shall employ contractors to perform all repairs, maintenance and replacements of the HVAC units, sprinkler systems, fire alarm systems, fire detection systems and exterior walls of the Premises. The items described in the previous sentence that Landlord will cause to be repaired, maintained and replaced are hereinafter referred to as the "**Landlord Maintenance Items**." Landlord Maintenance Items shall not include HVAC units installed by Tenant or which exclusively serve computer server or similar areas or laboratory areas in the Premises ("**Tenant HVAC Units**"), and Tenant shall at all times be solely responsible for the maintenance, repair and replacement of all Tenant HVAC Units, at Tenant's sole cost and expense. In addition, Landlord Maintenance Items shall not include sprinkler systems, fire alarm systems and fire detection systems installed by Tenant in any laboratory or similar area in the Premises, ("**Tenant Fire Systems**"), and Tenant shall at all times be solely responsible for the maintenance, repair and replacement of all Tenant Fire Systems, at Tenant's sole cost and expense. Tenant shall reimburse Landlord as additional rent for all costs Landlord incurs in performing the Landlord Maintenance Items within ten (10) days after written demand by Landlord. Landlord shall determine in its sole discretion the scope and timing of the performance of such Landlord Maintenance Items, and Tenant shall not perform such Landlord Maintenance Items. Landlord's maintenance of the exterior walls of the Premises shall include the right, but not the obligation, of Landlord to paint from time to time all or some of the exterior walls, canopies, doors, windows, gutters, handrails and other exterior parts of the Premises with colors selected by Landlord, and Tenant shall reimburse Landlord as provided above for all costs incurred by Landlord in painting such items. If the Premises contains landscaped areas ("**Landscaped Areas**"), Landlord shall maintain the Landscaped Areas, and Tenant shall reimburse Landlord for all costs incurred by Landlord in maintaining the Landscaped Areas within ten (10) days after written demand by Landlord; provided, however, Landlord shall have the right to estimate the monthly cost of maintaining the Landscaped Areas, and Tenant shall pay such amount to Landlord as additional rent each month at the same time Tenant pays Base Rent. Tenant shall immediately give Landlord written notice of any repair or maintenance required by Landlord pursuant to this section, after which Landlord shall have a reasonable time in which to complete such repair or maintenance. Landlord shall have the right, but not the obligation, to include the cost of Landlord Maintenance Items and the cost of the maintenance of Landscaped Areas in Operating Expenses, and Tenant shall then pay Tenant's Percentage Share of such costs as determined by Landlord. Landlord shall have the right at any time, and from time to time, to elect upon written notice to Tenant to have Tenant perform some or all of the Landlord Maintenance Items and/or the maintenance of the Landscaped Areas, in which event Tenant shall employ contractors reasonably approved by Landlord to perform such work and shall pay for all such work at Tenant's sole cost and expense, all in accordance with the requirements of Section 12.1.

12.3 **MAINTENANCE CONTRACTS.** Landlord shall enter into regularly scheduled preventative maintenance/service contracts for some or all of the following: the HVAC units servicing the Premises (not including any Tenant HVAC Units), the sprinkler, fire alarm and fire detection systems servicing the Premises, backflow testing for the plumbing servicing the Premises and for the roof membrane of the Premises (the "**Maintenance Contracts**"). The Maintenance Contracts shall include maintenance services satisfactory to Landlord, in Landlord's sole discretion. Tenant shall reimburse Landlord for the cost of the Maintenance Contracts within ten (10) days after written demand by Landlord; provided, however, Landlord shall have the right to estimate the monthly cost of the Maintenance Contracts, and Tenant shall pay such amount to Landlord as additional rent

each month at the same time Tenant pays Base Rent. Landlord shall have the right, but not the obligation, to include the cost of Maintenance Contracts in Operating Expenses, and Tenant shall then pay Tenant's Percentage Share of such costs as determined by Landlord. Landlord shall have the right at any time, and from time to time, to elect upon written notice to Tenant to have Tenant purchase some or all of the Maintenance Contracts (other than the maintenance contract for the roof membrane), in which event Tenant shall purchase such contracts from persons designated or approved by Landlord and shall pay for such Maintenance Contracts at Tenant's sole cost and expense.

13.

ALTERATIONS AND SURRENDER.

13.1 **CONSENT OF LANDLORD.** "Alterations" shall include, but are not limited to, improvements, additions, utility installations or repairs made by Tenant or its agents and contractors in, on or about the Premises or the Project. Except for Permitted Alterations (as defined below), Tenant shall not make any Alterations to the Premises without the prior written approval of Landlord, which shall not be unreasonably withheld or delayed. Provided Tenant gives Landlord not less than fifteen (15) days advance written notice of a Permitted Alteration (a "**Permitted Alteration Notice**") and Tenant's compliance with Landlord's requirements relating to construction at the Project, Tenant shall have the right to make Permitted Alterations without Landlord's consent. A Permitted Alterations Notice shall include a detailed description of the Permitted Alteration, the approximate date the Permitted Alteration will commence and be completed and the approximate cost of the Permitted Alteration. A "**Permitted Alteration**" shall mean an Alteration to the inside of the Premises (e.g., paint and carpet, communication systems, telephone and computer system wiring) that does not (i) involve the expenditure of more than [*], (ii) affect the exterior appearance of the Building or the roof, (iii) affect the Building's electrical, plumbing, HVAC, life, fire safety or similar Building systems or the structural elements of the Building, (iv) affect the Common Areas or parking areas or (v) materially adversely affect any other tenant of the Project. At the expiration of the term, Landlord may require the removal of any Alterations installed by Tenant and the restoration of the Premises and the Project to their prior condition, at Tenant's expense if, at the time of Landlord's consent, Landlord did not agree in writing that Tenant would not be obligated to remove the Alterations. Within ten (10) days after Tenant provides to Landlord a written notice requesting Landlord's decision concerning the removal of proposed Alterations (a "**Tenant Notice**"), Landlord shall respond to Tenant's request. If Landlord fails to respond to Tenant's request within ten (10) days after Landlord receives a Tenant Notice, Tenant may give Landlord a second written notice (a "**Second Notice**") again requesting Landlord's decision concerning the removal of the Alterations. The Second Notice shall expressly state that Landlord's failure to respond to the Second Notice within five (5) business days will be deemed Landlord's election pursuant to this Section 13.1 of the Lease not to require Tenant to remove the Alterations at the end of the term of this Lease. If Landlord fails to respond to Tenant's Second Notice within such five (5) business day period, Landlord shall be deemed to have elected not to require Tenant to remove the Alterations at the end of the term of this Lease. If, as a result of any Alteration made by Tenant, Landlord is obligated to comply with the Americans With Disabilities Act or any other law or regulation, and such compliance requires Landlord to make any improvement or Alteration to any portion of the Project, as a condition to Landlord's consent, Landlord shall have the right to require Tenant to pay to Landlord prior to the construction of any Alteration by Tenant the entire cost of any improvement or alteration Landlord is obligated to complete by such law or regulation. Should Landlord permit Tenant to make its own Alterations, Tenant shall use only such architect and contractor as has been reasonably approved by Landlord, and Landlord may require Tenant to provide to Landlord, at Tenant's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alterations, to insure Landlord against any liability for mechanic's and materialmen's liens and to insure completion of the work. In addition, Tenant shall pay to Landlord a fee equal to the lesser of (i) the actual amount Landlord pays to its property manager to supervise such Alterations or (ii) [*] to compensate Landlord for the overhead and other costs it incurs in reviewing the plans for the Alterations and in monitoring the construction of the Alterations (the "**Landlord Fee**"). If Landlord incurs architectural, engineering or other consultant's fees in evaluating such Alterations, Tenant shall reimburse Landlord for these fees in addition to the Landlord Fee. If Tenant proposes Alterations to Landlord but subsequently elects not to construct the Alterations, and Landlord has incurred costs in reviewing Tenant's proposed Alterations (e.g., architect's, engineer's or property management fees), Tenant shall reimburse Landlord for the reasonable costs incurred by Landlord within ten (10) days after written demand. Should Tenant make any Alterations without the prior approval of Landlord, or use a contractor not expressly approved by Landlord, Landlord may, at any time during the term of this Lease, require that Tenant remove all or part of the Alterations and return the Premises to the condition it was in prior to the making of the Alterations. In the event Tenant makes any Alterations, Tenant agrees to obtain or cause its contractor to obtain, prior to the commencement of any work, "builders all risk" insurance in an amount reasonably approved by Landlord, workers compensation insurance and any other insurance reasonably requested by Landlord.

13.2 **PERMITS.** Any Alterations in or about the Premises that Tenant shall desire to make shall be presented to Landlord in written form, with plans and specifications which are sufficiently detailed to obtain a building permit, if a building permit is required. If Landlord consents to an Alteration and the Alteration requires a building permit, the consent shall be deemed conditioned upon Tenant acquiring a building permit from the applicable governmental agencies, furnishing a copy thereof to Landlord prior to the commencement of the work, and compliance by Tenant with all conditions of said permit in a prompt and expeditious manner. Tenant shall provide Landlord with as-built plans and specifications for any Alterations made to the Premises.

13.3 **MECHANICS LIENS.** Tenant shall pay, when due, all claims for labor or materials furnished to or for Tenant at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or the Project, or any interest therein. If Tenant shall, in good faith, contest the validity of any such lien, Tenant shall furnish to Landlord a surety bond satisfactory to Landlord in an amount equal to not less than one and one-half times the amount of such

contested lien claim indemnifying Landlord against liability arising out of such lien or claim. Such bond shall be sufficient in form and amount to free the Project from the effect of such lien. In addition, Landlord may require Tenant to pay Landlord's reasonable attorneys' fees and costs incurred as a result of any such lien.

13.4 **NOTICE.** Tenant shall give Landlord not less than ten (10) days' advance written notice prior to the commencement of any work in the Premises by Tenant, and Landlord shall have the right to post notices of non-responsibility in or on the Premises or the Project.

13.5 **SURRENDER.** Subject to Landlord's right to require removal or to elect ownership as hereinafter provided, all Alterations made by Tenant to the Premises shall be the property of Tenant, but shall be considered to be a part of the Premises. Unless Landlord gives Tenant written notice of its election not to become the owner of the Alterations at the end of the term of this Lease, such Alterations shall become the property of Landlord at the end of the term of this Lease. Unless otherwise agreed by Landlord pursuant to Section 13.1 at the time the approval of an Alteration is requested by Tenant, Landlord may require that some or all Alterations be removed prior to the end of the term of this Lease and that any damages caused by such removal be repaired at Tenant's sole expense. On the last day of the term hereof, or on any sooner termination, Tenant shall surrender the Premises (including, but not limited to, all doors, windows, floors and floor coverings, skylights, heating and air conditioning systems, dock boards, truck doors, dock bumpers, plumbing work and fixtures, electrical systems, lighting facilities, sprinkler systems, fire detection systems and nonstructural elements of the exterior walls and foundation (collectively the "Elements of the Premises")) to Landlord in the same condition it was in on the Original Premises Commencement Date and the Expansion Premises Commencement Date, as applicable, ordinary wear and tear, casualty damage and damages caused by acts of God excepted, clean and free of debris and Tenant's personal property, trade fixtures and equipment. Tenant's personal property shall include all computer wiring and cabling installed by Tenant. Provided, however, if Landlord has not elected to have Tenant remove the Alterations, Tenant shall leave the Alterations at the Premises in good condition and repair, ordinary wear and tear excepted. Tenant shall repair any damage to the Premises occasioned by the installation or removal of Tenant's trade fixtures, furnishings and equipment. Damage to or deterioration of any Element of the Premises or any other item Tenant is required to repair or maintain at the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. If the Premises are not surrendered at the expiration of the term or earlier termination of this Lease in accordance with the provisions of this section, at Landlord's option, Tenant shall continue to be responsible for the payment of Base Rent and all other amounts due under this Lease until the Premises are so surrendered in accordance with said provisions. Tenant shall indemnify, defend and hold Landlord harmless from and against any and all damages, expenses, costs, losses or liabilities arising from any delay by Tenant in so surrendering the Premises including, without limitation, any damages, expenses, costs, losses or liabilities arising from any claim against Landlord made by any succeeding tenant or prospective tenant founded on or resulting from such delay and losses and damages suffered by Landlord due to lost opportunities to lease any portion of the Premises to any such succeeding tenant or prospective tenant, together with, in each case, actual attorneys' fees and costs.

13.6 **FAILURE OF TENANT TO REMOVE PROPERTY.** If this Lease is terminated due to the expiration of its term or otherwise, and Tenant fails to remove its property, in addition to any other remedies available to Landlord under this Lease, and subject to any other right or remedy Landlord may have under applicable law, Landlord may remove any property of Tenant from the Premises and store the same elsewhere at the expense and risk of Tenant.

13.7 **ELECTRIC VEHICLE CHARGING STATIONS INSTALLED BY TENANT.** Under certain circumstances Section 1952.7 of the California Civil Code ("Section 1952.7") may permit Tenant to install electric vehicle charging stations ("Tenant Charging Stations") in the Project's parking area. In the event Section 1952.7 does permit Tenant to install Tenant Charging Stations and Tenant elects to install Tenant Charging Stations, the Section of the Rules and Regulations attached hereto that is entitled "Electric Vehicle Charging Stations" shall apply to the Tenant Charging Stations.

13.8 **CABLING.** Landlord shall have the right to require Tenant to (i) remove any telecommunications or other cabling installed by Tenant in the Premises as part of the original tenant improvements (whether constructed by Landlord or Tenant) or at later times during the term of the Lease (collectively, "Cabling") or (ii) leave all or part of the Cabling. If Landlord requires Tenant to remove some or all of the Cabling and Tenant fails to do so prior to the last day of the term or any sooner termination, Landlord may, but shall not be obligated to, remove such Cabling and, in this event, Tenant shall reimburse Landlord for all costs Landlord incurs in removing the such cable within ten (10) days after written demand.

14. **DAMAGE AND DESTRUCTION.**

14.1 **EFFECT OF DAMAGE OR DESTRUCTION.** If all or part of the Project is damaged by fire, earthquake, flood, explosion, the elements, riot, the release or existence of Hazardous Materials (as defined below) or by any other cause whatsoever (hereinafter collectively referred to as "Casualty Damages"), but the Casualty Damages are not material (as defined in Section 14.2 below), Landlord shall repair the Casualty Damages to the Project as soon as is reasonably possible, and this Lease shall remain in full force and effect. If all or part of the Project is destroyed or materially damaged (as defined in Section 14.2 below), Landlord shall have the right, in its sole and complete discretion, to repair or to rebuild the Project or to terminate this Lease. Landlord shall within [*] after the discovery of such material damage or destruction notify Tenant in writing of Landlord's intention to repair or to rebuild or to terminate this Lease. Tenant shall in no event be entitled to compensation or damages on account of annoyance or inconvenience in making any repairs, or on account of construction, or on account of Landlord's election to terminate this Lease. Notwithstanding the foregoing, if Landlord shall elect to rebuild or

repair the Project after material damage or destruction, but in good faith determines that the Premises cannot be substantially repaired within [*] after the date of the discovery of the material damage or destruction, without payment of overtime or other premiums, and the damage to the Project will render the entire Premises unusable during said [*] period, Landlord shall notify Tenant thereof in writing at the time of Landlord's election to rebuild or repair, and Tenant shall thereafter have a period of fifteen (15) days within which Tenant may elect to terminate this Lease, upon thirty (30) days' advance written notice to Landlord. Tenant's termination right described in the preceding sentence shall not apply if the damage was caused by the intentional acts of Tenant or its employees, agents, contractors or invitees. Failure of Tenant to exercise said election within said fifteen (15) day period shall constitute Tenant's agreement to accept delivery of the Premises under this Lease whenever tendered by Landlord, provided Landlord thereafter pursues reconstruction or restoration diligently to completion subject to delays caused by Force Majeure Events. If Landlord is unable to repair the damage to the Premises or the Project during such [*] period due to Force Majeure Events, the [*] period shall be extended by the period of delay caused by the Force Majeure Events; provided, however, in no event shall the [*] period be extended by more than thirty (30) days due to a Force Majeure Event. A "**Force Majeure Event**" shall mean fire, earthquake, weather delays or other acts of God, strikes, boycotts, war, riot, insurrection, embargoes, shortages of equipment, labor or materials, delays in issuance of governmental permits or approvals, or any other cause beyond the reasonable control of Landlord. Subject to Section 14.3 below, if Landlord or Tenant terminates this Lease in accordance with this Section 14.1, Tenant shall continue to pay all Base Rent, Operating Expenses and other amounts due hereunder which arise prior to the date of termination. Tenant shall also have the right to terminate this Lease if damage occurs to the Premises during the last twelve (12) months of the Lease term, such damage renders a substantial portion of the Premises unusable, and such damage cannot be substantially repaired within fifteen (15) days. Tenant's termination right described in the previous sentence shall be exercised by providing Landlord with written notice within fifteen (15) days after Landlord notifies Tenant that the damage has occurred and cannot be repaired within fifteen (15) days of the occurrence of the damage.

14.2 **DEFINITION OF MATERIAL DAMAGE.** Damage to the Project shall be deemed material if, in Landlord's reasonable judgment, the uninsured cost of repairing the damage will exceed [*]. If insurance proceeds are available to Landlord in an amount which is sufficient to pay the entire cost of repairing all of the damage to the Project, the damage shall be deemed material if the cost of repairing the damage exceeds [*]. Damage to the Project shall also be deemed material if (a) the Project cannot be rebuilt or repaired to substantially the same condition it was in prior to the damage due to laws or regulations in effect at the time the repairs will be made, (b) the holder of any mortgage or deed of trust encumbering the Project requires that insurance proceeds available to repair the damage in excess of [*] be applied to the repayment of the indebtedness secured by the mortgage or the deed of trust, or (c) the damage occurs during the last [*] months of the Lease term.

14.3 **ABATEMENT OF RENT.** In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof as a result of damage to the Premises, and the damage was not caused by intentional acts of Tenant or its employees, agents, contractors or invitees, then Tenant's Base Rent and Tenant's Share of Operating Expenses shall be abated or reduced, as the case may be, for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises.

14.4 **TENANT'S ACTS.** If such damage or destruction occurs as a result of the intentional acts of Tenant or Tenant's employees, agents, contractors or invitees, and the proceeds of insurance which are actually received by Landlord are not sufficient to pay for the repair of all of the damage, Tenant shall pay, at Tenant's sole cost and expense, to Landlord upon demand, the difference between the cost of repairing the damage and the insurance proceeds received by Landlord.

14.5 **TENANT'S PROPERTY.** Landlord shall not be liable to Tenant or its employees, agents, contractors, invitees or customers for loss or damage to merchandise, tenant improvements, fixtures, automobiles, furniture, equipment, computers, files or other property (hereinafter collectively "**Tenant's property**") located at the Project. Tenant shall repair or replace all of Tenant's property at Tenant's sole cost and expense. Tenant acknowledges that it is Tenant's sole responsibility to obtain adequate insurance coverage to compensate Tenant for damage to Tenant's property.

14.6 **WAIVER.** Landlord and Tenant hereby waive the provisions of any present or future statutes which relate to the termination of leases when leased property is damaged or destroyed and agree that such event shall be governed by the terms of this Lease.

15. **CONDEMNATION.** If any portion of the Premises or the Project are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "**condemnation**"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs; provided that if [*] or more of the Premises is taken by such condemnation and said taking lasts for [*] or more, Tenant shall have the option, to be exercised only in writing within thirty (30) days after Landlord shall have given Tenant written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority shall have taken possession), to terminate this Lease as of the date the condemning authority takes such possession. If a taking lasts for less than [*], Tenant's rent shall be abated during said period but Tenant shall not have the right to terminate this Lease. If Tenant does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that all Base Rent and Tenant's Percentage Share of Operating Expenses shall be reduced in the proportion that the usable

floor area of the Premises taken bears to the total usable floor area of the Premises. Common Areas taken shall be excluded from the Common Areas usable by Tenant and no reduction of Base Rent shall occur with respect thereto or by reason thereof. Landlord shall have the option in its sole discretion to terminate this Lease as of the taking of possession by the condemning authority, by giving written notice to Tenant of such election within thirty (30) days after receipt of notice of a taking by condemnation of any part of the Premises or the Project. Any award for the taking of all or any part of the Premises or the Project under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord, whether such award shall be made as compensation for diminution in value of the leasehold, for good will, for the taking of the fee, as severance damages, or as damages for tenant improvements; provided, however, that Tenant shall be entitled to any separate award for loss of or damage to Tenant's removable personal property, removable Alterations made to the Premises and paid for by Tenant and for moving expenses. In the event that this Lease is not terminated by reason of such condemnation, and subject to the requirements of any lender that has made a loan to Landlord encumbering the Project, Landlord shall to the extent of severance damages received by Landlord in connection with such condemnation, repair any damage to the Project caused by such condemnation except to the extent that Tenant has been reimbursed therefor by the condemning authority. This section, not general principles of law or California Code of Civil Procedure Sections 1230.010 et seq., shall govern the rights and obligations of Landlord and Tenant with respect to the condemnation of all or any portion of the Project.

16. **ASSIGNMENT AND SUBLETTING.**

16.1 **LANDLORD'S CONSENT REQUIRED.** Tenant shall not voluntarily or by operation of law assign, transfer, hypothecate, mortgage, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in this Lease or in the Premises (hereinafter collectively a "**Transfer**"), without Landlord's prior written consent, which shall not be unreasonably withheld. Landlord shall respond to Tenant's written request for consent hereunder within thirty (30) days after Landlord's receipt of the written request from Tenant. Any attempted Transfer without such consent shall be void and shall constitute a default and breach of this Lease. Tenant's written request for Landlord's consent shall include, and Landlord's thirty (30) day response period referred to above shall not commence, unless and until Landlord has received from Tenant, all of the following information: (a) financial statements for the proposed assignee or subtenant prepared in accordance with generally accepted accounting principles for the lesser of (i) the past three (3) years or (ii) the time period the assignee or subtenant has been in existence, (b) federal tax returns for the proposed assignee or subtenant for the lesser of (i) the past two (2) years or (ii) the time period the assignee or subtenant has been in existence, (c) a detailed description of the business the assignee or subtenant intends to operate at the Premises, (d) the proposed effective date of the assignment or sublease, (e) a copy of the proposed sublease or assignment agreement which includes all of the terms and conditions of the proposed assignment or sublease, (f) a detailed description of any ownership or commercial relationship between Tenant and the proposed assignee or subtenant, (g) a detailed description of any Alterations the proposed assignee or subtenant desires to make to the Premises, and (h) a Hazardous Materials Disclosure Certificate substantially in the form of Exhibit D attached hereto (the "**Transferee HazMat Certificate**"). If the obligations of the proposed assignee or subtenant will be guaranteed by any person or entity, Tenant's written request shall not be considered complete until the information described in (a) and (b) of the previous sentence has been provided with respect to each proposed guarantor. "**Transfer**" shall also include the transfer (a) if Tenant is a corporation, and Tenant's stock is not publicly traded over a recognized securities exchange, of more than twenty five percent (25%) of the voting stock of such corporation during the term of this Lease (whether or not in one or more transfers) or the dissolution, merger or liquidation of the corporation, or (b) if Tenant is a partnership, limited liability company, limited liability partnership or other entity, of more than twenty five percent (25%) of the profit and loss participation in such partnership or entity during the term of this Lease (whether or not in one or more transfers) or the dissolution, merger or liquidation of the partnership, limited liability company, limited liability partnership or other entity. If Tenant is a limited or general partnership (or is comprised of two or more persons, individually or as co-partners), Tenant shall not be entitled to change or convert to (i) a limited liability company, (ii) a limited liability partnership or (iii) any other entity which possesses the characteristics of limited liability without the prior written consent of Landlord, which consent may be given or withheld in Landlord's sole discretion. Tenant's sole remedy in the event that Landlord shall wrongfully withhold consent to or disapprove any assignment or sublease shall be to obtain an order by a court of competent jurisdiction that Landlord grant such consent; in no event shall Landlord be liable for damages with respect to its granting or withholding consent to any proposed assignment or sublease. If Landlord shall exercise any option to recapture the Premises, or shall deny a request for consent to a proposed assignment or sublease, Tenant shall indemnify, defend and hold Landlord harmless from and against any and all losses, liabilities, damages, costs and claims that may be made against Landlord by the proposed assignee or subtenant, or by any brokers or other persons claiming a commission or similar compensation in connection with the proposed assignment or sublease.

16.2 **STANDARD FOR APPROVAL.** Landlord shall not unreasonably withhold its consent to a Transfer provided that Tenant has complied with each and every requirement, term and condition of this Section 16. Tenant acknowledges and agrees that each requirement, term and condition in this Section 16 is a reasonable requirement, term or condition. It shall be deemed reasonable for Landlord to withhold its consent to a Transfer if any requirement, term or condition of this Section 16 is not complied with or: (a) the Transfer would cause Landlord to be in violation of its obligations under another lease or agreement to which Landlord is a party; (b) in Landlord's reasonable judgment, a proposed assignee or subtenant has a materially smaller net worth than Tenant had on the date this Lease was entered into with Tenant or is materially less able financially to pay the rents due under this Lease as and when they are due and payable (provided, however, that so long as Tenant will remain in existence and primarily liable under this Lease from and after a proposed Transfer, then Landlord shall take into account both Tenant's and the proposed transferee's creditworthiness); (c) a proposed assignee's or subtenant's business will impose a burden on the Project's parking facilities, Common Areas or utilities that is greater than the burden imposed by Tenant, in Landlord's

reasonable judgment; (d) the terms of a proposed assignment or subletting will allow the proposed assignee or subtenant to exercise a right of renewal, right of expansion, right of first offer, right of first refusal or similar right held by Tenant; (e) a proposed assignee or subtenant refuses to enter into a written assignment agreement or sublease, reasonably satisfactory to Landlord, which provides that it will abide by and assume all of the terms and conditions of this Lease for the term of any assignment or sublease and containing such other terms and conditions as Landlord reasonably deems necessary; (f) the use of the Premises by the proposed assignee or subtenant is not permitted by this Lease; (g) any guarantor of this Lease refuses to consent to the Transfer or to execute a written agreement reaffirming the guaranty; (h) Tenant is in default as defined in Section 17 at the time of the request continuing beyond any notice and cure period; (i) if requested by Landlord, the assignee or subtenant refuses to sign a non-disturbance and attornment agreement in favor of Landlord's lender; (j) Landlord has sued or been sued by the proposed assignee or subtenant or has otherwise been involved in a legal dispute with the proposed assignee or subtenant; (k) the assignee or subtenant is involved in a business which is materially different than the then-current standards of the Project; (l) the proposed assignee or subtenant is an existing tenant of the Project and Landlord has space within the Project that may meet the prospective tenant's requirements or is a person or entity then negotiating with Landlord for the lease of space in the Project and Landlord has space within the Project that may meet the prospective tenant's requirements, (m) the assignee or subtenant is a governmental or quasi-governmental entity or an agency, department or instrumentality of a governmental or quasi-governmental agency; (n) the assignee or subtenant will use, store or handle Hazardous Materials in or about the Premises of a type, nature, quantity not acceptable to Landlord, in Landlord's sole discretion; or (o) the assignee or subtenant is a person or entity to whom Landlord has agreed not to lease space in the Project pursuant to a lease with another tenant.

16.3 **ADDITIONAL TERMS AND CONDITIONS.** The following terms and conditions shall be applicable to any Transfer:

(a) Regardless of Landlord's consent, no Transfer shall release Tenant from Tenant's obligations hereunder or alter the primary liability of Tenant to pay the rent and other sums due Landlord hereunder and to perform all other obligations to be performed by Tenant hereunder or release any guarantor from its obligations under its guaranty.

(b) Landlord may accept rent from any person other than Tenant pending approval or disapproval of an assignment or subletting.

(c) Neither a delay in the approval or disapproval of a Transfer, nor the acceptance of rent, shall constitute a waiver or estoppel of Landlord's right to exercise its rights and remedies for the breach of any of the terms or conditions of this Section 16.

(d) The consent by Landlord to any Transfer shall not constitute a consent to any subsequent Transfer by Tenant or to any subsequent or successive Transfer by an assignee or subtenant. However, Landlord may consent to subsequent Transfers or any amendments or modifications thereto without notifying Tenant or anyone else liable on the Lease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease.

(e) In the event of any default under this Lease, Landlord may proceed directly against Tenant, any guarantors or anyone else responsible for the performance of this Lease, including any subtenant or assignee, without first exhausting Landlord's remedies against any other person or entity responsible therefor to Landlord, or any security held by Landlord.

(f) Landlord's written consent to any Transfer by Tenant shall not constitute an acknowledgment that no default then exists under this Lease nor shall such consent be deemed a waiver of any then-existing default.

(g) The discovery of the fact that any financial statement relied upon by Landlord in giving its consent to an assignment or subletting was materially false shall, at Landlord's election, render Landlord's consent null and void.

(h) Landlord shall not be liable under this Lease or under any sublease to any subtenant.

(i) No assignment or sublease may be modified or amended without Landlord's prior written consent.

(j) Any assignee of, or subtenant under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Landlord, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Tenant during the term of said assignment or sublease, other than such obligations as are contrary or inconsistent with provisions of an assignment or sublease to which Landlord has specifically consented in writing.

(k) At Landlord's request, Tenant shall deliver to Landlord, Landlord's standard consent to assignment or consent to sublease agreement, as applicable, executed by Tenant, the assignee or the subtenant, as applicable.

16.4 **ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING.** The following terms and conditions shall apply to any subletting by Tenant of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Tenant hereby absolutely and unconditionally assigns and transfers to Landlord all of Tenant's interest in all rentals and income arising from any sublease entered into by Tenant, and Landlord may collect such rent and income and apply same toward Tenant's obligations under this Lease; provided, however, that until a default shall occur in the performance of Tenant's obligations under this Lease, Tenant may receive, collect and enjoy the rents accruing under such sublease. Landlord shall not, by reason of this or any other assignment of such rents to Landlord nor by reason of the collection of the rents from a subtenant, be deemed to have assumed or recognized any sublease or to be liable to the subtenant for any failure of Tenant to perform and comply with any of Tenant's obligations to such subtenant under such sublease, including, but not limited to, Tenant's obligation to return any security deposit. Tenant hereby irrevocably authorizes and directs any such subtenant, upon receipt of a written notice from Landlord stating that a default exists in the performance of Tenant's obligations under this Lease, to pay to Landlord the rents due as they become due under the sublease. Tenant agrees that such subtenant shall have the right to rely upon any such statement and request from Landlord, and that such subtenant shall pay such rents to Landlord without any obligation or right to inquire as to whether such default exists and notwithstanding any notice or claim from Tenant to the contrary.

(b) In the event Tenant shall default in the performance of its obligations under this Lease and such default continues beyond any notice and cure period, Landlord, at its option and without any obligation to do so, may require any subtenant to attorn to Landlord, in which event Landlord shall undertake the obligations of Tenant under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Landlord shall not be liable for any prepaid rents or security deposit paid by such subtenant to Tenant or for any other prior defaults of Tenant under such sublease.

16.5 **TRANSFER PREMIUM FROM ASSIGNMENT OR SUBLETTING.** Landlord shall be entitled to receive from Tenant (as and when received by Tenant) as an item of additional rent one-half of all amounts received by Tenant from the subtenant or assignee in excess of the amounts payable by Tenant to Landlord hereunder (the "**Transfer Premium**"). The Transfer Premium shall be reduced by the reasonable brokerage commissions, tenant improvement costs and legal fees actually paid by Tenant in order to assign the Lease or to sublet all or a portion of the Premises. "**Transfer Premium**" shall mean all Base Rent, additional rent or other consideration of any type whatsoever payable by the assignee or subtenant in excess of the Base Rent and additional rent payable by Tenant under this Lease, but excluding market value of the sale of any furniture, fixtures or equipment. If less than all of the Premises is subleased, for purposes of calculating the Transfer Premium, the Base Rent and the additional rent due under this Lease shall be allocated to the subleased premises on a per-rentable-square-foot basis (e.g., if one-half of the Premises is subleased, for purposes of determining the amount of the Transfer Premium, one-half of the Base Rent and additional rent due under this Lease would be allocated to the subleased premises, and this amount would be subtracted from the base rent, additional rent and other monies payable to Tenant under the sublease). "**Transfer Premium**" shall also include, but not be limited to, key money and bonus money paid by the assignee or subtenant to Tenant in connection with such Transfer, and any payment in excess of fair-market value for services rendered by Tenant to the assignee or subtenant or for assets, fixtures, inventory, equipment or furniture transferred by Tenant to the assignee or subtenant in connection with such Transfer. Landlord and Tenant agree that the foregoing Transfer Premium is reasonable.

16.6 **LANDLORD'S OPTION TO RECAPTURE SPACE.** For purposes of this Section, a "**Recapture Event**" shall mean any one of the following: (a) Tenant desires to assign this Lease to a person or entity other than an Affiliate (as defined below), or (b) Tenant desires to sublease substantially all of the Premises located in the 3101 Building for substantially all of the remaining term of this Lease. "**Recapture Space**" shall mean the portion of the Premises that is the subject of a Recapture Event. For example, if Tenant desires to sublease substantially all of the first and second floor of the 3101 Building for substantially all of the remaining term of this Lease, the Recapture Space would be first and the second floor of the 3101 Building. In the event of a Recapture Event, notwithstanding anything to the contrary contained in this Section 16, Landlord shall have the option, by giving written notice to Tenant within twenty (20) days after receipt of any request by Tenant to engage in a Recapture Event, to terminate this Lease with respect to the Recapture Space as of the date thirty (30) days after Landlord's election. In the event of a recapture by Landlord, if this Lease shall be canceled with respect to less than the entire Premises, the Base Rent, Tenant's Percentage Share of Operating Expenses and the number of parking spaces Tenant may use shall be adjusted on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the original Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of same. If Landlord recaptures only a portion of the Premises, it shall construct and erect at its sole cost such partitions as may be required to sever the space to be retained by Tenant from the space recaptured by Landlord. Landlord may, at its option, lease any recaptured portion of the Premises to the proposed subtenant or assignee or to any other person or entity without liability to Tenant. Tenant shall not be entitled to any portion of the profit, if any, Landlord may realize on account of such termination and reletting. Tenant acknowledges that the purpose of this section is to enable Landlord to receive profit in the form of higher rent or other consideration to be received from an assignee or subtenant, to give Landlord the ability to meet additional space requirements of other tenants of the Project and to permit Landlord to control the leasing of space in the Project. Tenant acknowledges and agrees that the requirements of this section are commercially reasonable and are consistent with the intentions of Landlord and Tenant.

16.7 **LANDLORD'S EXPENSES.** In the event Tenant shall assign this Lease or sublet the Premises or request the consent of Landlord to any Transfer, then Tenant shall pay (a) [*] to Landlord to compensate Landlord for its internal administrative costs in processing the request plus (b) Landlord's reasonable out-of-pocket costs and expenses incurred in connection therewith, including, but not limited to, attorneys', architects', accountants', engineers' or other consultants' fees; provided, however, Landlord shall not be entitled to recover more than [*] with respect to any one Transfer.

16.8 **ASSIGNMENT AND SUBLEASING – AFFILIATE ENTITY.** Notwithstanding anything to the contrary contained in this Section 16, an assignment of the Lease or sublease of all or any portion of the Premises to any entity which controls or is controlled by Tenant or which acquires all or substantially all of the assets of Tenant or which is the surviving entity resulting from a merger or consolidation of Tenant (in each such case, an "Affiliate"), shall not require Landlord's consent under Section 16.1, provided that at least thirty (30) days prior to such assignment or sublease (i) Tenant provides Landlord with reasonable evidence that the successor to Tenant has a tangible net worth computed in accordance with generally accepted accounting principles consistently applied (and excluding goodwill and other intangible assets) that is sufficient to meet the obligations of Tenant under the Lease, and that is at least equal to the tangible net worth of Tenant (A) immediately prior to such merger, consolidation or sale or (B) on the Commencement Date, whichever is greater; (ii) Tenant notifies Landlord in writing of any such assignment or sublease and provides Landlord with evidence that such assignment or sublease is a Transfer permitted by this section; (iii) prior to the date an assignment or sublease will take effect, the assignee or sublessee and Tenant shall enter into Landlord's standard consent to sublease agreement or consent to assignment agreement (the "Transfer Agreements"), (iv) any guarantors of Tenant's obligations under the Lease execute an agreement satisfactory to Landlord reaffirming that their obligations under the guaranty will continue after the assignment of the Lease to an Affiliate and (v) subject to the limitation set forth in Section 16.7 of the Lease, Tenant shall pay the reasonable costs and expenses (including legal fees) incurred by Landlord in confirming that the assignment or sublease meets the requirements of this section and in preparing any Transfer Agreement. Whether or not an assignment or sublease to an Affiliate is made pursuant to the terms of this section, Tenant shall not be relieved of its obligations under this Lease. Sections 16.5 and 16.6 of the Lease shall not apply to assignments or subleases to Affiliates.

17. **DEFAULT; REMEDIES.**

17.1 **DEFAULT BY TENANT.** Landlord and Tenant hereby agree that the occurrence of any one or more of the following events is a default by Tenant under this Lease and that said default shall give Landlord the rights described in Section 17.2. Landlord or Landlord's authorized agent shall have the right to execute and to deliver any notice of default, notice to pay rent or quit or any other notice Landlord gives Tenant.

(a) Tenant's failure to make any payment of Base Rent, Tenant's Percentage Share of Operating Expenses or any other payment required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of five (5) business days after written notice thereof from Landlord to Tenant. In the event that Landlord serves Tenant with a notice to pay rent or quit pursuant to applicable unlawful detainer statutes, such notice shall also constitute the notice required by this Section 17.1(a).

(b) The abandonment of the Premises by Tenant (as statutorily defined under California law) coupled with the nonpayment of rent, in which event Landlord shall not be obligated to give any notice of default to Tenant.

(c) The failure of Tenant to comply with any of its obligations under Sections 25, 26 and 28 where Tenant fails to comply with its obligations or fails to cure any earlier breach of such obligation within ten (10) days following written notice from Landlord to Tenant. In the event Landlord serves Tenant with a notice to quit or any other notice pursuant to applicable unlawful detainer statutes, said notice shall also constitute the notice required by this Section 17.1(c).

(d) The failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Tenant (other than those referenced in Sections 17.1(a), (b) and (c), above), where such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's nonperformance is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences such cure within said thirty (30) day period and thereafter diligently pursues such cure to completion. In the event that Landlord serves Tenant with a notice to quit or any other notice pursuant to applicable unlawful detainer statutes, said notice shall also constitute the notice required by this Section 17.1(d).

(e)(i) The making by Tenant or any guarantor of Tenant's obligations hereunder of any general arrangement or general assignment for the benefit of creditors; (ii) Tenant or any guarantor becoming a "debtor" as defined in 11 U.S.C. 101 or any successor statute thereto (unless, in the case of a petition filed against Tenant or guarantor, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within sixty (60) days; (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within sixty (60) days; or (v) the insolvency of Tenant. In the event that any provision of this Section 17.1(e) is unenforceable under applicable law, such provision shall be of no force or effect.

(f) The discovery by Landlord that any financial statement, representation or warranty given to Landlord by Tenant, or by any guarantor of Tenant's obligations hereunder, was materially false at the time given. Tenant acknowledges that Landlord has entered into this Lease in material reliance on such information.

(g) If Tenant is a corporation, partnership, limited liability company or similar entity, the dissolution or liquidation of Tenant.

(h) If Tenant's obligations under this Lease are guaranteed: (i) the death of a guarantor, (ii) the termination of a guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a guarantor's refusal to honor the guaranty, (v) a guarantor's breach of its guaranty obligation on an anticipatory breach basis or (vi) if the guarantor is a corporation, limited liability company or partnership, the dissolution of the guarantor or the termination of the guarantor's existence.

17.2 **REMEDIES.**

(a) In the event of any default or breach of this Lease by Tenant as described in Section 17.1 (including any notice and cure period), Landlord may, at any time thereafter, with or without notice or demand, and without limiting Landlord in the exercise of any right or remedy which Landlord may have by reason of such default:

(i) terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. If Landlord terminates this Lease, Landlord may recover from Tenant (A) the worth at the time of award of the unpaid rent which had been earned at the time of termination; (B) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; (C) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; and (D) any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of recovering possession of the Premises, expenses of releasing, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, any real estate commissions actually paid by Landlord and the unamortized value of any free rent, reduced rent, tenant improvement allowance or other economic concessions provided by Landlord. The "worth at time of award" of the amounts referred to in Section 17.2(a)(i)(A) and (B) shall be computed by allowing interest at the lesser of [*] per annum or the maximum interest rate permitted by applicable law. The worth at the time of award of the amount referred to in Section 17.2(a)(i)(C) shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus [*]. For purposes of this Section 17.2(a)(i), "rent" shall be deemed to be all monetary obligations required to be paid by Tenant pursuant to the terms of this Lease.

(ii) maintain Tenant's right of possession, in which event Landlord shall have the remedy described in California Civil Code Section 1951.4 which permits Landlord to continue this Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due. In the event Landlord elects to continue this Lease in effect, Tenant shall have the right to sublet the Premises or assign Tenant's interest in the Lease subject to the reasonable requirements contained in Section 16 of this Lease and provided further that Landlord shall not require compliance with any standard or condition contained in Section 16 that has become unreasonable at the time Tenant seeks to sublet or assign the Premises pursuant to this Section 17.2(a)(ii).

(iii) collect sublease rents (or appoint a receiver to collect such rent) and otherwise perform Tenant's obligations at the Premises, it being agreed, however, that the appointment of a receiver for Tenant shall not constitute an election by Landlord to terminate this Lease.

(iv) pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state in which the Premises are located.

(b) No remedy or election hereunder shall be deemed exclusive, but shall, wherever possible, be cumulative with all other remedies at law or in equity. The expiration or termination of this Lease and/or the termination of Tenant's right to possession of the Premises shall not relieve Tenant of liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term of the Lease or by reason of Tenant's occupancy of the Premises.

(c) If Tenant abandons the Premises, Landlord may re-enter the Premises, and such re-entry shall not be deemed to constitute Landlord's election to accept a surrender of the Premises or to otherwise relieve Tenant from liability for its breach of this Lease. No surrender of the Premises shall be effective against Landlord unless Landlord has entered into a written agreement with Tenant in which Landlord expressly agrees to (i) accept a surrender of the Premises and (ii) relieve Tenant of liability under the Lease. The delivery by Tenant to Landlord of possession of the Premises shall not constitute the termination of the Lease or the surrender of the Premises.

17.3 **DEFAULT BY LANDLORD.** Landlord shall not be in default under this Lease unless Landlord fails to perform obligations required of Landlord within [*] after written notice by Tenant to Landlord, specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than [*] are required for its cure, then Landlord shall not be in default if Landlord commences performance within such [*] period and thereafter diligently pursues the same to completion. In no event shall Tenant have the right to terminate this Lease as a result of Landlord's default, and Tenant's remedies shall be limited to damages and/or an injunction. Tenant hereby waives its right to recover consequential damages (including, but not limited to, lost profits) or punitive damages arising out of a Landlord default. This Lease and the obligations of Tenant hereunder shall not be affected or impaired because Landlord is unable to fulfill any of

its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of a Force Majeure Event, and the time for Landlord's performance shall be extended for the period of any such delay. Any claim, demand, right or defense by Tenant that arises out of this Lease or the negotiations which preceded this Lease shall be barred unless Tenant commences an action thereon, or interposes a defense by reason thereof, within twelve (12) months after the date of the inaction, omission, event or action that gave rise to such claim, demand, right or defense.

17.4 **LATE CHARGES.** Tenant hereby acknowledges that late payment by Tenant to Landlord of Base Rent, Tenant's Percentage Share of Operating Expenses or other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed encumbering the Project. Accordingly, if any installment of Base Rent, Tenant's Percentage Share of Operating Expenses or any other sum due from Tenant shall not be received by Landlord when such amount shall be due, then, without any requirement for notice or demand to Tenant, Tenant shall immediately pay to Landlord a late charge equal to [*]. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder, including the assessment of interest under Section 17.5. Notwithstanding anything to the contrary contained herein, Tenant shall be entitled to notice [*].

17.5 **INTEREST ON PAST-DUE OBLIGATIONS.** Except as expressly herein provided, any amount due to Landlord that is not paid when due shall bear interest at [*] or the maximum rate permitted by applicable law. Payment of such interest shall not excuse or cure any default by Tenant under this Lease; provided, however, that interest shall not be payable on late charges incurred by Tenant nor on any amounts upon which late charges are paid by Tenant.

17.6 **PAYMENT OF RENT AND SECURITY DEPOSIT AFTER DEFAULT.** If Tenant fails to pay Base Rent, Tenant's Percentage Share of Operating Expenses, parking charges or any other monetary obligation due hereunder on the date it is due, after Tenant's third failure to pay any monetary obligation on the date it is due, at Landlord's option, all monetary obligations of Tenant hereunder shall thereafter be paid by cashier's check, and Tenant shall, upon demand, provide Landlord with an additional security deposit equal to three (3) multiplied by the monthly Base Rent due on the date of Landlord's demand. If Landlord has required Tenant to make said payments by cashier's check or to provide an additional security deposit, Tenant's failure to make a payment by cashier's check or to provide the additional security deposit shall be a default hereunder.

18. **LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT.** All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of rent. If Tenant shall fail to perform any of its obligations under this Lease, Landlord may, but shall not be obligated to, after three (3) days' prior written notice to Tenant, make any such payment or perform any such act on Tenant's behalf without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder. Tenant shall pay to Landlord, within ten (10) days after delivery by Landlord to Tenant of statements therefore, an amount equal to the expenditures reasonably made by Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of this section.

19. **INDEMNITY.** Except to the extent of Damages resulting from the negligence or willful misconduct of Landlord, Tenant hereby agrees to indemnify, defend and hold harmless Landlord and its employees, partners, agents, property managers, lenders and ground lessors (said persons and entities are hereinafter collectively referred to as the "**Indemnified Parties**" or "**Landlord Parties**") from and against any and all liability, loss, cost, damage, claims, loss of rents, liens, judgments, penalties, fines, settlement costs, investigation costs, cost of consultants and experts, reasonable attorney's fees, court costs and other legal expenses, , insurance policy deductibles and other expenses (hereinafter collectively referred to as "**Damages**") arising out of or related to an Indemnified Matter (as defined below). For purposes of this section, an "**Indemnified Matter**" shall mean any matter for which one or more of the Indemnified Parties incurs liability or Damages if the liability or Damages arise out of or involve, directly or indirectly, (a) Tenant's or its employees', agents', contractors', invitees', or subtenants' (all of said persons or entities are hereinafter collectively referred to as "**Tenant Parties**") use or occupancy of the Premises or the Project, (b) any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises, (c) the conduct of Tenant's business, or (d) Tenant's failure to perform any of its obligations under the Lease. Tenant's obligations hereunder shall include, but shall not be limited to (f) compensating the Indemnified Parties for Damages arising out of Indemnified Matters and (g) providing a defense, with counsel reasonably satisfactory to the Indemnified Party, at Tenant's sole expense, within thirty (30) days after written demand from the Indemnified Party, of any claims, action or proceeding arising out of or relating to an Indemnified Matter whether or not litigated or reduced to judgment and whether or not well founded. The Indemnified Parties need not first pay any Damages to be indemnified hereunder. Tenant's obligations under this section shall survive the expiration or termination of this Lease unless specifically waived in writing by Landlord after said expiration or termination. Notwithstanding anything to the contrary contained in this section, Tenant shall not be obligated to indemnify an Indemnified Party from liability to the extent such liability arises out of the Indemnified Party's negligence, willful misconduct or violation of this Lease.

20. **EXEMPTION OF LANDLORD FROM LIABILITY.** Tenant hereby agrees that Landlord Parties shall not be liable for injury to Tenant's business or any loss of income therefrom or for loss of or damage to the merchandise, tenant improvements, fixtures, furniture, equipment, computers, files, automobiles, or other property of Tenant, Tenant's employees, agents, contractors or invitees, or any other person in or about the Project, nor shall Landlord Parties be liable for injury to the person of Tenant,

Tenant's employees, agents, contractors or invitees, whether such damage or injury is caused by or results from any cause whatsoever including, but not limited to, theft, criminal activity at the Project, negligent security measures, bombings or bomb scares, acts of terrorism, Hazardous Materials, fire, steam, electricity, gas, water or rain, flooding, breakage of pipes, sprinklers, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Project, or from other sources or places, or from new construction or the repair, alteration or improvement of any part of the Project, and regardless of whether the cause of the damage or injury arises out of the active negligence, passive negligence or intentional acts of Landlord Parties. Landlord Parties shall not be liable for any damages arising from any act or neglect of any employees, agents, contractors or invitees of any other tenant, occupant or user of the Project, nor from the failure of Landlord Parties to enforce the provisions of the lease of any other tenant of the Project. Tenant, as a material part of the consideration to Landlord hereunder, hereby assumes all risk of damage to Tenant's property or business or injury to persons, in, upon or about the Project arising from any cause, including the active or passive negligence of Landlord Parties, and Tenant hereby waives all claims in respect thereof against Landlord Parties. Except to the extent covered by Tenant's insurance and waiver of subrogation provided in the Lease, the limitations on Landlord's liability contained in this Section 20 shall not apply to injury or damage which results from the negligence or willful misconduct of Landlord, its agents, employees, contractors, subcontractors or assigns; provided, however, in no event shall Landlord be liable to Tenant for consequential damages (including, but not limited to, lost profits).

21. **LANDLORD'S LIABILITY.** Tenant acknowledges that Landlord shall have the right to transfer all or any portion of its interest in the Project and to assign this Lease to the transferee. Tenant agrees that in the event of such a transfer Landlord shall automatically be released from all liability under this Lease; and Tenant hereby agrees to look solely to Landlord's transferee for the performance of Landlord's obligations hereunder after the date of the transfer. Upon such a transfer, Landlord shall, at its option, return Tenant's security deposit to Tenant or transfer Tenant's security deposit to Landlord's transferee and, in either event, Landlord shall have no further liability to Tenant for the return of its security deposit. Subject to the rights of any lender holding a mortgage or deed of trust encumbering all or part of the Project, Tenant agrees to look solely to Landlord's equity interest in the Project for the collection of any judgment requiring the payment of money by Landlord arising out of (a) Landlord's failure to perform its obligations under this Lease or (b) the negligence or willful misconduct of Landlord, its partners, employees and agents. No other property or assets of Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of any judgment or writ obtained by Tenant against Landlord. No partner, employee or agent of Landlord shall be personally liable for the performance of Landlord's obligations hereunder or be named as a party in any lawsuit arising out of or related to, directly or indirectly, this Lease and the obligations of Landlord hereunder. The obligations under this Lease do not constitute personal obligations of the individual partners of Landlord, if any, and Tenant shall not seek recourse against the individual partners of Landlord or their assets.

22. **SIGNS.** Tenant shall not make any changes to the exterior of the Premises, install any exterior lights, decorations, balloons, flags, pennants, banners or painting, or erect or install any signs, windows or door lettering, placards, decorations or advertising media of any type which can be viewed from the exterior of the Premises, without Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion. Upon vacation of the Premises, Tenant shall remove all signs and repair, paint and/or replace the building facia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for signs and exterior treatments. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall be subject to Landlord's approval and conform in all respects to Landlord's requirements.

23. **PARKING.** During the term and subject to the rules and regulations attached hereto as Exhibit "C," as modified by Landlord from time to time (the "**Rules**"), Tenant shall be entitled to use the number of parking spaces set forth in Section 1.13 in the Common Area parking lot of the Project. Tenant's parking rights are in common with the parking rights of any other tenants of the Project, and all of Tenant's parking spaces are unreserved parking spaces. Landlord reserves the right at any time to designate areas in the Common Areas where Tenant may or may not park. If Tenant commits or allows in the parking lot any of the activities prohibited by the Lease or the Rules, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be immediately payable by Tenant upon demand by Landlord. Tenant's parking rights are the personal rights of Tenant, and Tenant shall not transfer, assign or otherwise convey its parking rights separate and apart from this Lease. All parking spaces may only be used for parking vehicles no larger than full-size passenger automobiles or pick-up trucks. Landlord, in addition to its other remedies, shall have the right to remove or tow away any other vehicles. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers or invitees to be loaded, unloaded or parked in areas other than those designated by Landlord for such activities.

24. **BROKER'S FEE.** Tenant and Landlord each represent and warrant to the other that neither has had any dealings or entered into any agreements with any person, entity, broker or finder other than the persons, if any, listed in Section 1.14, in connection with the negotiation of this Lease, and no other broker, person, or entity is entitled to any commission or finder's fee in connection with the negotiation of this Lease, and Tenant and Landlord each agree to indemnify, defend and hold the other harmless from and against any claims, damages, costs, expenses, attorneys' fees or liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings, actions or agreements of the indemnifying party. The commission payable to Landlord's broker with respect to this Lease shall be pursuant to the terms of the separate commission agreement in effect between Landlord and Landlord's broker. Landlord's broker shall pay a portion

of its commission to Tenant's broker, if so provided in any agreement between Landlord's broker and Tenant's broker. Nothing in this Lease shall impose any obligation on Landlord to pay a commission or fee to any party other than Landlord's broker.

25. **ESTOPPEL CERTIFICATE.**

25.1 **DELIVERY OF CERTIFICATE.** Tenant shall from time to time, upon not less than ten (10) business days' prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying such information as Landlord may reasonably request including, but not limited to, the following: (a) that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect), (b) the date to which the Base Rent and other charges are paid in advance and the amounts so payable, (c) that there are not, to Tenant's knowledge, any uncured defaults or unfulfilled obligations on the part of Landlord, or specifying such defaults or unfulfilled obligations, if any are claimed, (d) that all tenant improvements to be constructed by Landlord, if any, have been completed in accordance with Landlord's obligations, and (e) that Tenant has taken possession of the Premises. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Project.

25.2 **FAILURE TO DELIVER CERTIFICATE.** At Landlord's option, the failure of Tenant to deliver such statement within such time shall constitute a default of Tenant hereunder, or it shall be conclusive upon Tenant that (a) this Lease is in full force and effect, without modification except as may be represented by Landlord, (b) there are no uncured defaults in Landlord's performance, (c) not more than one month's Base Rent has been paid in advance, (d) all tenant improvements to be constructed by Landlord, if any, have been completed in accordance with Landlord's obligations, and (e) Tenant has taken possession of the Premises.

26. **FINANCIAL INFORMATION.** So long as Tenant's stock is publicly traded over a recognized securities exchange Tenant shall have no obligation to provide Landlord with financial information pursuant to this section. Once Tenant's stock is no longer publicly traded over a recognized securities exchange or if Tenant assigns this Lease to a person or entity whose stock is not publicly traded on a recognized public securities exchange, this section shall apply to Tenant and/or the assignee. From time to time, at Landlord's request, but not more often than once in any calendar year, Tenant shall cause the following financial information to be delivered to Landlord, at Tenant's sole cost and expense, upon not less than ten (10) business days' advance written notice from Landlord: (a) a current financial statement for Tenant and Tenant's financial statements for the previous two accounting years, (b) a current financial statement for any guarantor(s) of this Lease and the guarantor(s) financial statements for the previous two accounting years and (c) such other financial information pertaining to Tenant or any guarantor as Landlord or any lender or purchaser of Landlord may reasonably request. Notwithstanding the forgoing limitation, Landlord shall have the right at any time to receive the forgoing information if Landlord requests the information in connection with the financing or sale of the Project. All financial statements shall be prepared in accordance with generally accepted accounting principles consistently applied and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant. Tenant hereby authorizes Landlord, from time to time, without notice to Tenant, to obtain a credit report or credit history on Tenant from any credit reporting company. To the extent Tenant has kept the financial information it provides to Landlord confidential, Landlord shall endeavor to maintain the confidentiality of the information (Landlord shall have the right to provide such information to its employees, property managers, accountants, attorneys, brokers, partners, lenders and prospective purchasers). If Landlord breaches its obligations under this section, Tenant's sole and exclusive remedy for such breach shall be to obtain an injunction preventing the dissemination of the financial information by Landlord. Landlord acknowledges and agrees that due to the unique nature of the financial information, any breach of this section by Landlord would cause irreparable harm to Tenant for which damages are not an adequate remedy and that Tenant shall therefore be entitled to injunctive relief. In no event shall Landlord be liable to Tenant for damages for Landlord's breach of its obligations under this section.

27. **ENVIRONMENTAL MATTERS/HAZARDOUS MATERIALS.**

27.1 **HAZARDOUS MATERIALS DISCLOSURE CERTIFICATE.** Prior to executing this Lease, Tenant has delivered to Landlord Tenant's executed initial Hazardous Materials Disclosure Certificate (the "**Initial HazMat Certificate**"), a copy of which is attached hereto as Exhibit D. Tenant covenants, represents and warrants to Landlord that the information in the Initial HazMat Certificate is true and correct and accurately describes the use(s) of Hazardous Materials which will be made and/or used on the Premises by Tenant. Tenant shall, commencing with the date which is one year from the Commencement Date and continuing every year thereafter, deliver to Landlord, upon request, an executed Hazardous Materials Disclosure Certificate (the "**HazMat Certificate**") describing Tenant's then-present use of Hazardous Materials on the Premises, and any other reasonably necessary documents and information as requested by Landlord. The HazMat Certificates required hereunder shall be in substantially the form attached hereto as Exhibit D.

27.2 **DEFINITION OF HAZARDOUS MATERIALS.** AS used in this Lease, the term "**Hazardous Materials**" shall mean and include (a) any hazardous or toxic wastes, materials or substances, and other pollutants or contaminants, which are or become regulated by any Environmental Laws (defined below); (b) petroleum, petroleum by-products, gasoline, diesel fuel, crude oil or any fraction thereof; (c) asbestos and asbestos-containing material, in any form, whether friable or non-friable; (d) polychlorinated biphenyls; (e) radioactive materials; (f) lead and lead-containing materials; (g) any other material, waste or substance displaying toxic, reactive, ignitable or corrosive characteristics, as all such terms are used in their broadest sense, and are defined or become defined by any Environmental Law; (h) any materials which cause or threatens to cause a nuisance upon or waste to any portion of the Project or any surrounding property; or poses or threatens to pose a hazard to the health and safety of persons on the Premises, any other portion of the Project or any surrounding property or (i) types of waste

described in Section 117690 of California's Health and Safety Code as medical waste and any similar type of waste. For purposes of this Lease, the term "Hazardous Materials" shall not include nominal amounts of ordinary household cleaners, office supplies and janitorial supplies which are not actionable under any Environmental Laws.

27.3 **PROHIBITION; ENVIRONMENTAL LAWS.** Except for normal cleaning supplies and the materials set forth in the Initial HazMat Certificate, Tenant shall not be entitled to use or store any Hazardous Materials on, in, or about any portion of the Premises and the Project without, in each instance, obtaining Landlord's prior written consent thereto. If Landlord, in its sole discretion, consents to any such usage or storage, then Tenant shall be permitted to use and/or store only those Hazardous Materials that are necessary for Tenant's business and to the extent disclosed in the HazMat Certificate and as expressly approved by Landlord in writing. Any such usage and storage may only be to the extent of the quantities of Hazardous Materials as specified in the then-applicable HazMat Certificate as expressly approved by Landlord. In all events such usage and storage must at all times be in full compliance with any and all local, state and federal environmental, health and/or safety-related laws, statutes, orders, standards, courts' decisions, ordinances, rules and regulations (as interpreted by judicial and administrative decisions), decrees, directives, guidelines, permits or permit conditions, currently existing and as amended, enacted, issued or adopted in the future which are or become applicable to Tenant or all or any portion of the Premises (collectively, the "**Environmental Laws**") and in compliance with the recommendations of Landlord's consultants. Tenant agrees that any changes to the type and/or quantities of Hazardous Materials specified in the most recent HazMat Certificate may be implemented only with the prior written consent of Landlord, which consent may be given or withheld in Landlord's sole discretion. Tenant shall not be entitled nor permitted to install any tanks under, on or about the Premises for the storage of Hazardous Materials without the express written consent of Landlord, which may be given or withheld in Landlord's sole discretion. Landlord shall have the right, in Landlord's sole discretion, at all times during the Term of this Lease to (i) inspect the Premises, (ii) conduct tests and investigations to determine whether Tenant is in compliance with the provisions of this Section 27 or to determine if Hazardous Materials are present in, on or about the Project, (iii) request lists of all Hazardous Materials used, stored or otherwise located on, under or about any portion of the Premises and/or the Common Areas, and (iv) to require Tenant to complete a survey of its use, storage and handling of Hazardous Materials in the Premises, using a form and following procedures reasonably designated by Landlord (the "**Survey**"). Tenant shall reimburse Landlord for the cost of all such inspections, tests and investigations, and all costs associated with any Survey if Tenant is responsible for any contamination revealed by such Survey. If as a result of an inspection, test or Survey Landlord determines, in Landlord's reasonable discretion, that Tenant should implement or perform safety, security or compliance measures, Tenant shall within thirty (30) days after written request by Landlord perform such measures, at Tenant's sole cost and expense. The aforementioned rights granted herein to Landlord and its representatives shall not create (a) a duty on Landlord's part to inspect, test, investigate, monitor or otherwise observe the Premises or the activities of Tenant and Tenant Parties with respect to Hazardous Materials, including without limitation, Tenant's operation, use and any remediation relating thereto, or (b) liability on the part of Landlord and its representatives for Tenant's use, storage, disposal or remediation of Hazardous Materials, it being understood that Tenant shall be solely responsible for all liability in connection therewith.

27.4 **TENANT'S ENVIRONMENTAL OBLIGATIONS.** Tenant shall give to Landlord immediate verbal and follow-up written notice of any spills, releases, discharges, disposals, emissions, migrations, removals or transportation of Hazardous Materials on, under or about any portion of the Premises; provided that Tenant has actual, implied or constructive knowledge of such event(s). Tenant, at its sole cost and expense, covenants and warrants to promptly investigate, clean up, remove, restore and otherwise remediate (including, without limitation, preparation of any feasibility studies or reports and the performance of any and all closures) any spill, release, discharge, disposal, emission, migration or transportation of Hazardous Materials arising from or related to the intentional or negligent acts or omissions of Tenant or Tenant Parties such that the affected portions of the Project and any adjacent property are returned to the condition existing prior to the appearance of such Hazardous Materials. Any such investigation, clean up, removal, restoration and other remediation shall only be performed after Tenant has obtained Landlord's prior written consent, which consent shall not be unreasonably withheld so long as such actions would not potentially have a material adverse long-term or short-term effect on any portion of the Project. Notwithstanding the foregoing, Tenant shall be entitled to respond immediately to an emergency without first obtaining Landlord's prior written consent. Tenant, at its sole cost and expense, shall conduct and perform, or cause to be conducted and performed, all closures as required by any Environmental Laws or any agencies or other governmental authorities having jurisdiction thereof. If Tenant fails to so promptly investigate, clean up, remove, restore, provide closure or otherwise so remediate, Landlord may, but without obligation to do so, take any and all steps necessary to rectify the same, and Tenant shall promptly reimburse Landlord, upon written demand, for all costs and expenses to Landlord of performing investigation, cleanup, removal, restoration, closure and remediation work. All such work undertaken by Tenant, as required herein, shall be performed in such a manner so as to enable Landlord to make full economic use of the Premises and other portions of the Project after the satisfactory completion of such work.

27.5 **ENVIRONMENTAL INDEMNITY.** In addition to Tenant's other indemnity obligations under this Lease, Tenant agrees to, and shall, protect, indemnify, defend (with counsel acceptable to Landlord) and hold Landlord and the other Landlord Parties harmless from and against any and all loss, cost, damage, liability or expense (including, without limitation, diminution in value of any portion of the Premises or the Project, damages for the loss of or restriction on the use of rentable or usable space, and from any adverse impact of Landlord's marketing of any space within the Project) arising at any time during or after the term of this Lease in connection with or related to, directly or indirectly, the use, presence, transportation, storage, disposal, migration, removal, spill, release or discharge of Hazardous Materials on, in or about any portion of the Project as a result (directly or indirectly) of the intentional or negligent acts or omissions of Tenant or Tenant Parties. Neither the written consent of Landlord to the presence, use or storage of Hazardous Materials in, on, under or about any portion of the Project nor the strict compliance by Tenant with all Environmental Laws shall excuse Tenant from its obligations of indemnification pursuant hereto.

Tenant shall not be relieved of its indemnification obligations under the provisions of this Section 27.5 due to Landlord's status as either an "owner" or "operator" under any Environmental Laws.

27.6 **SURVIVAL.** Tenant's obligations and liabilities pursuant to the provisions of this Section 27 shall survive the expiration or earlier termination of this Lease. If it is determined by Landlord that the condition of all or any portion of the Project is not in compliance with the provisions of this Lease with respect to Hazardous Materials, including without limitation, all Environmental Laws at the expiration or earlier termination of this Lease, then Landlord may require Tenant to hold over possession of the Premises until Tenant can surrender the Premises to Landlord in the condition in which the Premises existed prior to the appearance of such Hazardous Materials except for reasonable wear and tear, including without limitation, the conduct or performance of any closures as required by any Environmental Laws. The burden of proof hereunder shall be upon Tenant. For purposes hereof, the term "reasonable wear and tear" shall not include any deterioration in the condition or diminution of the value of any portion of the Project in any manner whatsoever related to, directly or indirectly, Hazardous Materials. Any such holdover by Tenant will be with Landlord's consent, will not be terminable by Tenant in any event or circumstance and will otherwise be subject to the provisions of Section 33 of this Lease.

27.7 **NO LIABILITY FOR ACTS OF OTHERS.** Notwithstanding anything to the contrary contained in this Lease, Tenant shall only be liable pursuant to this Section 27 for the acts of Tenant and Tenant Parties, and Tenant shall not be liable for the acts of persons or entities other than Tenant and Tenant Parties nor shall Tenant be responsible or liable for contamination that existed at the Premises on the Commencement Date or for contamination emanating from neighboring land.

28. **SUBORDINATION.**

28.1 **EFFECT OF SUBORDINATION.** This Lease, and any Option (as defined below) granted hereby, upon Landlord's written election, shall be subject and subordinate to any ground lease, mortgage, deed of trust or any other hypothecation or security now or hereafter placed upon the Project and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed if Tenant is not in material default of this Lease beyond any applicable notice and cure period, and so long as Tenant shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. At the request of any mortgagee, trustee or ground lessor, Tenant shall attorn to such person or entity. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof. In the event of the foreclosure of a security device, the new owner shall not (a) be liable for any act or omission of any prior landlord or with respect to events occurring prior to its acquisition of title, except that the new owner shall cure any default of Landlord that is continuing as of the date of the foreclosure within [*] from the date Tenant delivers written notice to the new owner of such continuing default, unless such default is of such a nature to reasonably require more than [*] to cure and then the new owner shall be permitted such additional time as is reasonably necessary to effect such cure, provided such new owner diligently and continuously proceeds to cure such default, (b) be liable for the breach of this Lease by any prior landlord, (c) be subject to any offsets or defenses which Tenant may have against the prior landlord or (d) be liable to Tenant for the return of any security deposit not actually received by such new owner or to the extent any portion of such security deposit has not already been forfeited by, or returned to, Tenant.

28.2 **EXECUTION OF DOCUMENTS.** Tenant agrees to execute and acknowledge any documents Landlord reasonably requests that Tenant execute to effectuate an attornment, a subordination, or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Tenant's failure to execute such documents within ten (10) days after written demand shall constitute a default by Tenant hereunder. Tenant does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney-in-fact and in Tenant's name, place and stead to execute such documents in accordance with this section.

28.3 **SUBORDINATION BY TENANT.** AS of the date set forth in Section 1.1 above, no mortgages or deeds of trust encumber Landlord's interest in the Project. Notwithstanding anything to the contrary contained in the Lease, Tenant shall not be obligated to subordinate its interest in the Lease to a future mortgage or deed of trust obtained by Landlord unless the lender provides Tenant with a commercially reasonable nondisturbance agreement.

29. **OPTIONS.**

29.1 **DEFINITION.** As used in this Lease, the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease, (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Project or the right of first offer to lease other space within the Project, and (3) the right or option to terminate this Lease prior to its expiration date or to reduce the size of the Premises. Any Option granted to Tenant by Landlord must be evidenced by a written option agreement attached to this Lease as a rider or addendum or said option shall be of no force or effect. For purposes of this section, an Option shall also include any Option contained in any subsequent amendment to this Lease.

29.2 **OPTIONS PERSONAL.** Each Option granted to Tenant in this Lease, if any, is personal to the original Tenant and may be exercised only by the original Tenant while occupying the entire Premises and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Tenant, including, without limitation, any permitted transferee as defined in Section 16. The Options, if any, herein granted to Tenant are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise. If at any time an Option is exercisable by Tenant, the Lease has been assigned or a sublease exists as to any portion of the Premises, the Option shall be deemed null and void and neither Tenant nor any assignee or subtenant shall have the right to exercise the Option.

29.3 **MULTIPLE OPTIONS.** In the event that Tenant has multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Option to extend or renew this Lease has been so exercised.

29.4 **EFFECT OF DEFAULT ON OPTIONS.** Tenant shall have no right to exercise an Option (i) during the time commencing from the date Landlord gives to Tenant a notice of default pursuant to Section 17.1 and continuing until the noncompliance alleged in said notice of default is cured, or (ii) if Tenant is in default of any of the terms, covenants or conditions of this Lease continuing beyond any notice and cure period. The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise an Option because of the provisions of this section.

29.5 **LIMITATIONS ON OPTIONS.** Except as set forth in any rider or addendum to this Lease, any options, rights of first refusal or rights of first offer granted hereunder shall be subject and secondary to Landlord's right to first offer and lease any such space to any tenant who is then occupying or leasing such space at the time the space becomes available for leasing and shall be subject and subordinated to any other options, rights of first refusal or rights of first offer previously given to any other person or entity.

29.6 **GUARANTEES.** Notwithstanding anything to the contrary contained in any rider or addendum to this Lease, Tenant's right to exercise and the effectiveness of an Option is conditioned upon Landlord's receipt from any prior tenant that has not been expressly released from liability under this Lease, and any guarantor of any obligation of Tenant under this Lease, of a written agreement satisfactory to Landlord, in Landlord's sole discretion, reaffirming such person's obligations under this Lease or the guaranty, as modified by Tenant's exercise of the Option.

29.7 **NOTICE OF EXERCISE OF OPTION.** Notwithstanding anything to the contrary contained in Section 43, Tenant shall give written notice exercising the Option using certified mail return receipt requested or some other method where the person delivering the package containing the notice obtains a signature of the person accepting the package containing the notice (e.g., by FedEx with the requirement that the FedEx delivery person obtain a signature from the person accepting the package). It shall be the obligation of Tenant to prove that Landlord received the notice exercising the Option in a timely manner.

30. **LANDLORD RESERVATIONS.** Landlord shall have the right: (a) to change the name and address of the Project or Building upon not less than one hundred eighty (180) days prior written notice; (b) to permit any tenant the exclusive right to conduct any business as long as such exclusive right does not conflict with any rights expressly given herein; (c) to place signs, notices or displays upon the roof, exterior of the Building or Common Areas of the Project and (d) to, at Tenant's expense, provide and install Building standard graphics on or near the door of the Premises and such portions of the Common Areas as Landlord shall determine, in Landlord's sole discretion. Landlord reserves the right to use the exterior walls of the Premises, and the area beneath, adjacent to and above the Premises together with the right to install, use, maintain and replace equipment, machinery, pipes, conduits and wiring through the Premises, which serve other parts of the Project provided that Landlord's use does not unreasonably interfere with Tenant's use of the Premises.

31. **CHANGES TO PROJECT.** Landlord shall have the right, in Landlord's sole discretion, from time to time, to make changes to the size, shape, location, number and extent of the improvements comprising the Project (hereinafter referred to as "**Changes**") including, but not limited to, the interior and exterior of buildings, the Common Areas, HVAC, elevators, restrooms, electrical systems, communication systems, fire protection and detection systems, plumbing systems, security systems, parking control systems, driveways, entrances, parking spaces, parking areas and landscaped areas; provided Landlord shall use commercially reasonable efforts to minimize disruption and interference with Tenant's use and operations at the Premises. In connection with the Changes, Landlord may, among other things, erect scaffolding or other necessary structures at the Project, limit or eliminate access to portions of the Project, including portions of the Common Areas, or perform work in the Building, which work may create noise, dust or leave debris in the Building. Tenant hereby agrees that such Changes and Landlord's actions in connection with such Changes shall in no way constitute a constructive eviction of Tenant or entitle Tenant to any abatement of rent. Landlord shall have no responsibility or for any reason be liable to Tenant for any direct or indirect injury to or interference with Tenant's business arising from the Changes, nor shall Tenant be entitled to any compensation or damages from Landlord for any inconvenience or annoyance occasioned by such Changes or Landlord's actions in connection with such Changes, provided Landlord uses commercially reasonable efforts to minimize disruption to Tenant's business operations caused by Changes.

32. Intentionally omitted.

33. **HOLDING OVER.** If Tenant remains in possession of the Premises or any part thereof after the expiration or earlier termination of the term hereof with Landlord's consent, such occupancy shall be a tenancy from month to month upon all the terms and conditions of this Lease pertaining to the obligations of Tenant, except that the Base Rent payable shall be [*]

payable immediately preceding the termination date of this Lease, and all Options, if any, shall be deemed terminated and be of no further effect. If Tenant remains in possession of the Premises or any part thereof, after the expiration of the term hereof without Landlord's consent, Tenant shall, at Landlord's option, be treated as a tenant at sufferance or a trespasser, and the Base Rent shall be increased to [*] payable immediately preceding the termination date of this Lease. Nothing contained herein shall be construed to constitute Landlord's consent to Tenant holding over at the expiration or earlier termination of the Lease term or to give Tenant the right to hold over after the expiration or earlier termination of the Lease term. Tenant hereby agrees to indemnify, hold harmless and defend Landlord from any cost, loss, claim or liability (including reasonable attorneys' fees) Landlord may incur as a result of Tenant's failure to surrender possession of the Premises to Landlord upon the termination of this Lease.

34. **LANDLORD'S ACCESS.**

34.1 **ACCESS.** Landlord and Landlord's agents, contractors and employees shall have the right to enter the Premises at reasonable times upon reasonable advance written or telephonic notice to Tenant (except in the case of any emergency, where no advance notice shall be required) for the purpose of inspecting the Premises, performing any services required of Landlord, showing the Premises to prospective purchasers, lenders or tenants, undertaking safety measures and making alterations, repairs, improvements or additions to the Premises or to the Project. In the event of an emergency, Landlord may gain access to the Premises by any reasonable means, and Landlord shall not be liable to Tenant for damage to the Premises or to Tenant's property resulting from such access. Landlord may at any time place on or about the Building or the Project for sale or for lease signs. Landlord shall use commercially reasonable efforts to minimize interference with Tenant's business operations caused by Landlord's access pursuant to this Section.

34.2 **KEYS.** Landlord shall have the right to retain keys to the locks on the entry doors to the Premises. At Landlord's option, Landlord may require Tenant to obtain all keys to exterior door locks at the Premises from Landlord's engineering staff or Landlord's locksmith and to only use Landlord's engineering staff or Landlord's locksmith to change locks at the Premises. Tenant shall pay Landlord's or its locksmith's standard charge for all keys and other services obtained from Landlord's engineering staff or locksmith.

35. **SECURITY MEASURES.** Tenant hereby acknowledges that Landlord shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Project, and Landlord shall have no liability to Tenant due to its failure to provide such services. Tenant assumes all responsibility for the protection of Tenant, its agents, employees, contractors and invitees and the property of Tenant and of Tenant's agents, employees, contractors and invitees from acts of third parties. Nothing herein contained shall prevent Landlord, at Landlord's sole option, from implementing security measures for the Project or any part thereof, in which event Tenant shall participate in such security measures and the cost thereof shall be included within the definition of Operating Expenses, and Landlord shall have no liability to Tenant and its agents, employees, contractors and invitees arising out of Landlord's negligent provision of security measures. Landlord shall have the right, but not the obligation, to require all persons entering or leaving the Project to identify themselves to a security guard and to reasonably establish that such person should be permitted access to the Project. In no event shall Tenant or its employees, agents or contractors bring firearms or other weapons to the Project or the Premises, and Tenant shall not have the right to employ armed security guards.

36. **EASEMENTS.** Landlord reserves to itself the right, from time to time, to grant such easements, rights and dedications that Landlord deems necessary or desirable, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Tenant. Tenant shall sign any of the aforementioned documents within ten (10) days after Landlord's request, and Tenant's failure to do so shall constitute a default by Tenant. The obstruction of Tenant's view, air or light by any structure erected in the vicinity of the Project, whether by Landlord or third parties, shall in no way affect this Lease or impose any liability upon Landlord.

37. **TRANSPORTATION MANAGEMENT.** Tenant shall fully comply at its sole expense with all present or future programs implemented or required by any governmental or quasi-governmental entity or Landlord to manage parking, transportation, air pollution or traffic in and around the Project or the metropolitan area in which the Project is located.

38. **SEVERABILITY.** The invalidity of any provision of this Lease as determined by a court of competent jurisdiction shall in no way affect the validity of any other provision hereof.

39. **TIME OF ESSENCE.** Time is of the essence with respect to each of the obligations to be performed by Tenant and Landlord under this Lease.

40. **DEFINITION OF ADDITIONAL RENT.** All monetary obligations of Tenant to Landlord under the terms of this Lease, including, but not limited to, Base Rent, Tenant's Percentage Share of Operating Expenses, Non-Business Hours HVAC Charges and late charges shall be deemed to be rent.

41. **INCORPORATION OF PRIOR AGREEMENTS.** This Lease and the attachments listed in Section 1.15 contain all agreements of the parties with respect to the lease of the Premises and any other matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. Except as otherwise stated in this Lease, Tenant hereby acknowledges that no real estate broker nor Landlord nor any employee or agents of any of said persons has made any

oral or written warranties or representations to Tenant concerning the condition or use by Tenant of the Premises or the Project or concerning any other matter addressed by this Lease.

42. **AMENDMENTS.** This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. One or more emails signed by one or more parties shall never constitute a writing signed by the parties that is capable of amending or modifying the Lease.

43. **NOTICES.** All notices required or permitted by this Lease shall be in writing and may be delivered (a) in person (by hand, by messenger or by courier service), (b) by U.S. Postal Service regular mail, (c) by U.S. Postal Service certified mail, return receipt requested or (d) by U.S. Postal Service Express Mail, Federal Express or other overnight courier, and shall be deemed sufficiently given if served in a manner specified in this section. Notices may not be given by email, and email notices shall not be binding on Landlord or Tenant for any purpose. The addresses set forth in Section 1.16 of this Lease shall be the address of each party for notice purposes. Landlord or Tenant may by written notice to the other specify a different address for notice purposes, except that upon Tenant's taking possession of the Premises, the Premises shall constitute Tenant's address for the purpose of mailing or delivering notices to Tenant. A copy of all notices required or permitted to be given to Landlord hereunder shall be concurrently transmitted to such party or parties at such addresses as Landlord may from time to time hereinafter designate by written notice to Tenant. Any notice sent by regular mail or by certified mail, return receipt requested, shall be deemed given three (3) days after deposited with the U.S. Postal Service. Notices delivered by U.S. Express Mail, Federal Express or other courier shall be deemed given on the date delivered by the carrier to the appropriate party's address for notice purposes. If notice is received on Saturday, Sunday or a legal holiday, it shall be deemed received on the next business day. Nothing contained herein shall be construed to limit Landlord's right to serve any notice to pay rent or quit or similar notice by any method permitted by applicable law, and any such notice shall be effective if served in accordance with any method permitted by applicable law whether or not the requirements of this section have been met.

44. **WAIVERS.** No waiver by Landlord or Tenant of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Landlord or Tenant of the same or any other provision. Landlord's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant. The acceptance of rent hereunder by Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. No acceptance by Landlord of partial payment of any sum due from Tenant shall be deemed a waiver by Landlord of its right to receive the full amount due, nor shall any endorsement or statement on any check or accompanying letter from Tenant be deemed an accord and satisfaction. Tenant hereby waives California Code of Civil Procedure Section 1179 and Civil Code section 3275 which allow tenants to obtain relief from the forfeiture of a lease, and Tenant hereby waives any claim it may have against Landlord based on Landlord's failure to comply with Section 1938 of the California Civil Code. Tenant hereby waives for Tenant and all those claiming under Tenant all rights now or hereafter existing to redeem by order or judgment of any court or by legal process or writ Tenant's right of occupancy of the Premises after any termination of this Lease.

45. **COVENANTS.** This Lease shall be construed as though Landlord's covenants contained herein are independent and not dependent and Tenant hereby waives the benefit of any statute to the contrary. All provisions of this Lease to be observed or performed by Tenant are both covenants and conditions.

46. **BINDING EFFECT; CHOICE OF LAW.** Subject to any provision hereof restricting assignment or subletting by Tenant, this Lease shall bind the parties, their heirs, personal representatives, successors and assigns. This Lease shall be governed by the laws of the state in which the Project is located, and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Project is located.

47. **ATTORNEYS' FEES.** If Landlord or Tenant brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, or appeal thereon, shall be entitled to its reasonable attorneys' fees and court costs to be paid by the losing party as fixed by the court in the same or separate suit, and whether or not such action is pursued to decision or judgment. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all reasonable attorneys' fees and court costs reasonably incurred in good faith. Landlord shall be entitled to reasonable attorneys' fees and all other costs and expenses reasonably incurred in the preparation and service of notices of default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such default. Landlord and Tenant agree that attorneys' fees incurred with respect to defaults and bankruptcy are actual pecuniary losses within the meaning of Section 365(b)(1)(B) of the Bankruptcy Code or any successor statute.

48. **AUCTIONS.** Tenant shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction or going-out-of-business sale upon the Premises or the Common Areas.

49. **MERGER.** The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, or a termination by Landlord, shall not result in the merger of Landlord's and Tenant's estates and shall, at the option of Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such subtenancies.

50. **QUIET POSSESSION.** Subject to the other terms and conditions of this Lease, and the rights of any lender, and provided Tenant is not in material default hereunder beyond any applicable notice and cure periods, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

51. **AUTHORITY.** If Tenant is a corporation, trust, limited liability company, limited liability partnership or general or limited partnership, Tenant, and each individual executing this Lease on behalf of such entity, represents and warrants that such individual is duly authorized to execute and deliver this Lease on behalf of said entity, that said entity is duly authorized to enter into this Lease, and that this Lease is enforceable against said entity in accordance with its terms. If Tenant is a corporation, trust, limited liability company, limited liability partnership or other partnership, Tenant shall deliver to Landlord upon demand evidence of such authority satisfactory to Landlord. Landlord represents and warrants to Tenant that (a) each person executing this Lease on behalf of Landlord is duly and validly authorized to do so on behalf of the entity it purports to so bind and (b) that Landlord has the right and authority to enter into this Lease and perform all of its obligations hereunder.

52. **CONFLICT.** Any conflict between the type written provisions of this Lease and handwritten provisions, if any, shall be controlled by the handwritten provisions; provided, however, handwritten provisions shall have no force or effect unless separately initialed by both Landlord and Tenant.

53. **MULTIPLE PARTIES.** If more than one person or entity is named as Tenant herein, the obligations of Tenant shall be the joint and several responsibility of all persons or entities named herein as Tenant. Service of a notice in accordance with Section 43 on one Tenant shall be deemed service of notice on all Tenants.

54. **INTERPRETATION.** This Lease shall be interpreted as if it was prepared by both parties, and ambiguities shall not be resolved in favor of Tenant because all or a portion of this Lease was prepared by Landlord. The captions contained in this Lease are for convenience only and shall not be deemed to limit or alter the meaning of this Lease. As used in this Lease, the words tenant and landlord include the plural as well as the singular. Words used in the neuter gender include the masculine and feminine gender.

55. **PROHIBITION AGAINST RECORDING.** Neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant. Landlord shall have the right to record a memorandum of this Lease, and Tenant shall execute, acknowledge and deliver to Landlord for recording any memorandum prepared by Landlord.

56. **RELATIONSHIP OF PARTIES.** Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

57. **RULES AND REGULATIONS.** Tenant agrees to abide by and conform to the Rules and to cause its employees, suppliers, customers and invitees to so abide and conform. Landlord shall have the right, from time to time, to modify, amend and enforce the Rules in a nondiscriminatory manner. Landlord shall not be responsible to Tenant for the failure of other persons, including, but not limited to, other tenants, their agents, employees and invitees, to comply with the Rules.

58. **RIGHT TO LEASE.** Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in its sole discretion shall determine, and Tenant is not relying on any representation that any specific tenant or number of tenants will occupy the Project.

59. **PATRIOT ACT.** Tenant represents to Landlord that, (i) neither Tenant nor any person or entity that directly owns a 10% or greater equity interest in it nor any of its officers, directors or managing members is a person or entity (each, a "**Prohibited Person**") with whom U.S. persons or entities are restricted from doing business under regulations of the Office of Foreign Asset Control ("**OFAC**") of the Department of the Treasury (including those named on OFAC's Specially Designated and Blocked Persons List) or under Executive Order 13224 (the "**Executive Order**") signed on September 24, 2001, and entitled "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism," or other governmental action, (ii) Tenant's activities do not violate the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 or the regulations or orders promulgated thereunder (as amended from time to time, the "**Money Laundering Act**") and (iii) throughout the term of this Lease, Tenant shall comply with the Executive Order and with the Money Laundering Act.

60. **CONFIDENTIALITY.** Tenant acknowledges and agrees that the terms of this Lease are confidential and constitute proprietary information of Landlord. Disclosure of the terms hereof could adversely affect the ability of Landlord to negotiate other leases with respect to the Project and may impair Landlord's relationship with other tenants of the Project. Tenant agrees that it and its partners, officers, directors, employees, brokers, and attorneys, if any, shall not disclose the terms and conditions of this Lease to any other person or entity without the prior written consent of Landlord, which may be given or withheld by Landlord, in Landlord's reasonable discretion. It is understood and agreed that damages alone would be an inadequate remedy for the breach of this provision by Tenant, and Landlord shall also have the right to seek specific performance of this provision and to seek injunctive relief to prevent its breach or continued breach.

61. **WAIVER OF JURY TRIAL.** TO THE EXTENT PERMITTED BY APPLICABLE LAW, LANDLORD AND TENANT HEREBY WAIVE THEIR RESPECTIVE RIGHT TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, COUNTERCLAIM OR CROSS-COMPLAINT IN ANY ACTION, PROCEEDING AND/OR HEARING BROUGHT BY EITHER LANDLORD AGAINST TENANT OR TENANT AGAINST LANDLORD ON ANY MATTER WHATSOEVER ARISING OUT OF, OR IN ANY WAY CONNECTED WITH, THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, OR ANY CLAIM OF INJURY OR DAMAGE, OR THE ENFORCEMENT OF ANY REMEDY UNDER ANY LAW, STATUTE, OR REGULATION, EMERGENCY OR OTHERWISE, NOW OR HEREAFTER IN EFFECT.

62. **EXECUTION.**

62.1 **COUNTERPARTS.** This Lease and any documents or addenda attached hereto (collectively, the "**Documents**") may be executed in two or more counterpart copies, each of which shall be deemed to be an original and all of which together shall have the same force and effect as if the parties had executed a single copy of the Document.

62.2 **ELECTRONIC SIGNATURES.** Landlord shall have the right, in Landlord's sole discretion, to insert the name of the person executing a Document on behalf of Landlord in Landlord's signature block using an electronic signature (an "**Electronic Signature**"), and in this event the Document delivered to Tenant will not include an original ink signature and Landlord shall have no obligation to provide a copy of such Document to Tenant with Landlord's original ink signature. A Document delivered to Tenant by Landlord with an Electronic Signature shall be binding on Landlord as if the Document had been originally executed by Landlord with an ink signature. Without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion, Tenant shall not have the right to insert the name of the person executing the Document on behalf of Tenant using an Electronic Signature and all Documents shall be originally executed by Tenant using an ink signature.

62.3 **ELECTRONIC FORMAT.** A Document executed by Landlord or Tenant and delivered to the other party in PDF, facsimile or similar electronic format (collectively, "**Electronic Format**") shall be binding on the party delivering the executed Document with the same force and effect as the delivery of a printed copy of the Document with an original ink signature. At any time upon Landlord's written request, Tenant shall provide Landlord with a printed copy of the Document with an original ink signature.

62.4 **GENERALLY.** This Section describes the only ways in which Documents may be executed and delivered by the parties. An email from Landlord, its agents, brokers, attorneys, employees or other representatives shall never constitute Landlord's Electronic Signature or be otherwise binding on Landlord. Subject to the limitations set forth above, the parties agree that a Document executed using an Electronic Signature and/or delivered in Electronic Format may be introduced into evidence in a proceeding arising out of or related to the Document as if it was a printed copy of the Document executed by the parties with original ink signatures. Landlord shall have no obligation to retain copies of Documents with original ink signatures, and Landlord shall have the right, in its sole discretion, to elect to discard originals and to retain only copies of Documents in Electronic Format.

LANDLORD AND TENANT ACKNOWLEDGE THAT THEY HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LANDLORD AND TENANT WITH RESPECT TO THE PREMISES. TENANT ACKNOWLEDGES THAT IT HAS BEEN GIVEN THE OPPORTUNITY TO HAVE THIS LEASE REVIEWED BY ITS LEGAL COUNSEL PRIOR TO ITS EXECUTION. PREPARATION OF THIS LEASE BY LANDLORD OR LANDLORD'S AGENT AND SUBMISSION OF SAME TO TENANT SHALL NOT BE DEEMED AN OFFER BY LANDLORD TO LEASE THE PREMISES TO TENANT OR THE GRANT OF AN OPTION TO TENANT TO LEASE THE PREMISES. THIS LEASE SHALL BECOME BINDING UPON LANDLORD ONLY WHEN FULLY EXECUTED BY BOTH PARTIES AND WHEN LANDLORD HAS DELIVERED A FULLY EXECUTED COPY OF THIS LEASE TO TENANT IN THE MANNER SET FORTH IN THIS LEASE. THE DELIVERY OF A DRAFT OF THIS LEASE TO TENANT SHALL NOT CONSTITUTE AN AGREEMENT BY LANDLORD TO NEGOTIATE IN GOOD FAITH, AND LANDLORD EXPRESSLY DISCLAIMS ANY LEGAL OBLIGATION TO NEGOTIATE IN GOOD FAITH.

[Remainder of this page left intentionally blank.]

LANDLORD:

The Realty Associates Fund XI Portfolio, L.P.,
a Delaware limited partnership

By: The Realty Associates Fund XI, L.P.,
a Delaware limited partnership, general partner

By: Realty Associates Fund XI, LLC,
a Delaware limited liability company, general partner

By: /s/ John Powell Aug. 8, 2019
Name: John Powell
Title:

TENANT:

Ambarella Corporation,
a Delaware corporation

By: /s/ Feng-Ming Wang

Feng-Ming Wang
(print name)

Its: CEO
(print title)

EXHIBIT A

DEPICTION OF ORIGINAL PREMISES AND EXPANSION PREMISES

Exhibit A is intended only to show the general layout of the Original Premises and the Expansion Premises, and shall not be interpreted to increase or decrease the size of the Original Premises or the Expansion Premises beyond the number of rentable square feet set forth in Section 1.5. Exhibit A is not to be scaled and any measurements or distances shown on Exhibit A are approximates only.

3101 Jay Street First Floor Original Premises

[*]

33

[*]

[*]

EXPANSION PREMISES VERIFICATION LETTER

The Realty Associates Fund XI Portfolio, L.P., a Delaware limited partnership ("Landlord") and Ambarella Corporation, a Delaware corporation ("Tenant"), have entered into a Standard Lease (the "Lease"). Pursuant to the Lease, Tenant has agreed to lease from Landlord and Landlord has agreed to lease from Tenant approximately 11,722 rentable square feet of space in the building located at 3131 Jay Street, Santa Clara, California. Tenant hereby acknowledges and agrees that the Expansion Premises Commencement Date (as defined in the Lease) is _____, 2021.

TENANT:

Ambarella Corporation,
a Delaware corporation

By: _____

(print name)

Its: _____
(print title)

EXHIBIT C
RULES AND REGULATIONS
GENERAL RULES

[*]

Form of HazMat Certificate

[*]

**Addendum to Standard Lease (the "Lease")
Between The Realty Associates Fund XI Portfolio, L.P. ("Landlord")
and Ambarella Corporation, a Delaware corporation ("Tenant")**

It is hereby agreed by Landlord and Tenant that the provisions of this Addendum are a part of the Lease. If there is a conflict between the terms and conditions of this Addendum and the terms and conditions of the Lease, the terms and conditions of this Addendum shall control. Capitalized terms in this Addendum shall have the same meaning as capitalized terms in the Lease, and, if a Work Letter Agreement is attached to this Lease, as those terms have been defined in the Work Letter Agreement.

1. Termination of Existing Lease. Tenant presently occupies the Original Premises pursuant to an existing lease (the "**Existing Lease**"). Prior to the Commencement Date, the Existing Lease shall remain in full force and effect, and Tenant shall perform all of its obligations under the Existing Lease. Landlord and Tenant agree that upon the Original Premises Commencement Date, the term of the Existing Lease will immediately end, and this Lease shall govern Landlord's and Tenant's rights with respect to the Original Premises. Tenant shall continue to be obligated to perform obligations under the Existing Lease that expressly survive its termination, including, but not limited to, indemnity obligations and obligations to pay operating expenses and real property taxes. Tenant accepts the Original Premises in its "as is" condition. At the sole option of Landlord, any default by Tenant under the Existing Lease continuing beyond any notice and cure period and continuing on the Original Premises Commencement Date shall be deemed to be a default under Section 17.1(c) of this Lease.

2. Abatement of Rent.

(a) Original Premises. Landlord hereby agrees to conditionally waive the Base Rent due for the Original Premises for [*]. Except as provided in (b) below, no amounts due to Landlord under the Lease other than the Base Rent referred to above shall be conditionally waived. In the event Tenant commits a material default as defined in the Lease and such default continues beyond any notice and cure period, Base Rent coming due thereafter shall not be waived, and all Base Rent that Landlord conditionally waived under this provision shall be immediately due and payable by Tenant to Landlord without notice or demand from Landlord. If the Lease expires in accordance with its terms, and does not terminate as a result of a default by Tenant, Landlord agrees to permanently waive the Base Rent it has conditionally waived.

(b) Expansion Premises. Landlord hereby agrees to conditionally waive the Base Rent and the Operating Expenses attributable to the Expansion Premises for [*] after the Expansion Premises Commencement Date (the "**Expansion Premises Abatement Period**"). Tenant shall be obligated to pay all Base Rent and Operating Expenses attributable to the Original Premises during the Expansion Premises Abatement Period. Except as provided herein and in (a) above, no amounts due to Landlord under the Lease other than the Base Rent and Operating Expenses referred to above shall be conditionally waived. In the event Tenant commits a material default as defined in the Lease and such default continues beyond any notice and cure period, Base Rent and Operating Expenses coming due thereafter shall not be waived, and all Base Rent and Operating Expenses that Landlord conditionally waived under this provision shall be immediately due and payable by Tenant to Landlord without notice or demand from Landlord. If the Lease expires in accordance with its terms, and does not terminate as a result of a default by Tenant, Landlord agrees to permanently waive the Base Rent and Operating Expenses it has conditionally waived.

3. Security Deposit. Section 1.12 of the Lease provides that Tenant shall pay to Landlord a security deposit in the amount of \$173,635.32 (the "**Security Deposit**"). Tenant has previously provided to Landlord pursuant to the Existing Lease a security deposit in the amount of \$90,634.74 (the "**Existing Deposit**"). Landlord agrees to credit the Existing Deposit towards payment of the Security Deposit on the Commencement Date. Consequently, when this Lease is executed, Tenant shall pay to Landlord an additional security deposit in the amount of \$83,000.58.

4. Replacement of Certain HVAC Units. Landlord shall replace the HVAC units described on Exhibit 1 attached hereto (the "**Replacement HVAC Units**") at the times specified on Exhibit 1. Landlord shall replace the Replacement HVAC Units at Landlord's sole cost and expense. Landlord shall replace the Replacement HVAC Units with new HVAC units of a similar capacity and of a model and type chosen by Landlord, in Landlord's sole discretion.

5. Repair of Condensing Unit. There is an existing HVAC condensing unit on the roof of the 3101 Building that is need of repair (the "**3101 Condensing Unit**") and the 3101 Condensing Unit is identified on Exhibit 1. Landlord shall use commercially reasonable efforts to complete the repair of the 3101 Condensing Unit on or before September 30, 2019, and Landlord shall cause the 3101 Condensing Unit to be repaired at Landlord's sole cost and expense.

6. Landlord Repairs to Original Premises. As soon as is reasonably possible after the mutual execution and delivery of this Lease, Landlord shall complete the following repairs at Landlord's sole cost and expense:

(a) The floor drain in the men's shower on the second floor of the 3101 Building (the "**Floor Drain**") seems to be draining more slowly than is appropriate for the size of the Floor Drain. Landlord shall cause the Floor Drain to be professionally cleaned (including, if appropriate, "snaking" the drain and its associated piping) in order to maximize drainage from the Floor Drain; provided, however, Landlord shall have no obligation to increase the size of the existing drainage pipes; and

(b) The water pressure in the women's shower on the first floor of the 3101 Building (the "**Shower Pressure**") seems to be less than would normally be expected. Landlord shall have the water pressure evaluated by a plumber and complete any repairs to the existing plumbing system that are appropriate based on the plumber's evaluation; provided, however, Landlord shall have no obligation to increase or decrease the size of the existing water pipes.

7. Electric Vehicle Charging Stations. Landlord shall install three (3) electric vehicle charging stations in the Common Areas of the Project in one or more locations chosen by Landlord (the "**New Charging Stations**"). Tenant Parties shall have the non-exclusive right to use the New Charging Stations and Landlord makes no representation or warranty that the New Charging Stations will be available for the use by Tenant Parties at any time. Each New Charging Station shall have the capacity to charge two electric vehicles at a time. The type, manufacturer and characteristics of the New Charging Stations shall be determined by Landlord, in Landlord's sole discretion. Landlord shall install the New Charging Stations at Landlord's sole cost and expense, and Tenant shall have no obligation to pay any portion of the cost of initially installing the New Charging Stations. The cost of operating, maintaining and repairing the New Charging Stations may be included in Operating Expenses. Landlord shall commence planning and installation activities promptly upon execution of the Lease and shall endeavor to complete the installation in a prompt manner use commercially reasonable efforts to install the New Charging Stations on or before March 31, 2020. Landlord and Tenant acknowledge that for purposes of Section 19 of this Lease, the use of the New Charging Stations by Tenant Parties shall constitute a use of the Project by Tenant, and that Section 20 of the Lease shall apply to the use of the New Charging Stations by Tenant Parties.

8. Remodeling Restrooms in Original Premises. There are a total of four (4) restrooms in the 3101 Building (i.e., two men's restrooms and two women's restrooms) (the "**3101 Restrooms**"). Promptly following the execution and delivery of this Lease, Landlord shall employ an architect to prepare plans and specifications for the renovation of the 3101 Restrooms (the "**Renovation Plans**"). The Renovation Plans shall include finishes similar to the restroom finishes currently existing in the restrooms in the 3131 Building, and otherwise as determined by Landlord, in Landlord's sole discretion. Following the completion of the Renovation Plans, Landlord shall submit the Renovation Plans to any applicable governmental entities that have the right to approve the Renovation Plans. Promptly following Landlord obtaining all required approvals to complete the 3101 Restroom renovations based on the Renovation Plans (the "**3101 Restroom Renovations**"), Landlord shall employ a contractor to complete the 3101 Restroom Renovations and Landlord shall endeavor to have the contractor complete the 3101 Restroom Renovations in a prompt manner; provided, however, Landlord shall not be obligated to incur overtime or other extraordinary charges. Landlord shall complete the 3101 Restroom Renovations in a manner that will insure that during the completion of the 3101 Restroom Renovations at least one men's restroom and one women's restroom will be available to Tenant (the "**Available Restrooms**"). Tenant acknowledges that the Available Restrooms may not include showers. Tenant acknowledges that Landlord's contractors will complete the 3101 Restroom Renovations while Tenant occupies the Original Premises, that the construction of the 3101 Restroom Renovations will prevent Tenant from using certain parts of the Original Premises from time to time and that the completion of the 3101 Restroom Renovations will create noise dust and debris that may interfere with Tenant's use of portions of the Premises. Tenant acknowledges and agrees that it shall have no right to any abatement of rent or to recover any other damages from Landlord due to its inability to use portions of the Premises while the 3101 Restroom Renovations are being completed or due to interference with its business operations caused by such construction. The 3101 Restroom Renovations shall be completed by Landlord at Landlord's sole cost and expense.

9. Improvements Constructed by Tenant.

(a) Improvements.

(i) Original Premises. Tenant shall inform Landlord of the improvements Tenant would like Landlord to make to the Original Premises (the "**Original Premises Improvements**") pursuant to this Addendum Section. Subject to the terms and conditions of this Addendum Section and Section 13 of the Lease, Tenant may commence the construction of the Original Premises Improvements at any time after the mutual execution and delivery of this Lease.

(ii) Expansion Premises. Tenant shall inform Landlord of the improvements Tenant would like Landlord to make to the Expansion Premises (the "**Expansion Premises Improvements**") pursuant to this Addendum Section. Subject to the terms and conditions of this Addendum Section and Section 13 of the Lease, Tenant may commence the construction of the Expansion Premises Improvements at any time after the Expansion Premises Commencement Date.

(iii) Landlord Approval. The Original Premises Improvements and the Expansion Premises Improvements are hereinafter collectively referred to as the "**Improvements**". Landlord shall have the right to approve the

Improvements, in Landlord's reasonable discretion. By way of example and not limitation, Landlord shall have no obligation to approve any Improvement if the Improvement (i) affects any portion of the Project outside the Premises, (ii) adversely affects the Buildings' electrical, plumbing, HVAC, life, fire safety or similar Building systems or the structural elements of the Buildings, (iii) adversely affects any other tenant of the Project or (iv) would not comply with any law or regulation.

(b) Construction Drawings. Tenant shall retain an architect (the "**Architect**") that is reasonably acceptable to Landlord to prepare separate construction drawings for the Original Premises Improvements and the Expansion Premises Improvements (collectively, the "**Construction Drawings**"). Landlord shall have the right to approve the Construction Drawings in Landlord's reasonable discretion. Landlord's review of the Construction Drawings is for its sole benefit and Landlord shall have no liability to Tenant or Tenant's contractors arising out of or based on Landlord's review. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord's space planner, architect, engineers and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors arising therefrom.

(c) Permits and Changes. The Construction Drawings approved by Landlord (the "**Final Construction Drawings**") shall be submitted by Tenant to the appropriate governmental agencies in order to obtain all applicable building permits. Prior to commencing construction of the Original Premises Improvements, Tenant shall provide Landlord with copies of the permits applicable to the Original Premises Improvements and prior to commencing construction of the Expansion Premises Improvements, Tenant shall provide Landlord with copies of the permits applicable to the Expansion Premises Improvements. Tenant hereby agrees that neither Landlord nor Landlord's consultants shall be responsible for obtaining any building permits or a certificate of occupancy for the Premises and that obtaining the same shall be Tenant's sole responsibility; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any such permits or certificate of occupancy. No changes, modifications or alterations in the Final Construction Drawings may be made without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed.

(d) Compliance with Laws. Tenant shall be solely responsible for constructing the Improvements in compliance with all laws. Tenant acknowledges and agrees that it may be obligated to modify, alter or upgrade the Premises and the systems therein in order to complete the construction of the Improvements, and Landlord shall have no liability or responsibility for modifying, altering or upgrading the Premises or its existing systems. If, as a result of Improvements constructed in accordance with this Addendum Section, Landlord is obligated to comply with the Americans With Disabilities Act or any other law or regulation and such compliance requires Landlord to make any improvements or alterations to any portion of the Project outside the Premises (an "**Exterior Alteration**"), Landlord may deduct the cost of making the Exterior Alteration from the Improvement Allowance (as defined below), and if the cost of making the Exterior Alteration exceeds the monies available in the Improvement Allowance, Tenant shall pay such excess costs to Landlord within ten (10) days after written demand.

(e) Contractors. Landlord shall have the right to approve in advance the contractors (the "**Contractors**") used by Tenant to construct the Improvements, in Landlord's reasonable discretion. Notwithstanding the forgoing, Landlord shall have the right to designate which subcontractors may perform work on the Buildings' HVAC systems, roof and life, fire and safety systems. Tenant's indemnification obligations in the Lease shall also apply with respect to any and all damages, cost, loss or expense (including attorney's fees) related to any act or omission of Tenant or its Contractors, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non-payment of any amount arising out of the Improvements. The Contractors shall carry worker's compensation insurance covering all of their respective employees, public liability insurance, including property damage, and such other insurance as required by Landlord, in Landlord's sole discretion. Certificates for all insurance carried pursuant to this section shall be delivered to Landlord before the commencement of construction of the Improvements. All such policies of insurance shall name Landlord and its property manager as an additional insured.

(f) Construction Procedures. The Contractors shall comply with all of Landlord's rules, regulations and procedures concerning the construction of improvements at the Project (collectively, the "**Construction Procedures**"), and if any Contractor fails to comply with the Construction Procedures after Landlord has provided the Contractor with written notice of its non-compliance, Landlord shall have the right to prohibit such Contractor from performing any further work in the Building, and Landlord shall have no liability to Tenant due to such prohibition. Landlord's Construction Procedures are available from the Building's property manager. Tenant's Contractors shall not perform any construction work at the 3131 Building from 8:00 a.m. to 6:00 p.m., Monday through Friday. Tenant and the Contractors shall not have the right, at any time, to disrupt any Building service (e.g., electrical, plumbing etc.) to the Common Areas or to another tenant's premises. Tenant and the Contractors shall only store construction materials inside the Premises and the Contractors shall not dispose of their refuse or construction materials in the Project's trash receptacles. Tenant's Contractors shall only use Building entrances and Building freight elevators designated by Landlord to transport construction materials to the Premises, and Tenant and Tenant's Contractors shall take whatever precautions Landlord may reasonably prescribe to protect the Project from damages due to such activities. Tenant shall reimburse Landlord for the cost of repairing any damage to the Project caused by the construction of the

Improvements. Landlord shall have the right to inspect the Improvements at all times upon reasonable notice to Tenant, provided however, that Landlord's inspection of the Improvements shall not constitute Landlord's approval of the Improvements. Any defects in the Improvements shall be rectified by Tenant at no expense to Landlord. Landlord shall have the right to receive a fee to reimburse it for the costs incurred by Landlord in providing approvals hereunder and in monitoring the construction of the Improvements in an amount equal to three percent (3%) of the total cost of constructing the Improvements (the "**Landlord Fee**"). In addition, if Landlord incurs architectural, engineering or other consultants' fees in evaluating such Improvements ("**Third Party Fees**"), Tenant shall reimburse Landlord for these fees in addition to the Landlord Fee. Landlord shall have the right to deduct the Landlord Fee and the Third Party Fees from the Improvement Allowance (as defined below).

(g) Improvement Allowance.

(i) Original Premises. Landlord hereby grants to Tenant an "**Original Premises Improvement Allowance**" of [*], which Original Premises Improvement Allowance shall be used only to reimburse Tenant for the actual out-of-pocket costs paid by Tenant to independent third parties for the construction of the Original Premises Improvements or payment of the Landlord Fee and the Third Party Fees. After the completion of the construction of the Original Premises Improvements, Landlord shall make one (1) disbursement of the Original Premises Improvement Allowance. Prior to Landlord making the disbursement, Tenant shall deliver to Landlord: (A) a request for payment, approved by Tenant, in a form which is reasonably acceptable to Landlord; (B) invoices from all contractors whose work is being paid with respect to such payment request; (C) copies of executed mechanic's lien releases from all of the contractors which shall comply with the provisions of California Civil Code Section 8138; (D) proof that Tenant has previously paid to the contractors the monies described in the payment request; (E) "as built" plans for the Original Premises Improvements and (F) all other information reasonably requested by Landlord. Within thirty (30) days after Landlord has received all of this information, Landlord shall deliver a check to Tenant in an amount equal to the lesser of (i) the actual monies paid by Tenant to Tenant's contractors with respect to such payment request plus the Landlord Fee and the Third Party Fees if previously paid by Tenant or (ii) the Original Premises Improvement Allowance.

(ii) Expansion Premises. Landlord hereby grants to Tenant an "**Expansion Premises Improvement Allowance**" of [*], which Expansion Premises Improvement Allowance shall be used only to reimburse Tenant for the actual out-of-pocket costs paid by Tenant to independent third parties for the construction of the Expansion Premises Improvements or payment of the Landlord Fee and the Third Party Fees. After the completion of the construction of the Expansion Premises Improvements, Landlord shall make one (1) disbursement of the Expansion Premises Improvement Allowance. Prior to Landlord making the disbursement, Tenant shall deliver to Landlord: (A) a request for payment, approved by Tenant, in a form which is reasonably acceptable to Landlord; (B) invoices from all contractors whose work is being paid with respect to such payment request; (C) copies of executed mechanic's lien releases from all of the contractors which shall comply with the provisions of California Civil Code Section 8138; (D) proof that Tenant has previously paid to the contractors the monies described in the payment request; (E) "as built" plans for the Expansion Premises Improvements and (F) all other information reasonably requested by Landlord. Within thirty (30) days after Landlord has received all of this information, Landlord shall deliver a check to Tenant in an amount equal to the lesser of (i) the actual monies paid by Tenant to Tenant's contractors with respect to such payment request plus the Landlord Fee and the Third Party Fees if previously paid by Tenant or (ii) the Expansion Premises Improvement Allowance.

(iii) FF&E. The Original Premises Improvement Allowance and the Expansion Premises Improvement Allowance are hereinafter collectively referred to as the "**Improvement Allowance**". In no event shall the Improvement Allowance be used to pay the cost of computer or telephone wiring or any cost of purchasing furniture, fixtures or equipment (collectively, "**FF&E**"), and the cost of all FF&E shall be paid by Tenant, at Tenant's sole expense.

(h) Application to Base Rent of Unused Improvement Allowance.

(i) Original Premises Improvement Allowance. If the actual cost of the Original Premises Improvements does not exceed [*], Tenant may use [*] to pay Base Rent due prior to [*] (the "**Original Premises Rent Period**"). If Tenant elects not to construct any Original Premises Improvements, Tenant may apply [*] to the payment of Base Rent during the Original Premises Rent Period. In order to allocate all or a portion of the unused Improvement Allowance to the payment of Base Rent, Tenant must give written notice to Landlord of the portion of the unused Improvement Allowance it has elected to have allocated to the payment of Base Rent during the Original Premises Rent Period (an "**Original Premises Rent Allocation Notice**"); provided, however, such allocation shall only be for Base Rent due after the date the Original Premises Rent Allocation Notice is given by Tenant to Landlord. Any portion of the Original Premises Improvement Allowance that has not been expended on or before [*] on the construction of the Original Premises Improvements or on the payment of Base Rent shall be retained by Landlord, and Tenant shall have no further right to the use of such unused portion of the Original Premises Improvement Allowance for any purpose.

(ii) Expansion Premises Improvement Allowance. If the actual cost of the Expansion Premises Improvements does not exceed [*], Tenant may use [*] (the "**Maximum Rent Amount**") [*] to pay Base Rent due prior to [*] (the "**Expansion Premises Rent Period**"). In order to allocate all or a portion of the unused Expansion Premises Improvement Allowance to the payment of Base Rent, Tenant must give written notice to Landlord of the portion [*] it has elected to have allocated to the payment of Base Rent during the Expansion Premises Rent Period (a "**Expansion Premises Rent Allocation Notice**"); provided, however, such allocation shall only be for Base Rent due after the date the Expansion Premises Rent Allocation Notice is given by Tenant to Landlord. Any portion of the Expansion Premises Improvement Allowance [*] shall be retained by Landlord, and Tenant shall have no further right to the use of such unused portion of the Expansion Premises Improvement Allowance for any purpose.

(i) Commencement Date. The Original Premises Commencement Date and the Expansion Premises Commencement Date are not conditioned upon the completion of the Improvements.

(j) Restorations. At Landlord's option, subject to the terms of this provision, Tenant shall remove some or all of the Improvements prior to the last day of the term of the Lease and return the Premises to the condition it was in prior to the installation of such Improvements (the "**Restorations**"), all at Tenant's sole cost and expense. At the time Tenant submits the Final Construction Drawings to Landlord for the Original Premises Improvements or the Expansion Premise Improvements, as applicable, Tenant shall have the right to request a determination from Landlord of whether Landlord will require the restoration of some or all of such improvements described on the Final Construction Drawings (a "**Restoration Notice Request**"). Landlord shall reply to any Restoration Notice Request within ten (10) days after receiving the Restoration Notice Request. Notwithstanding the foregoing, Tenant shall not be required to make any Restorations that are not expressly required by Landlord in response to a Restoration Notice Request from Tenant. Landlord shall have the right to approve the materials used and work undertaken by Tenant to complete any Restorations and the Restorations shall be satisfactory to Landlord. Section 13 of the Lease and Sections (b), (c), (d), (e) and (f) above shall apply to the Restorations to the same extent they apply to the Improvements. If Tenant fails to complete the Restorations prior to the last day of the term of the Lease, in addition to Landlord's other rights and remedies, Landlord may complete the Restorations and Tenant shall reimburse Landlord for all costs it incurs within ten (10) days after written request.

10. Option to Extend. Landlord hereby grants to Tenant the option to extend the term of the Lease for one (1) five (5)-year period (the "**Extension Option**") commencing when the initial lease term expires upon each and all of the following terms and conditions:

(a) On a date which is prior to the date that the option period would commence (if exercised) by at least two hundred seventy (270) days and not more than three hundred sixty (360) days, Landlord shall have received from Tenant a written notice of the exercise of the option to extend the Lease for said additional term (an "**Exercise Notice**"), time being of the essence. If the Exercise Notice is not so given and received, the Extension Option shall automatically expire, Tenant shall no longer have the right to give an Exercise Notice and this section shall be of no further force or effect. Tenant shall give the Exercise Notice using certified mail return receipt requested or some other method where the person delivering the package containing the Exercise Notice obtains a signature of the person accepting the package containing the Exercise Notice (e.g., by FedEx with the requirement that the FedEx delivery person obtain a signature from the person accepting the package). It shall be the obligation of Tenant to prove that Landlord received the Exercise Notice in a timely manner.

(b) All of the terms and conditions of the Lease except where specifically modified by this section shall apply.

(c) The monthly Base Rent payable during the option term shall be the Market Rate on the date the option term commences.

(d) The term "**Market Rate**" shall mean the annual amount per rentable square foot that a willing, comparable renewal tenant would pay and a willing, comparable landlord of a similar building would accept at arm's length for similar space, giving appropriate consideration to the following matters: (i) annual rental rates per rentable square foot; (ii) the type of escalation clauses (including, but without limitation, operating expense, real estate taxes, and CPI) and the extent of liability under the escalation clauses (i.e., whether determined on a "net lease" basis or by increases over a particular base year or base dollar amount); (iii) rent abatement provisions reflecting free rent and/or no rent during the lease term; (iv) length of lease term; (v) size and location of premises being leased; and (vi) other generally applicable terms and conditions of tenancy for similar space; provided, however, Tenant shall not be entitled to any tenant improvement allowance. If renewal tenants exercising similar market rate extension options are receiving a tenant improvement allowance, this fact shall be taken into consideration in determining the Market Rate. The Market Rate may also designate periodic rental increases and similar economic adjustments.

(e) If Tenant exercises the Extension Option, Landlord shall determine the Market Rate by using its good faith judgment. Landlord shall provide Tenant with written notice of such amount on or before the date that is one hundred eighty (180) days prior to the date that the term of the Extension Option will commence. Tenant shall have fifteen (15) days ("**Tenant's Review Period**") after receipt of Landlord's notice of the new rental within which to accept such rental. In the event Tenant fails to accept in writing such rental proposal by Landlord, then such proposal shall be deemed rejected, and Landlord and Tenant shall attempt to agree upon such Market Rate, using their best good faith efforts. If Landlord and Tenant fail to reach agreement within fifteen (15) days following Tenant's Review Period ("**Outside Agreement Date**"), then each party shall place in a separate sealed envelope their final proposal as to the Market Rate, and such determination shall be submitted to arbitration in accordance with subsections (i) through (v) below.

(i) Landlord and Tenant shall meet with each other within five (5) business days after the Outside Agreement Date and exchange their sealed envelopes and then open such envelopes in each other's presence. If Landlord and Tenant do not mutually agree upon the Market Rate within one (1) business day of the exchange and opening of envelopes, then, within ten (10) business days of the exchange and opening of envelopes, Landlord and Tenant shall agree upon and jointly appoint a single arbitrator who shall by profession be a real estate broker or agent who shall have been active over the fifteen (15) year period ending on the date of such appointment in the leasing of similar buildings in the geographical area of the Premises. Neither Landlord nor Tenant shall consult with such broker or agent as to his or her opinion as to the Market Rate prior to the appointment. The determination of the arbitrator shall be limited solely to the issue of whether Landlord's or Tenant's submitted Market Rate for the Premises is the closest to the actual Market Rate for the Premises as determined by the arbitrator, taking into account the requirements for determining Market Rate set forth herein. Such arbitrator may hold such hearings and require such briefs as the arbitrator, in his or her sole discretion, determines is necessary. In addition, Landlord or Tenant may submit to the arbitrator with a copy to the other party within five (5) business days after the appointment of the arbitrator any market data and additional information such party deems relevant to the determination of the Market Rate ("**MR Data**"), and the other party may submit a reply in writing within five (5) business days after receipt of such MR Data.

(ii) The arbitrator shall, within thirty (30) days of his or her appointment, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Market Rate and shall notify Landlord and Tenant of such determination.

(iii) The decision of the arbitrator shall be final and binding upon Landlord and Tenant.

(iv) If Landlord and Tenant fail to agree upon and appoint an arbitrator, then the appointment of the arbitrator shall be made by the presiding judge of the Superior Court for the county in which the Premises is located, or, if he or she refuses to act, by any judge having jurisdiction over the parties.

(v) The cost of the arbitration shall be paid by Landlord and Tenant equally.

(vi) Landlord shall have the right to require Tenant to execute and to deliver to Landlord an amendment to the Lease that accurately sets forth the extended term of the Lease and the new Base Rent and other economic terms, if any. Within ten (10) days after Landlord provides the amendment to Tenant, Tenant shall execute the amendment and deliver the amendment to Landlord. Landlord's election not to require Tenant to execute an amendment shall not invalidate Tenant's exercise of the Extension Option.

11. Right of Offer.

a) From and after the Expansion Premises Commencement Date [*], Tenant shall have the right of offer to lease any space [*] after Tenant occupies the Expansion Premises in the 3131 Building (the "**Additional Premises**"). Prior to leasing any Additional Premises, Landlord shall give Tenant written notice of its intent to lease the Additional Premises (a "**Landlord Notice**"). Tenant shall have ten (10) business days after Landlord has given written notice in which to provide Landlord with written notice of its irrevocable election to exercise its right to lease all of the Additional Premises (Tenant shall not have the right to elect to lease part of the Additional Premises). Tenant shall pay Base Rent for the Additional Premises at the "Market Rate" (as defined below). All of the other terms and conditions pertaining to the lease of the Additional Premises shall be agreed to by Landlord and Tenant within ten (10) days after Landlord receives Tenant's written notice, time being of the essence. If Landlord and Tenant are unable to agree on such terms and conditions within the ten (10) day period, Tenant's right to lease the Additional Premises shall automatically expire and Tenant shall have no further right to lease the Additional Premises. Except for the Market Rate which will be determined as provided in (b) below, all of the terms and conditions for the lease of the Additional Premises shall be satisfactory to Landlord and Tenant, in each of their sole and absolute discretions. If Tenant does not give Landlord written notice of its election to lease such Additional Premises within ten (10) business days after Landlord gives Tenant its written notice of the availability of the Additional Premises, time being of the essence, Landlord shall thereafter be free to lease such Additional Premises to a third party on any terms and conditions that Landlord shall select, with no further obligation to Tenant unless and until Landlord has leased such Additional Premises to a third party, and after such

third party occupies such Additional Premises, it once again becomes available for lease. After Landlord has leased the Additional Premises and it has once again become available to lease, this Section shall once again apply to the lease of such Additional Premises. If Landlord unintentionally fails to provide a Landlord Notice to Tenant, Tenant's sole remedy for such failure shall be to notify Landlord of the failure and to request that it be provided a Landlord Notice, and, in this event, if the Additional Premises is still available for lease (i.e., it has not been leased by Landlord to another tenant), Landlord shall provide the Landlord Notice to Tenant. Under no circumstances shall Landlord have any legal liability to Tenant (for damages or otherwise) due to Landlord's unintentional failure to provide a Landlord Notice to Tenant. Landlord shall not be obligated to provide Tenant with notice pursuant to this section, and Tenant shall not have the right to exercise the right of offer granted in this section, at any time that Tenant has subleased all or any portion of the Premises or at any time Tenant is in default (continuing beyond and notice and cure period) as defined in the Lease. This right of offer shall be subject to (i) the prior and existing rights of the other tenants in the Project to lease the Additional Premises and (ii) Landlord's right, in Landlord's sole discretion, to elect to renew or extend the lease of any tenant occupying the Additional Premises, whether or not such tenant has the legal right or option to renew or extend its lease.

(b) The term "**Market Rate**" shall mean the annual amount per rentable square foot that a willing, comparable tenant would pay and a willing, comparable landlord of a similar building would accept and the amount of tenant improvement allowance that such landlord would pay and such tenant would accept at arm's length for similar space, giving appropriate consideration to the following matters: (i) annual rental rates per rentable square foot; (ii) the type of escalation clauses (including, but without limitation, operating expense, real estate taxes, and CPI) and the extent of liability under the escalation clauses (i.e., whether determined on a "net lease" basis or by increases over a particular base year or base dollar amount); (iii) rent abatement provisions reflecting free rent and/or no rent during the lease term; (iv) length of lease term; (v) size and location of premises being leased; (vi) the amount of any tenant improvement allowance; and (vii) other generally applicable terms and conditions of tenancy for similar space. If Tenant exercises its right to lease the Additional Premises, Landlord shall determine the Market Rate by using its good faith judgment. Landlord shall provide Tenant with written notice of such amount within five (5) days after Tenant gives a Landlord Notice. Tenant shall have five (5) days ("**Tenant's Review Period**") after receipt of Landlord's notice of the new rental within which to accept such rental. In the event Tenant fails to accept in writing such rental proposal by Landlord, then such proposal shall be deemed rejected, and Landlord and Tenant shall attempt to agree upon such Market Rate, using their best good faith efforts. If Landlord and Tenant fail to reach agreement within five (5) days following Tenant's Review Period ("**Outside Agreement Date**"), then each party shall place in a separate sealed envelope their final proposal as to the Market Rate, and such determination shall be submitted to arbitration in accordance with subsections (i) through (v) below.

(i) Landlord and Tenant shall meet with each other within three (3) business days after the Outside Agreement Date and exchange their sealed envelopes and then open such envelopes in each other's presence. If Landlord and Tenant do not mutually agree upon the Market Rate within one (1) business day of the exchange and opening of envelopes, then, within three (3) business days of the exchange and opening of envelopes, Landlord and Tenant shall agree upon and jointly appoint a single arbitrator who shall by profession be a real estate broker or agent who shall have been active over the fifteen (15) year period ending on the date of such appointment in the leasing of commercial buildings similar to the Premises in the geographical area of the Premises. Neither Landlord nor Tenant shall consult with such broker or agent as to his or her opinion as to the Market Rate prior to the appointment. The determination of the arbitrator shall be limited solely to the issue of whether Landlord's or Tenant's submitted Market Rate for the Premises is the closest to the actual Market Rate for the Premises as determined by the arbitrator, taking into account the requirements for determining Market Rate set forth herein. In addition, Landlord or Tenant may submit to the arbitrator with a copy to the other party within three (3) business days after the appointment of the arbitrator any market data and additional information such party deems relevant to the determination of the Market Rate ("**RR Data**"), and the other party may submit a reply in writing within two (2) business days after receipt of such RR Data.

(ii) The arbitrator shall, within six (6) business days of his or her appointment, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Market Rate and shall notify Landlord and Tenant of such determination.

(iii) The decision of the arbitrator shall be final and binding upon Landlord and Tenant.

(iv) If Landlord and Tenant fail to agree upon and appoint an arbitrator, then the appointment of the arbitrator shall be made by the presiding judge of the Superior Court for the County in which the Premises is located, or, if he or she refuses to act, by any judge having jurisdiction over the parties.

(v) The cost of the arbitration shall be paid by Landlord and Tenant equally.

(c) After the determination of the Market Rate, Landlord shall prepare an amendment to the Lease reflecting Base Rent at the Market Rate and adding the Additional Premises to the Premises (the "**Amendment**"). The terms of the Amendment (other than the Market Rate) shall be satisfactory to Landlord and Tenant in each of their sole and absolute

discretions. For example, Landlord shall have no obligation to agree to a coterminous term for Tenant's lease of the Additional Premises and Tenant's lease of the existing Premises. The sole consequence of Landlord and Tenant not being able to agree on the terms and conditions of the Amendment shall be that Landlord shall have no further obligation to lease the Additional Premises to Tenant and Tenant shall have no further obligation to lease the Additional Premises from Landlord pursuant to this section. Tenant shall execute and deliver the Amendment to Landlord within ten (10) business days after it is delivered to Tenant. At Landlord's option, if Tenant does not execute and deliver to Landlord the Amendment within the ten (10) business day period, time being of the essence, Tenant's right to lease the Additional Premises shall immediately terminate, and Tenant shall have no further right to lease the Additional Premises. Section 29 of the Lease applies to this right of offer.

12. 3101 Exterior Building Sign. Tenant has previously installed one sign on the exterior façade of the 3101 Building containing Tenant's name (the "**Building Sign**"). During the term of this Lease (including any extension terms), Tenant shall continue to have the right to maintain the Building Sign on the following terms and conditions:

(a) Tenant shall maintain the Building Sign in good order and repair, at Tenant's sole cost and expense;

(b) Any modification of the Building Sign shall be considered to be an "Alteration" within the meaning of Section 13.1 of the Lease, and shall be governed by the provisions thereof. Notwithstanding anything to the contrary contained in Section 13.1, any modification or alteration of the Building Sign shall require Landlord's prior approval, which may be given or withheld by Landlord in Landlord's sole discretion;

(c) The Building Sign shall be considered a use of the Premises pursuant to Section 19 of the Lease, and Tenant shall defend and indemnify Landlord to the extent provided in Section 19;

(d) Tenant shall remove the Building Sign and repair any damage to the Project, at Tenant's sole cost and expense, upon the termination or expiration of the Lease term;

(e) The insurance purchased by Tenant pursuant to Section 10.1 of the Lease shall apply to the Building Sign; and

(f) Should the Building Sign be electrically illuminated, Tenant agrees to pay to the cost of all electricity used by the Building Sign.

13. Monument Signs.

(a) Project Monument Signs. There are two Project monument signs (the "**Project Monument Signs**"), and each Project Monument Sign has one panel allocated to each of the three buildings comprising the Project (the "**Building Sign Panels**"). The Building Sign Panels are all approximately the same size and each Building Sign Panel may include the names of multiple tenants of the applicable building.

(i) 3101 Building Sign Panel. Tenant has previously placed its name in the panel on each Project Monument Sign allocated to the 3101 Building. During the term of this Lease, Tenant shall continue to have the right to maintain its name in the panels on the Project Monument Signs allocated to the 3101 Building.

(ii) 3131 Building Sign Panel. The panel on each Project Monument Sign allocated to the 3131 Building currently has three tenant names on each panel. The Expansion Premises is currently occupied by Blue Danube Systems, Inc. and Blue Danube Systems, Inc.'s name is currently one of three tenant's whose names have been placed on the Building Sign Panel for the 3131 Building. From and after the Expansion Premises Commencement Date, Tenant shall have the right to place its name in the location on the Project Monument Signs now occupied by Blue Danube Systems, Inc. The cost of removal of Blue Danube Systems, Inc.'s sign shall be borne by Landlord.

(b) Building Monument Signs. In addition to the Project Monument Signs, each of the three buildings comprising the Project has its own monument sign located in front of each building (the "**Building Monument Signs**"), and multiple tenant's names may be placed on the Building Monument Signs.

(i) 3101 Building Monument Sign. Tenant has previously placed its name on the Building Monument Sign for the 3101 Building. During the term of this Lease, Tenant shall continue to have the right to maintain its name on the 3101 Building Monument Sign.

(ii) 3131 Building Monument Sign. There are currently places for three tenant names on the 3131 Building Monument Sign, and Blue Danube Systems, Inc.'s name is currently located in one of those places. From and after the Expansion Premises Commencement Date, Tenant shall have the right to place its name in the location on the 3131 Building Monument Sign now occupied by Blue Danube Systems, Inc. The cost of removal of Blue Danube Systems, Inc.'s sign

shall be borne by Landlord. Landlord may increase or decrease the number of names on the 3131 Building Monument Sign from time to time, in Landlord's sole discretion.

(c)Generally. Landlord shall have the right to approve the size, design, location and color of Tenant's name on the Project Monument Signs, the 3101 Building Monument Sign and the 3131 Building Monument Sign (collectively, the "**Monument Signs**"), in Landlord's sole discretion. Landlord hereby approves the size, design, location and color of Tenant's current name on the sign panel allocated to the 3101 Building on each Project Monument Sign and on the 3101 Building Monument Sign. The cost of placing Tenant's name on the Monument Signs shall be paid by Tenant, at Tenant's sole cost and expense. At Landlord's option, (i) Tenant shall maintain its name on the Monument Signs in good condition, at Tenant's sole cost and expense, or (ii) Landlord shall maintain Tenant's name on the Monument Signs and Tenant shall reimburse Landlord from time to time for the cost of such maintenance within ten (10) days after written request by Landlord. Prior to the termination of the Lease, Tenant shall remove its name from the Monument Signs and repair any damages caused by such removal. If Tenant fails to remove its name from the Monument Signs and repair any damages caused by such removal, Landlord shall have the right to remove Tenant's name and/or repair any damages, and Tenant shall reimburse Landlord for the cost of the removal and/or repairs within ten (10) days after written request. Subject to all of the terms and condition of this Addendum section, if Tenant assigns the Lease, Landlord shall not unreasonably withhold its consent to the modification of the Monument Signs to state the name of the person or entity to whom the Lease is assigned. It shall be reasonable for Landlord to disapprove the addition of a name of an assignee to the Monument Signs if in Landlord's reasonable business judgment the name or business of the assignee is controversial or would violate the terms and conditions of another tenant's lease. By way of example and not limitation, controversial business include persons or entities involved in the following types of activities: pornography, political parties or political issues, abortion, foreign countries and religions.

14. Access to Premises - 365 Days Per Year. Subject to the other terms and conditions of the Lease, Landlord shall use reasonable efforts to provide Tenant's employees with access to the Premises twenty-four (24) hours a day, three hundred sixty-five (365) days per year. Notwithstanding the foregoing, Tenant acknowledges and agrees that repairs, hazardous conditions and circumstances beyond Landlord's control may prevent access to the Premises from time to time.

15. Parking Monitor. The Muslim Community Association currently has a Friday prayer service ("**Friday Prayers**") at the property located at 3003 Scott Boulevard, Santa Clara, California. In the past, members of the Muslim Community Association have sometimes parked in the Project's parking areas. Landlord currently provides a person to monitor the parking areas of the Project (the "**Parking Monitor**") during certain times during Friday Prayers to minimize the use of the Project's parking areas by persons attending Friday Prayers. During the term of this Lease, Landlord shall continue to provide the Parking Monitor to the same extent it does as of the date this Lease is entered into provided that the Friday Prayers continue to adversely affect the availability of parking for tenants at the Project. Landlord may stop providing the Parking Monitor to the extent that Friday Prayers are no longer adversely affecting the availability of parking for tenants at the Project. The cost of the Parking Monitor shall be included in Operating Expenses.

[Remainder of page left intentionally blank.]

IN WITNESS WHEREOF, the parties hereto have respectively executed this Addendum.

The Realty Associates Fund XI Portfolio, L.P.,
a Delaware limited partnership

By: The Realty Associates Fund XI, L.P.,
a Delaware limited partnership, general partner

By: Realty Associates Fund XI, LLC,
a Delaware limited liability company, general partner

By: /s/ John Powell Aug. 8, 2019
Name: John Powell
Title:

TENANT:

Ambarella Corporation,
a Delaware corporation

By: /s/ Kevin C. Eichler

Kevin C. Eichler
(print name)

Its: CFO
(print title)

(Description of HVAC Units to be Replaced and the Time Each Unit will be Replaced and Description of 3101 Condensing Unit)

PHASE 1 – 2019 (3 units)

- 3101 Jay Street AC-1, AC-2, AC-7
- Compressor on condensing unit #5

PHASE 2 – 2020 (4 units)

- 3101 Jay Street AC-6, AC-3, AC-9, AC-10

PHASE 3 – 2021 (1 unit)

- 3131 Jay Street AC-1

[*]

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the
Securities Exchange Act of 1934, as amended.

I, Feng-Ming Wang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ambarella, 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(s) 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: December 6, 2019

/s/ Feng-Ming Wang

Feng-Ming Wang

President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the
Securities Exchange Act of 1934, as amended.

I, Kevin C. Eichler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ambarella, 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(s) 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: December 6, 2019

/s/ Kevin C. Eichler

Kevin C. Eichler

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

I, Feng-Ming Wang, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Ambarella, Inc. on Form 10-Q for the fiscal quarter ended October 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Ambarella, Inc.

Date: December 6, 2019

By: /s/ Feng-Ming Wang
Name: Feng-Ming Wang
Title: President and Chief Executive Officer

I, Kevin C. Eichler, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Ambarella, Inc. on Form 10-Q for the fiscal quarter ended October 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Ambarella, Inc.

Date: December 6, 2019

By: /s/ Kevin C. Eichler
Name: Kevin C. Eichler
Title: Chief Financial Officer