SIGMA DESIGNS INC
Form 10-Q
June 09, 2015

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 May 2, 2015

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 001-32207

Sigma Designs, Inc.

(Exact name of registrant as specified in its charter)

California	**94-2848099**

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1778 McCarthy Boulevard,

Milpitas, California 95035

(Address of principal executive offices including Zip Code)

(408) 262-9003

(Registrant's telephone number, including area code)

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

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

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

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

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

As of June 2, 2015, the Company had 35,498,649 shares of Common Stock outstanding.

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SIGMA DESIGNS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED MAY 2, 2015

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ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIGMA DESIGNS, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	May 2, 2015	**January 31, 2015**
ASSETS		
Current assets		
Cash and cash equivalents	$69,334	$83,502
Short-term marketable securities	8,448	6,347
Restricted cash	400	400
Accounts receivable, net of allowances of $1,689 as of May 2, 2015 and $1,502 as of January 31, 2015	31,562	26,415
Inventory	24,446	20,445
Deferred tax assets	3,386	3,319
Prepaid expenses and other current assets	9,110	8,805
Total current assets	146,686	149,233
Long-term marketable securities	9,176	4,249
Software, equipment and leasehold improvements, net	20,612	21,594
Intangible assets, net	23,190	24,642
Deferred tax assets, net of current portion	587	687
Long-term investments, net of current portion	3,268	3,267
Other non-current assets	1,656	1,661
Total assets	$205,175	$205,333
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$23,094	$21,207
Accrued compensation and related benefits	7,952	6,806
Accrued liabilities	17,460	22,894
Total current liabilities	48,506	50,907
Income taxes payable	8,037	7,573

Long-term deferred tax liabilities	635	741
Other long-term liabilities	2,521	2,822
Total liabilities	59,699	62,043
Commitments and contingencies (Note 9)		
Shareholders' equity		
Preferred stock; no par value, authorized 2,000,000 shares, none issued and outstanding	-	-
Common stock and additional paid-in capital; no par value; 100,000,000 shares authorized; 40,093,404 issued and 35,434,261 outstanding as of May 2, 2015 and 39,973,689 issued and 35,314,546 outstanding as of January 31, 2015	496,149	493,550
Treasury stock, at cost, 4,659,143 shares as of May 2, 2015 and January 31, 2015	(88,198)	(88,198)
Accumulated other comprehensive loss	(1,142)	(1,111)
Accumulated deficit	(261,333)	(260,951)
Total shareholders' equity	145,476	143,290
Total liabilities and shareholders' equity	$205,175	$205,333

See the accompanying Notes to Unaudited Condensed Consolidated Financial Statements

SIGMA DESIGNS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Net revenue	$55,912	$36,873
Cost of revenue	26,564	16,648
Gross profit	29,348	20,225
Operating expenses		
Research and development	16,313	17,103
Sales and marketing	5,811	5,450
General and administrative	5,772	5,031
Restructuring costs	9	974
Impairment of IP, mask sets and design tools	33	110
Total operating expenses	27,938	28,668
Income (loss) from operations	1,410	(8,443)
Interest and other income (expense), net	671	(52)
Income (loss) before income taxes	2,081	(8,495)
Provision for income taxes	2,463	1,419
Net loss	$(382)	$(9,914)
Net loss per common share:		
Basic	$(0.01)	$(0.29)
Diluted	$(0.01)	$(0.29)
Shares used in computing net loss per share:		
Basic	35,395	34,367
Diluted	35,395	34,367

SIGMA DESIGNS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Net loss	$(382)	$(9,914)
Other comprehensive (loss) income:		
Currency translation adjustments, net of $0 tax during the three months ended May 2, 2015 and May 3, 2014	(12)	208
Unrealized (losses) gains on marketable securities, net of $0 tax during the three months ended May 2, 2015 and May 3, 2014	(19)	46
Other comprehensive (loss) income	(31)	254
Comprehensive loss	$(413)	$(9,660)

See the accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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SIGMA DESIGNS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Cash flows from operating activities		
Net loss	$ (382)	$ (9,914)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,294	5,412
Stock-based compensation	1,734	1,488
Provision for excess and obsolete inventory	1,071	364
Provision for (recovery of) sales returns, discounts and doubtful accounts	187	(105)
Deferred income taxes	(73)	57
Impairment of IP, mask sets and design tools	33	110
Tax effect related to share awards	(712)	(620)
Excess tax expense from stock-based compensation	712	620
Other non-cash activities	32	-
Changes in operating assets and liabilities:		
Accounts receivable	(5,335)	3,976
Inventory	(5,071)	566
Prepaid expenses and other current assets	(315)	838
Other non-current assets	4	3
Accounts payable	2,201	(4,389)
Accrued liabilities, compensation and related benefits	(807)	662
Income taxes payable	(3,363)	(2,939)
Other long-term liabilities	114	(2,414)
Net cash used in operating activities	(4,676)	(6,285)
Cash flows from investing activities		
Restricted cash	-	235
Purchases of marketable securities	(7,113)	-
Sales and maturities of marketable securities	66	6,558
Purchases of software, equipment and leasehold improvements	(1,673)	(818)
Purchases of IP	(1,576)	(1,319)
Repayment of note receivable	-	60
Net cash (used in) provided by investing activities	(10,296)	4,716
Cash flows from financing activities		
Excess tax benefit from stock-based compensation	712	620
Net proceeds from exercise of employee stock options and stock purchase rights	153	1
Net cash provided by financing activities	865	621
	(61)	53

Effect of foreign exchange rate changes on cash and cash equivalents						
Net decrease in cash and cash equivalents		(14,168	)		(895	)
Cash and cash equivalents, beginning of period		83,502			64,326	
Cash and cash equivalents, end of period	$	69,334		$	63,431	
Supplemental disclosure of cash flow information						
Cash paid for income taxes	$	5,120		$	3,694	

See the accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and summary of significant accounting policies

Organization and nature of operations: Sigma Designs, Inc. (referred to collectively in these unaudited condensed consolidated financial statements as "Sigma," "we," "our", "the Company" and "us") is a provider of intelligent media platform for use in the home entertainment and control markets. We focus on integrated semiconductor solutions that serve as the foundation for some of the world's leading consumer products, including televisions, set-top boxes, and consumer electronics sold in the Internet of Things Devices ("IoT Devices") and Media Connectivity markets. A majority of our primary products are semiconductors that are targeted toward end-product manufacturers, Original Equipment Manufacturers, or OEMs, and Original Design Manufacturers, or ODMs. We sell our products into four primary target markets which are the Smart TV, Set-top Box, Media Connectivity and IoT Devices markets. We derive a portion of our revenue from licensing and other markets, including licenses, software development kits, engineering support services for hardware and software, engineering development for customization of chipsets and other accessories.

Basis of presentation: The unaudited condensed consolidated financial statements include the accounts of Sigma Designs, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation. We operate and report quarterly financial results that consist of 13 weeks and end on the last Saturday of the period. The first quarter of fiscal 2016 and fiscal 2015 ended on May 2, 2015 (91 days) and May 3, 2014 (91 days), respectively.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). They do not include all disclosures required by US GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended January 31, 2015, included in our fiscal 2015 Annual Report on Form 10-K, as filed with the SEC on April 15, 2015, referred to as our fiscal 2015 Annual Report.

The condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in our opinion, are necessary to present fairly our consolidated financial position at May 2, 2015 and January 31, 2015, the consolidated results of our operations for the three months ended May 2, 2015 and May 3, 2014, and the consolidated cash flows for the three months ended May 2, 2015 and May 3, 2014. The results of operations for the three months ended May 2, 2015 are not necessarily indicative of the results to be expected for future quarters or the full year.

There have been no significant changes in our critical accounting policies during the three months ended May 3, 2015, as compared to the critical accounting policies described in our Annual Report on Form 10-K for the year ended January 31, 2015. For a complete summary of our significant accounting policies, refer to Note 1, "Organization and Summary of Significant Accounting Policies”, in Part II, Item 8 of our fiscal 2015 Annual Report.

Recent accounting pronouncements

Recent accounting pronouncements expected to impact our operations that are not yet effective are summarized as follows:

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* (ASU 2014-15), to provide guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the Company beginning in the first quarter of 2016 with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. The FASB recently announced plans to defer the effective adoption date by one year. Based on the aforementioned deferral, ASU 2014-09 will be effective for us beginning in its first quarter of fiscal 2019. Early adoption is not permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of adopting the new revenue standard on its consolidated financial statements.

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Cash, cash equivalents and marketable securities

As of May 2, 2015 and January 31, 2015, we had $0.4 million of restricted cash related to an office-space operating lease and other transactions, which is not included in the amounts below. Cash, cash equivalents and marketable securities consist of the following (in thousands):

	May 2, 2015			January 31, 2015		
	Book Value	Net Unrealized Gains (Losses)	Fair Value	Book Value	Net Unrealized Gains (Losses)	Fair Value
Corporate bonds	$16,203	$ 134	$16,337	$9,130	$ 153	$9,283
Money market funds	215	-	215	7,650	-	7,650
Fixed income mutual funds	1,281	6	1,287	1,324	(11)	1,313
Total cash equivalents and marketable securities	$17,699	$ 140	$17,839	$18,104	$ 142	$18,246
Cash on hand held in the United States			16,339			12,042
Cash on hand held overseas			52,780			63,810
Total cash on hand			69,119			75,852
Total cash, cash equivalents and marketable securities			$86,958			$94,098
Reported as:						
Cash and cash equivalents			$69,334			$83,502
Short-term marketable securities			8,448			6,347
Long-term marketable securities			9,176			4,249
			$86,958			$94,098

The amortized cost and estimated fair value of cash equivalents and marketable securities, by contractual maturity, are as follows (in thousands):

	May 2, 2015		January 31, 2015	
	Book Value	Fair Value	Book Value	Fair Value
Due in one year or less	$8,600	$8,663	$13,995	$13,997
Due in greater than one year	9,099	9,176	4,109	4,249
Total	$17,699	$17,839	$18,104	$18,246

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair values of assets and liabilities

Fair value is defined as, "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price)." The accounting standards establish a consistent framework for measuring fair value and disclosure requirements about fair value measurements and among other things, require us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair value hierarchy

The accounting standards discuss valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standards utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

Determination of fair value

Our cash equivalents and marketable securities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. The types of marketable securities valued based on quoted market prices in active markets include most U.S. government and agency securities, sovereign government obligations, money market securities and certain corporate obligations with high credit ratings and an ongoing trading market.

The tables below present the balances of our assets and liabilities measured at fair value on a recurring basis as of May 2, 2015 and January 31, 2015 (in thousands):

	May 2, 2015			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Corporate bonds	$16,337	$16,337	$ -	$ -
Money market funds	215	215	-	-
Fixed income mutual funds	1,287	1,287	-	-
Total cash equivalents and marketable securities	17,839	17,839	-	-
Restricted cash	400	400	-	-
Total assets measured at fair value	$18,239	$18,239	$ -	$ -

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	January 31, 2015			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Corporate bonds	$9,283	$9,283	$ -	$ -
Money market funds	7,650	7,650	-	-
Fixed income mutual funds	1,313	1,313	-	-
Total cash equivalents and marketable securities	18,246	18,246	-	-
Restricted cash	400	400	-	-
Total assets measured at fair value	$18,646	$18,646	$ -	$ -

Assets measured and recorded at fair value on a non-recurring basis

Our non-marketable preferred stock investments in privately-held venture capital funded technology companies are recorded at cost and are adjusted to fair value only in the event that they become other-than-temporarily impaired. As of May 2, 2015, we held equity investments in three privately-held venture capital funded technology companies and an equity investment in one joint venture, with an aggregate carrying value of $3.3 million. We did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments during the three months ended May 2, 2015 and May 3, 2014. Each of these equity investments in privately-held companies constituted less than a 20% ownership position. Furthermore, we do not believe that we have the ability to exert significant influence over any of these companies.

4. Investments in and notes receivable from privately held companies

The following table sets forth the value of investments in and notes receivable from privately-held companies (in thousands):

Equity investments:	**May 2, 2015**	**January 31, 2015**
Issuer A	$2,000	$ 2,000
Issuer B	1,000	1,000
Issuer C	129	129
Issuer D	139	138
Total equity investments	$3,268	$ 3,267

Equity investments

During fiscal 2009, we purchased shares of preferred stock in a privately-held venture capital funded technology company ("Issuer A") at a total investment cost of $1.0 million. In the fourth quarter of fiscal 2010, we purchased additional shares of preferred stock in Issuer A at a cost of $1.0 million. In November 2010, we loaned $1.0 million to Issuer A and received a secured promissory note. During the second quarter of fiscal 2015, the remaining balance of the note receivable from Issuer A was fully repaid.

In the third quarter of fiscal 2011, we purchased shares of preferred stock in another privately-held technology company ("Issuer B") at a total investment cost of $1.0 million.

In the fourth quarter of fiscal 2011, we purchased shares of preferred stock in another privately-held technology company ("Issuer C") at a total investment cost of $1.0 million. In the fourth quarter of fiscal 2014 and the second quarter of fiscal 2015, we recorded impairment charges of $0.3 million and $0.6 million, respectively, on this investment as we concluded the impairment to be other-than-temporary.

In the third quarter of fiscal 2012, we made an equity investment of $0.1 million in a privately-held joint venture ("Issuer D").

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We made the aforementioned investments because we viewed the issuer as either having strategic technology or a business that would complement our technological capabilities or help create an opportunity for us to sell our chipset solutions. We analyze each investment quarterly for evidence of impairment.

Our President and Chief Executive Officer is a member of the Board of Directors of both Issuer A and Issuer B. In the case of Issuer B, the investment transaction was negotiated without the personal involvement of the executive officer who had a personal interest in the transaction.

5. Supplemental financial information

Inventory consists of the following (in thousands):

	May 2, 2015	January 31, 2015
Wafers and other purchased materials	$11,034	$8,420
Work-in-process	5,483	3,045
Finished goods	7,929	8,980
Total inventory	$24,446	$20,445

Prepaid expenses and other current assets consist of the following (in thousands):

	May 2, 2015	January 31, 2015
Deposits	$3,224	$ 3,124
Prepayments for inventory	1,585	1,670
Prepayments for royalties	762	659
R&D credit receivable	618	583
Other current assets	2,921	2,769
Total prepaid expenses and other current assets	$9,110	$ 8,805

Software, equipment and leasehold improvements consist of the following (in thousands):

	Estimated Useful Lives (years)	**May 2, 2015**	**January 31, 2015**
Software	2	$41,064	$41,069
Equipment	1 - 5	23,547	22,168
Office equipment and furniture	2	8,944	8,693
Leasehold improvements	1 - 6	2,957	2,874
Total		76,512	74,804
Less: Accumulated depreciation and amortization		(55,900)	(53,210)
Total software, equipment and leasehold improvements, net		$20,612	$21,594

Software, equipment and leasehold improvement depreciation and amortization expense for the three months ended May 2, 2015 and May 3, 2014 was $2.9 million and $3.1 million, respectively. We recorded an impairment charge for design tools associated with discontinued products for the three months ended May 2, 2015 and May 3, 2014 of less than $0.1 million and $0.1 million, respectively, which was recorded in operating expenses in the accompanying condensed consolidated statement of operations.

Accrued liabilities consist of the following (in thousands):

	May 2, 2015	**January 31, 2015**
Rebates	$7,142	$9,599
License fees	4,702	4,286
Income taxes payable, current portion	1,499	5,326
Royalties	1,235	880
Warranties	861	864
Deferred revenue	366	372
Other accrued liabilities	1,655	1,567
Total accrued liabilities	$17,460	$22,894

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes activity related to accrued rebates (in thousands):

	Three Months Ended	
	May 2, 2015	May 3, 2014
Beginning balance	$9,599	$3,587
Charged as a reduction of revenue	4,120	2,733
Reversal of unclaimed rebates	(807)	-
Payments	(5,770)	(3,479)
Ending balance	$7,142	$2,841

6. Intangible assets

The tables below present the balances of our intangible assets (in thousands, except for years):

	May 2, 2015				
	Gross Value	Impairment	Accumulated Amortization and Effect of Currency Translation	Net Value	Weighted Average Remaining Amortization Period (Years)
Acquired intangible assets:					
Developed technology	$76,628	$ (24,614)	$ (45,666)	$6,348	1.8
Customer relationships	50,704	(30,486)	(18,593)	1,625	1.5
Trademarks and other	5,478	-	(5,051)	427	3.7
Purchased IP - amortizing	23,442	(5,516)	(16,125)	1,801	1.0
Total amortizing	156,252	(60,616)	(85,435)	10,201	1.7

Purchased IP - not yet deployed	16,716	(3,727)	-	12,989
Total intangibles	$172,968	$ (64,343)	$ (85,435)	$23,190

	January 31, 2015				
	Gross Value	**Impairment**	**Accumulated Amortization and Effect of Currency Translation**	**Net Value**	**Weighted Average Remaining Amortization Period (Years)**
Acquired intangible assets:					
Developed technology	$76,628	$ (24,614)	$ (44,604)	$7,410	2.0
Customer relationships	50,704	(30,486)	(18,313)	1,905	1.7
Trademarks and other	4,078	-	(3,621)	457	3.9
Purchased IP - amortizing	23,398	(5,516)	(15,162)	2,720	1.0
Total amortizing	154,808	(60,616)	(81,700)	12,492	1.8
Purchased IP - not yet deployed	15,877	(3,727)	-	12,150	
Total intangibles	$170,685	$ (64,343)	$ (81,700)	$24,642	

Acquired intangible assets represent intangible assets acquired through business combinations. Purchased intellectual property (“Purchased IP”) represents intangible assets acquired through direct purchases of licensed technology from vendors which is incorporated into our products.

Purchased IP – not yet deployed relates to Purchased IP from third parties for our products that are currently in development. We begin amortizing such intellectual property upon the earlier of the beginning of the term of the license agreement, as appropriate, or at the time we begin shipment of the associated products into which such intellectual property is incorporated.

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the amortization of intangible assets in the accompanying condensed consolidated statements of operations (in thousands):

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Cost of revenue	$2,006	$1,946
Operating expenses	353	354
Total intangibles amortization expense	$2,359	$2,300

As of May 2, 2015, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	**Total**
2016 (remaining nine months)	$5,135
2017	4,253
2018	710
2019	103
Total	$10,201

7. Restructuring costs

In fiscal 2013, as a result of significant expansion in our infrastructure and operational activities in connection with purchases and acquisitions that took place between fiscal years 2008 and 2013, and in response to certain redundancies, underperforming operations and delays in programs and product releases, we implemented a restructuring program to realign our global operating expenses with our new business conditions, and to improve efficiency, competitiveness and profitability. Costs relating to facilities closure or lease commitment are recognized when the facility has been exited. Termination costs are recognized when the costs are deemed both probable and estimable and after notification to impacted employees has occurred.

During the quarter ended May 2, 2015, we incurred restructuring charges of less than $0.1 million, substantially all of which was related to facility exit cost adjustments, which was reflected in operating expenses.

During the quarter ended May 3, 2014, as part of our continuing efforts to reduce expenses, we incurred restructuring charges of $1.0 million, all of which was related to workforce reductions of 29 employees across several geographic regions, the majority of which were in our operations in Israel. Of the total restructuring charges recorded in the first fiscal quarter ended May 3, 2014, less than $0.1 million was reflected in cost of revenue and $1.0 million was reflected in operating expenses.

Expenses recognized for restructuring activities impacting our operating expenses are included in "Restructuring costs" in the condensed consolidated statements of operations. Our restructuring measures could negatively impact our revenue and results of operations in the future as a result of less employees developing future products and working to sell our products.

A combined summary of the recent activity of the restructuring plans initiated by us is as follows (in thousands):

	Workforce Reduction	**Asset Impairment**	**Facility Exit Costs**	**Total**	**Cumulative Restructuring Costs**
Liability, February 1, 2014	$ 363	$ -	$ 2	$ 365	$ 5,570
Charges in fiscal 2015	1,083	-	(20)	1,063	1,063
Cash payments	(1,382)	-	8	(1,374)	-
Non-cash items	38	-	10	48	-
Liability, January 31, 2015	102	-	-	102	6,633
Charges for the three months ended May 2, 2015	3	-	6	9	9
Cash payments	(3)	-	(7)	(10)	-
Non-cash items	-		1	1	-
Balance at May 2, 2015	$ 102	$ -	$ -	$ 102	$ 6,642

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Sale of development project

On March 8, 2013, we entered into an Asset Purchase Agreement with a third party (the “Buyer”) to sell certain development projects (intellectual property) and long-lived assets (the “Connectivity Assets”) related to the connectivity technology over coaxial cable market, including the transfer of 21 employees (the “Connectivity Employees”) to the Buyer. The aggregate carrying amount of the Connectivity Assets ultimately transferred was approximately $0.6 million and were classified as assets held for sale in prepaid expenses and other current assets in the consolidated balance sheet at February 2, 2013. We received an initial payment of $2.0 million in cash at the closing of the transaction and a payroll expense reimbursement payment of $0.6 million (as described more fully below). Under the terms of the Asset Purchase Agreement, if certain technical milestones were met by September 30, 2013 as a result of further development of the transferred technology by the Buyer, we were to be paid an additional $5.0 million in cash.

In April 2013, upon receiving the closing consideration of $2.0 million, we recorded a gain of $1.1 million, net of the carrying value of the Connectivity Assets and fees for legal and bank services of approximately $0.4 million. The gain is included in “Gain on sale of development project” in the consolidated statements of operations for fiscal 2014. Additionally, in April 2013, in connection with the Asset Purchase Agreement, the Buyer reimbursed us for payroll expenses related to the employees transferred to the Buyer for the period from February 1, 2013 through the actual payroll transfer, totaling $0.6 million.

As the contingent consideration was uncertain at the time of the initial sale, we did not recognize the contingent payment. Accordingly, payment consideration, if and when it is finally determined that the milestones were met, will be recorded as other income in our consolidated statements of operations in its entirety.

The Buyer advised us that it does not believe the milestones had been met by the deadline of September 30, 2013. On May 19, 2014, the parties amended the Asset Purchase Agreement to require the use of Judicial Arbitration and Mediations Services (“JAMS”) for arbitration to settle the dispute between the parties. We are currently pursuing our rights to the milestone consideration payment through the alternative dispute resolution provisions set forth in the amendment. To the extent we recognize any payment in regard to the milestone completion, we will recognize income upon receipt of any such proceeds from the Buyer. On September 5, 2014, the Buyer filed counterclaims in response to our claims arising from the Asset Purchase Agreement. A tentative date for an arbitration hearing has been set. We intend to contest these counterclaims vigorously and believe they are without merit.

9. Commitments and contingencies

Commitments

Product warranty

In general, we sell products with up to a one-year limited warranty that our products will be free from defects in materials and workmanship. Warranty cost is estimated at the time revenue is recognized based on historical activity, and additionally, for any specific known product warranty issues. Accrued warranty cost includes hardware repair and/or replacement and is included in accrued liabilities in the accompanying condensed consolidated balance sheets.

Details of the change in accrued warranty as of May 2, 2015 and May 3, 2014 are as follows (in thousands):

Three Months Ended	Balance Beginning of Period	Additions and Adjustments	Deductions	Balance End of Period
May 2, 2015	$ 864	$ 140	$ (143)	$ 861
May 3, 2014	$ 620	$ 125	$ (115)	$ 630

Purchase commitments

We place non-cancelable orders to purchase semiconductor products from our suppliers on an eight to twelve week lead-time basis. As of May 2, 2015, the total amount of outstanding non-cancelable purchase orders was approximately $29.1 million.

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Design Tools

We entered into an agreement with a vendor to purchase $12.9 million of design tools. Payments under this agreement are being made on a quarterly basis from June 2013 through March 2016. As of May 2, 2015, the remaining payments under this agreement totaled $5.4 million. In addition to this agreement, we have entered into other purchase arrangements for certain design tools which totaled $2.9 million. Payments under these arrangements are being made through fiscal 2017. We have fully accrued these amounts as of May 2, 2015.

Royalties

We pay royalties for the right to sell certain products under various license agreements. During the three months ended May 2, 2015 and May 3, 2014, we recorded gross royalty expense of $0.8 million and $0.6 million, respectively, in cost of revenue in the condensed consolidated statements of operations.

Our wholly owned subsidiary, Sigma Designs Israel SDI Ltd. (formerly Coppergate Communications, Ltd.), participated in programs sponsored by the Office of the Chief Scientist of Israel's Ministry of Industry, Trade and Labor, or the OCS, for the support of research and development activities that we conducted in Israel. Through May 2, 2015, we had obtained grants from the OCS aggregating to $5.2 million of our research and development projects in Israel. We completed the most recent of these projects in 2013. We are obligated to pay royalties to the OCS, amounting up to 4.5% of the sales of certain products up to an amount equal to the grants received, plus LIBOR-based interest. As of May 2, 2015, our remaining potential obligation under these programs was approximately $1.1 million.

Contingencies

Litigation

From time to time, we are involved in claims and legal proceedings that arise in the ordinary course of business. We expect that the number and significance of these matters will increase as our business expands. In particular, we could face an increasing number of patent and other intellectual property claims as the number of products and competitors in our industry grows. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources or cause us to enter into royalty or licensing agreements which, if required, may not be available on terms favorable to us. If an unfavorable outcome were to occur against us, there exists the possibility of a material adverse impact on our financial position and results of operations for the period in which the unfavorable outcome occurs and, potentially, in future periods.

On March 8, 2013, we entered into an Asset Purchase Agreement with a third party (the “Buyer”) to sell certain development projects (intellectual property) and long-lived assets (the “Connectivity Assets”) related to the connectivity technology over coaxial cable market, including the transfer of 21 employees (the “Connectivity Employees”) to the Buyer. Under the terms of the Asset Purchase Agreement, if certain technical milestones were met by September 30, 2013 as a result of further development of the transferred technology by the Buyer, we were to be paid an additional $5.0 million in cash. The Buyer advised us that it does not believe the milestones had been met by September 30, 2013. On May 19, 2014, the parties amended the Asset Purchase Agreement to require the use of JAMS for arbitration to settle the dispute between the parties. We are currently pursuing our rights to the milestone consideration payment through the alternative dispute resolution provisions set forth in the amendment. On September 5, 2014, the Buyer filed counterclaims in response to our claims arising from the Asset Purchase Agreement. A tentative date for an arbitration hearing has been set. We intend to contest these counterclaims vigorously and believe they are without merit. For further discussion, refer to Note 8 to the accompanying condensed consolidated financial statements.

Indemnifications

In certain limited circumstances, we have agreed and may agree in the future to indemnify certain customers against patent infringement claims from third parties related to our intellectual property. In these limited circumstances, the terms and conditions of sale generally limit the scope of the available remedies to a variety of industry-standard methods including, but not limited to, a right to control the defense or settlement of any claim, procure the right for continued usage, and a right to replace or modify the infringing products to make them non-infringing. To date, we have not incurred or accrued any significant costs related to any claims under such indemnification provisions.

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our articles of incorporation and bylaws require that we indemnify our officers and directors against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising out of their services to us. In addition, we have entered into separate indemnification agreements with each of our directors and executive officers, which provide for indemnification of these individuals under similar circumstances and under additional circumstances. The indemnification obligations are more fully described in our charter documents and the form of indemnification agreement filed with our SEC reports. We purchase insurance to cover claims or a portion of the claims made against our directors and officers. Since a maximum obligation is not explicitly stated in our charter documents or in our indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated. The fair value of these obligations was zero on our condensed consolidated balance sheet as of May 2, 2015.

Third-party licensed technology

We license technologies from various third parties and incorporate that technology into our products. Some of these licenses require us to pay royalties and others require us to report sales activities so that royalties may be collected from our customers. From time to time, we are audited by licensors of these technologies for compliance with the terms of these licenses. In the first quarter of fiscal 2015, we settled an audit through binding arbitration relating to a license agreement used in our Set-top Box business for $0.2 million, $0.1 million of which was incurred during the three months ending May 3, 2014 and was included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

We could be required to make additional payments as a result of pending or future compliance audits. For license agreements where we have royalty obligations, we charge any settlement payments that we make in connection with audits to cost of revenue. For license agreements where we simply have reporting obligations, we treat any settlement payments as penalties and charge the amounts to operating expenses in sales and marketing. During the second quarter of fiscal 2015, we were notified by one of our licensors of their intent to audit for compliance with the terms of the license. As of May 22, 2015, the audit process has been completed for which the licensor subsequently remitted preliminary information to us indicating the potential for additional payments may be required. We are currently assessing the audit findings along with the licensor pending any affirmative conclusions reached from either party. We believe we are substantially in compliance with the terms of our licensing arrangements.

10. Earnings per share

Basic loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding for the fiscal period. Diluted loss per share for the three months ended May 2, 2015 and May 3, 2014 is the same as basic loss per share as there is a net loss in both periods and inclusion of potentially issuable shares is anti-dilutive.

The following table sets forth the basic and diluted net loss per share computed for the three months ended May 2, 2015 and May 3, 2014 (in thousands, except per share amounts):

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Numerator:		
Net loss, as reported	$(382)	$(9,914)
Denominator:		
Weighted-average common shares outstanding - basic	35,395	34,367
Dilutive effect of employee stock plans	-	-
Weighted-average common shares outstanding - diluted	35,395	34,367
Net loss per share - basic	$(0.01)	$(0.29)
Net loss per share - diluted	$(0.01)	$(0.29)

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted-average number of shares outstanding used in the computation of basic and diluted loss per share does not include the effect of the following potential outstanding shares of common stock. The effects of these potentially outstanding shares were not included in the calculation of basic and diluted loss per share because the effect would have been anti-dilutive (in thousands):

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Stock options	2,963	4,019
Restricted stock units and awards	743	385

11. Shareholders' equity and employee benefits

Condensed consolidated statement of shareholders' equity (amounts in thousands, except shares)

	Common Stock		**Treasury Stock**		**Accumulated Other Comprehensive Loss**			
	Shares	**Amount**	**Shares**	**Amount**	**Unrealized Loss**	**Accumulated Translation Adjustment**	**Accumulated Deficit**	**Total Shareholders' Equity**
Balance, January 31, 2015	39,973,689	$493,550	(4,659,143)	$(88,198)	$(27)	$ (1,084)	$ (260,951)	$ 143,290
Unrealized loss on marketable securities	-	-	-	-	(19)	-	-	(19)
Currency translation adjustments	-	-	-	-	-	(12)	-	(12)
Stock-based compensation	-	1,734	-	-	-	-	-	1,734

expense								
Tax effect related to share awards	-	712	-	-	-	-	-	712
Net proceeds from common stock issued under share plans	119,715	153	-	-	-	-	-	153
Net loss	-	-	-	-	-	-	(382)	(382)
Balance, May 2, 2015	40,093,404	$496,149	(4,659,143)	$(88,198)	$(46)	$(1,096)	$(261,333)	$145,476

Endowment insurance pension plan

Related to our acquisition of our DTV business in May 2012, we added operations in Shanghai, China. It is required by the “Procedures of Shanghai Municipality on Endowment Insurance for Town Employees” to provide pension insurance for Shanghai employees. The mandatory plan is managed by the local authority. Under the current plan, the employee will contribute 8.0% of the annual base to the plan and the employer will match 21% of the annual base. For calendar year 2015, the annual base is capped at RMB 16,353 per employee. We made matching contributions of $0.5 million for each of the three months ended May 2, 2015 and May 3, 2014.

Retirement pension plans

We maintain retirement pension plans for the benefit of qualified employees in Denmark, Taiwan, the Netherlands, and Germany. We made matching contributions of $0.2 million for each of the three months ended May 2, 2015 and May 3, 2014.

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Severance plan

We maintain a severance plan for several Israeli employees pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment. Upon termination of employment, employees are entitled to one month salary for each year of employment or a portion thereof. As of May 2, 2015, we have an accrued severance liability of $0.7 million offset by $0.7 million of severance employee funds.

Employee Stock Purchase Plan

During the first quarter of fiscal 2016, we discovered that we inadvertently sold shares of our common stock to our employees during fiscal 2015 in excess of the shares of common stock authorized to be issued under our 2010 Purchase Plan. As a result, we may have failed to comply with the registration or qualification requirements of federal securities laws. Certain purchasers of the shares that were issued in excess of the shares authorized under our 2010 Purchase Plan may have the right to rescind their purchases from us for an amount equal to the purchase price paid for shares, plus interest from the date of purchase. These shares were treated as issued and outstanding for financial reporting purposes as of the original date of issuance. We intend to make a registered rescission offer during fiscal 2016 to eligible participants who purchased shares in the last twelve months.

As of March 24, 2015, there were approximately 102,078 shares issued to participants in the 2010 Purchase Plan in the past twelve months that continued to be held by the original purchasers of such shares which may be subject to the rescission rights referenced above. All of these shares were originally purchased for $3.89 per share. If holders of all these shares seek to rescind their purchases, we could be required to make aggregate payments of up to approximately $0.4 million, which does not include statutory interest. However, the actual impact to our cash position may be lower depending on the number of holders who accept the rescission offer and tender their shares. Pursuant to the authoritative accounting guidance, the shares are considered mandatorily redeemable as the redemption may be outside of our control. The aforementioned amount is included in accrued compensation and related benefits in the accompanying condensed consolidated balance sheets. The shares subject to repurchase are included in permanent equity as of January 31, 2015 as these shares are legally outstanding with all rights and privileges therein. We also may be subject to civil and other penalties by regulatory authorities as a result of the failure to register these shares with the Securities and Exchange Commission. We do not believe that the failure to register the shares or the planned rescission offer will have a material impact on our condensed consolidated financial statements.

We are also evaluating the potential impact to our employees, including potential tax consequences, for issuing shares in excess of the number of shares reserved under our 2010 Purchase Plan. We may incur additional costs associated with any potential tax consequences and during the fourth quarter of fiscal 2015, we accrued $0.4 million of expense associated with these additional costs which were recorded in accrued compensation and related benefits in the accompanying condensed consolidated balance sheets.

12. Income taxes

We recorded a provision for income taxes of $2.5 million and $1.4 million for the three months ended May 2, 2015 and May 3, 2014, respectively. The increase in tax expense is primarily attributable to higher profitability in taxable jurisdictions in the first quarter of fiscal year 2016 as compared to the same period in fiscal year 2015 and changes in tax reserves. During the three months ended May 2, 2015 and May 3, 2014, we were unable to reasonably project our annual effective tax rate, and therefore computed our provision for income taxes based on year-to-date actual financial results. Included in our provision for income taxes are foreign exchange gains or losses on unsettled income tax liabilities.

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Segment and geographical information

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. We are organized as, and operate in, one reportable segment. Our operating segment consists of our geographically based entities in the United States, Israel and Singapore. Our chief operating decision-maker reviews consolidated financial information, accompanied by information about revenue by product group, target market and geographic region. We do not assess the performance of our geographic regions on other measures of income, expense or net income.

Our net revenue is derived principally from the sales of integrated semiconductor solutions, which we sell across all of our target markets. Smart TV products consist of a range of platforms that are based on highly integrated chips, embedded software, and hardware reference designs. Media Connectivity products consist of wired home networking controller chipsets that are designed to provide connectivity solutions between various home entertainment products and incoming video streams. Set-top Box products consist of connected media processors and players delivering IP streaming video, including hybrid versions of these products. IoT Devices consist of our wireless Z-Wave chipsets and modules.

Our License and other markets include revenue derived from the licensing of our technology to third parties and other sources. Revenue derived from other sources includes software development kits, engineering support services for hardware and software, and engineering development for customization of chipsets and other accessories. Revenue derived from licensing of our technology represented zero and 6.5% of our total net revenue for the three months ended May 2, 2015 and May 3, 2014, respectively.

Historically, we disclosed information encompassing product groupings by target markets with certain naming conventions, consisting of Digital Television (“DTV”), Set-top Box, Home Networking, Home Control, and License and other. Effective in the fourth quarter of fiscal 2015, we changed the naming conventions of some of our target markets, commensurate with changes taking effect in our industry as a whole. We renamed our “DTV” target market to “Smart TV,” “Home Networking” to “Media Connectivity,” and “Home Control” to “IoT Devices.” These changes did not affe the products or related services categorization, or previously reported amounts related to the aforementioned historical target markets.

The following tables set forth net revenue attributable to each target market (in thousands):

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Smart TV	$21,476	$6,063
Media Connectivity	15,117	16,120
IoT Devices	12,457	6,140
Set-top Box	6,556	5,689
License and other	306	2,861
Net revenue	$55,912	$36,873

The following table sets forth net revenue for each geographic region based on the ship-to location of customers (in thousands):

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Asia	$39,669	$29,246
North America	12,153	4,336
Europe	2,765	2,302
Other Regions	1,325	989
Net revenue	$55,912	$36,873

SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth net revenue to each significant country based on the ship-to location of customers (in thousands):

	Three Months Ended	
	May 2, 2015	May 3, 2014
China, including Hong Kong	$22,177	$15,889
United States	12,146	4,276
Taiwan	8,919	4,248
Thailand	4,985	6,018
Rest of the world	7,685	6,442
Net revenue	$55,912	$36,873

During the three months ended May 2, 2015, Sunjet Components Corporation accounted for 12% of our net revenue. During the three months ended May 3, 2014, Benchmark Electronics accounted for 11% of our net revenue.

As of May 2, 2015, Nanning Fugui Precision and Digi-Key Corporation accounted for approximately 15% and 10% of net accounts receivable, respectively. As of May 3, 2014, Benchmark Electronics and Nanning Fugui Precision accounted for approximately 19% and 13% of net accounts receivable, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with our condensed consolidated financial statements and related notes in this Form 10-Q. Except for historical information, the following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "estimate," "predict," "potential," "plan," or the negative of these terms, and similar expressions intended to identify forward-looking statements. These forward-looking statements, include, but are not limited to, statements about our capital resources and needs, including the adequacy of our current cash reserves, the expectation that our revenue from the IoT Devices market will continue to increase in the foreseeable future, anticipated deployments and design wins in the Set-top Box market, anticipated seasonality associated with our Smart TV market, our expectations that our gross margin will vary from period to period and anticipated payments or expectations related to possible share rescissions. These forward-looking statements involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those discussed in the forward-looking statements include, but are not limited to, those discussed under Part II, Item 1A "Risk Factors" in this Form 10-Q as well as other information found in the documents we file from time to time with the Securities and Exchange Commission. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this Form 10-Q. Unless required by U.S. federal securities laws, we do not intend to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made.

Overview

We are a global integrated semiconductor solutions provider offering intelligent media platforms for use in the home entertainment and home control markets. Our goal is to ensure that our chipsets serve as the foundation for some of the world's leading consumer products, including televisions, set-top boxes, media connectivity and home control products. Our business generates revenue primarily by delivery of relevant, cost-effective semiconductors that are targeted toward end-product manufacturers, Original Equipment Manufacturers, or OEMs, and Original Design Manufacturers, or ODMs. We also derive a portion of our revenue from other products and services, including technology licenses, software development kits, engineering support services for hardware and software, engineering development for customization of chipsets and other accessories.

Our chipset products and target markets

We consider all of our semiconductor products to be chipsets because each of our products is comprised of multiple semiconductors. We believe our chipsets enable our customers to efficiently bring consumer multimedia devices to market. We design our highly integrated products to significantly improve performance, lower power consumption and reduce cost.

We sell our products into four primary or target markets: (i) Smart TV, (ii) Media Connectivity, (iii) Set-top Box and (iv) Internet of Things ("IoT") Devices. Smart TV products consist of a range of platforms that are based on highly integrated chips, embedded software, and hardware reference designs. Media Connectivity products consist of wired home networking controller chipsets that are designed to provide connectivity solutions between various home entertainment products and incoming video streams. Set-top Box products consist of connected media processors and players delivering IP streaming video, including hybrid versions of these products. IoT Devices consist of our wireless Z-Wave chipsets and modules.

Historically, we disclosed information encompassing product groupings by target markets with certain naming conventions, consisting of Digital Television ("DTV"), Set-top Box, Home Networking, Home Control, and License and other. Effective in the fourth quarter of fiscal 2015, we changed the naming conventions of some of our target markets, commensurate with changes taking effect in our industry as a whole. We renamed our "DTV" target market to "Smart TV," "Home Networking" to "Media Connectivity," and "Home Control" to "IoT Devices." These changes did not affe the products or related services categorization, or previously reported amounts related to the aforementioned historical target markets.

Smart TV Market

The Smart TV market (previously referred to as our DTV market) consists of all products that are sold into digital televisions as well as other adjacent markets using chipset products that are designed for video post-processing. We believe Smart TV products complement our existing Set-top Box products, which will provide substantial research and development leverage and improved operating scale to augment our ability to develop innovative solutions for the anticipated convergence of IP-video delivery across any device within the connected home. Furthermore, our early entry into the emerging ultra-high definition ("UHD," "Ultra-HD" or "4K") television market has provided a differential opportunity for us to penetrate key customers for high-end products, which will eventually become mainstream over time. We serve this market with our media processor chips and dedicated post-processing products.

Set-top Box Market

The Set-top Box target market consists of all Set-top Box products delivering IP streaming video, including hybrid versions of these products. We serve this market primarily with our media processor products.

Media Connectivity Market

The Media Connectivity market consists of communication devices that use a standard protocol to connect equipment inside the home and stream IP-based video and audio, VoIP, or data through wired or wireless connectivity. We serve the Media Connectivity market with our wired home networking controllers that are designed to provide the most reliable connectivity solutions between various home entertainment products and incoming video streams.

Internet of Things ("IoT") Devices Market

The IoT Devices market consists of all interconnected Z-Wave enabled gateways, appliances and devices that provide monitoring and control capabilities for the management of any consumer ecosystem. Our IoT Devices product line consists of our wireless Z-Wave chips, modules and Z-Wave mesh networking protocol.

License and Other Markets

The license and other markets includes other products and services, including technology licenses, software development kits, engineering support services for hardware and software, engineering development for customization of chipsets and other accessories.

Restructuring program

In fiscal 2013, as a result of significant expansion in our infrastructure and operational activities in connection with purchases and acquisitions that took place between fiscal years 2008 and 2013, and in response to certain redundancies, underperforming operations and delays in programs and product releases, we implemented a restructuring program to realign our global operating expenses with our new business conditions, and to improve efficiency, competitiveness and profitability. Costs relating to facilities closure or lease commitment are recognized when the facility has been exited. Termination costs are recognized when the costs are deemed both probable and estimable and after notification to impacted employees has occurred.

During the quarter ended May 2, 2015, we incurred restructuring charges of less than $0.1 million, substantially all of which was related to facility exit cost adjustments, which was reflected in operating expenses.

During the quarter ended May 3, 2014, as part of our continuing efforts to reduce expenses, we incurred restructuring charges of $1.0 million, all of which was related to workforce reductions of 29 employees across several geographic regions, the majority of which were in our operations in Israel. Of the total restructuring charges recorded in the first fiscal quarter ended May 3, 2014, less than $0.1 million was reflected in cost of revenue and $1.0 million was reflected in operating expenses.

Expenses recognized for restructuring activities impacting our operating expenses are included in “Restructuring costs” in the condensed consolidated statements of operations. Our restructuring measures could negatively impact our revenue and results of operations in the future as a result of less employees developing future products and working to sell our products.

Critical accounting policies and estimates

There have been no significant changes in our critical accounting policies during the three months ended May 2, 2015, as compared to the critical accounting policies described in our Annual Report on Form 10-K for the year ended January 31, 2015. For a complete summary of our significant accounting policies, refer to Note 1, "Organization and Summary of Significant Accounting Policies", in Part II, Item 8 of our fiscal 2015 Annual Report.

Results of operations

The following table is derived from our unaudited condensed consolidated financial statements and sets forth our historical operating results as a percentage of net revenue for each of the periods indicated (in thousands, except percentages):

	Three Months Ended			
	May 2, 2015	% of Net Revenue	May 3, 2014	% of Net Revenue
Net revenue	$55,912	100 %	$36,873	100 %
Cost of revenue	26,564	47 %	16,648	45 %
Gross profit	29,348	53 %	20,225	55 %
Operating expenses				
Research and development	16,313	29 %	17,103	46 %
Sales and marketing	5,811	11 %	5,450	15 %
General and administrative	5,772	10 %	5,031	14 %
Restructuring costs	9	0 %	974	3 %
Impairment of IP, mask sets and design tools	33	0 %	110	0 %
Total operating expenses	27,938	50 %	28,668	78 %
Income (loss) from operations	1,410	3 %	(8,443)	(23 %)
Interest and other income (expense), net	671	1 %	(52)	0 %
Income (loss) before income taxes	2,081	4 %	(8,495)	(23 %)
Provision for income taxes	2,463	4 %	1,419	4 %
Net loss	$(382)	0 %	$(9,914)	(27 %)

Net revenue

Our net revenue for the three months ended May 2, 2015 increased $19.0 million, or 52%, compared to the corresponding period in the prior fiscal year. Net revenue increased primarily due to a $15.4 million increase within the Smart TV market, an increase in the IoT Devices market of $6.3 million, and an increase of $0.9 million in the Set-top Box market, partially offset by a decrease in sales into the Media Connectivity market of $1.0 million and decreases from revenue related to the licensing of our technology to third parties of $2.6 million.

Net revenue by target market

We sell our products into four primary target markets, which are the Smart TV market, Media Connectivity market, Set-top Box market, and the Internet of Things, or “IoT,” Devices market. We also have license revenue, included in license and other markets, which we receive from the license of our technology to third parties. Historically, we disclosed information encompassing product groupings by target markets with certain naming conventions, consisting of Digital Television (“DTV”), Set-top Box, Home Networking, Home Control, and License and other. Effective in the fourth quarter of fiscal 2015, we changed the naming conventions of some of our target markets, commensurate with changes taking effect in our industry as a whole. We renamed our “DTV” target market to “Smart TV,” “Home Networking” to “Media Connectivity,” and “Home Control” to “IoT Devices.” These changes did not affect the products or related services categorization, or previously reported amounts related to the aforementioned historical target markets.

The following table sets forth our net revenue by target market and the percentage of net revenue represented by our product sales to each of those markets (in thousands, except percentages):

	Three Months Ended			
	May 2, 2015	% of Net Revenue	May 3, 2014	% of Net Revenue
Smart TV	$21,476	38 %	$6,063	16 %
Media Connectivity	15,117	27 %	16,120	44 %
IoT Devices	12,457	22 %	6,140	17 %
Set-top Box	6,556	12 %	5,689	15 %
License and other	306	1 %	2,861	8 %
Net revenue	$55,912	100 %	$36,873	100 %

Smart TV: For the three months ended May 2, 2015, net revenue from sales of our products into the Smart TV market increased by $15.4 million, or 254%, compared to the corresponding period in the prior fiscal year. We experienced an increase of 294% in average selling price, or ASP, partially offset by a decline of 10% in units shipped in the Smart TV market. The increase in ASP is primarily the result of continued penetration of our new product offerings in the market having higher ASPs for use in ultra-high definition, also known as Ultra-HD televisions. The Smart TV's market transition, and consequently, anticipated demand of Ultra-HD is bolstering the demand for our new generation products. The volume decline in our Smart TV market resulted primarily from the continued decline of demand for our older legacy products, many of which are now approaching end-of-life. Our Smart TV revenue was derived mainly from our Asian and North American regions. We typically expect our strongest Smart TV sales in the third calendar quarter and declining Smart TV sales in the first and fourth quarter of each calendar year. We expect our net revenue from the Smart TV market to continue to be a significant percentage of net revenue but will fluctuate in future periods as we continue to develop and introduce new products for this market and as a result of seasonality typically experienced in the consumer electronics market.

Media Connectivity: For the three months ended May 2, 2015, net revenue from sales of our products into the Media Connectivity market decreased $1.0 million, or 6%, compared to the corresponding period in the prior fiscal year primarily due to a 34% decrease in units shipped, partially offset by a 41% increase in ASP. The decrease in units shipped was primarily the result of reduced demand due to the continued expansion of wireless technologies in the market impacting our existing product offerings. We expect our revenue from the Media Connectivity market to fluctuate in future periods with varying levels of sustainability primarily as a result of telecommunications provider's pending transitions to next generation technologies. Our success in this market will depend primarily on how quickly the market transitions from our current HPNA solutions, which enjoy a significant share of the market, to next generation technologies. We have developed wired connectivity solutions based on G.hn technology. To date, we have not derived meaningful revenue from our G.hn solutions, which compete against other wired solutions as well as emerging wireless solutions. If our revenue from our HPNA solutions declines and we are not able to gain market acceptance of our G.hn solutions, the revenue in our Media Connectivity market will likely decline. Fluctuations in revenue are primarily based on changes in inventory levels at contract manufacturers who manufacture equipment incorporating our products for deployment by telecommunication providers.

IoT Devices: For the three months ended May 2, 2015, net revenue from sales of our products into the IoT Devices market increased $6.3 million, or 103%, compared to the corresponding period in the prior fiscal year, which was primarily the result of increased demand in the IoT Devices market, evidenced by an increase of 101% in units shipped primarily to the Asian and North American regions. We have compelling products for our IoT Devices market and we continue to target large operators who are introducing home control products primarily in the aforementioned regions. We expect our revenue from the IoT Devices market to continue to increase in the foreseeable future.

Set-top Box: For the three months ended May 2, 2015, net revenue from sales of our products into the Set-top Box market increased $0.9 million, or 15%, compared to the corresponding period in the prior fiscal year due to a 35% increase in ASPs, partially offset by a 14% decrease in units shipped. The decrease in units shipped was attributable to our operators customers' pending transitions to new generations of set-top box products. IPTV service providers deploy set-top boxes for many years and take a long time to evaluate potential new platforms, which results in long cycles between design wins and actual revenue. As such, the overall decline in units shipped is a result of design losses that took place over three years ago. We expect our revenue from the Set-top Box market to fluctuate and perhaps decline in future periods as this revenue is dependent on IPTV service deployments by telecommunication service providers, adoption of new and future generations of our ARM-based products, changes in inventory levels at the contract manufacturers that supply them and competitive market pressures.

***License and other*:** Our license and other markets consist primarily of technology license revenue and revenue from other ancillary markets. For the three months ended May 2, 2015, net revenue decreased $2.6 million, or 89%, compared to the corresponding period in the prior fiscal year. The license revenue in the prior fiscal year was attributable to two license agreements pursuant to which we licensed our technology to third parties for which we were able to recognize revenue. Our obligations under the aforementioned license arrangements were completed during the second quarter of fiscal 2015. We expect license revenue to fluctuate in future periods.

Net revenue by geographic region

The following table sets forth net revenue for each geographic region based on the ship-to location of customers (in thousands, except percentages):

	Three Months Ended					
	May 2, 2015	**% of Net Revenue**		**May3, 2014**	**% of Net Revenue**	
Asia	$39,669	71	%	$29,246	79	%
North America	12,153	22	%	4,336	12	%
Europe	2,765	5	%	2,302	6	%
Other Regions	1,325	2	%	989	3	%
Net revenue	$55,912	100	%	$36,873	100	%

Asia: Our net revenue from customers in Asia increased $10.4 million, or 36%, for the three months ended May 2, 2015, compared to the corresponding period in the prior fiscal year. The increase was largely attributable to the increasing deployments of new generation products by our operators' customers within the Smart TV market. In Asia, we also experienced increases in the IoT Devices market due to increasing demand of home control products by an increasing number of operators leveraging these technologies in their service offerings to end users. These increases were partially offset by a decrease in the Media Connectivity market resulting from decreased demand from telecommunication providers. Net revenue from customers in Asia as a percentage of our total net revenue for the three months ended May 2, 2015 decreased eight percentage points compared to the corresponding period in the prior fiscal year. This decrease is primarily due to the significant increase in revenue in North America.

North America: Our net revenue from North American customers increased $7.8 million, or 180%, for the three months ended May 2, 2015 compared to the corresponding period in the prior fiscal year. The increase was partially attributable to the increasing deployments of newer generation products by our operators' customers within the Smart TV market and increases in the IoT Devices market due to increasing demand of home control products by an increasing number of operators leveraging these technologies in their service offerings to end users. These increases were partially offset by lower revenue recorded in the license and other revenue market. The obligations under license agreements with two main customers in the North American region were completed during the second quarter of fiscal 2015. Net revenue from North American customers as a percentage of our total net revenue for the three months ended

May 2, 2015 increased ten percentage points compared to the corresponding period in the prior fiscal year primarily due to an increasing IoT Devices market base and increased deployments of products within the Smart TV market.

Europe: Our net revenue from European customers increased $0.5 million, or 20%, for the three months ended May 2, 2015, compared to the corresponding period in the prior fiscal year. Net revenue from European customers as a percentage of our total net revenue for the three months ended May 2, 2015 decreased one percentage point compared to the corresponding period in the prior fiscal year. The decrease is primarily the result of revenue growth in the North American and Asian regions with revenue generation in Europe remaining relatively flat.

Other regions: Our net revenue from other regions increased $0.3 million, or 34%, for the three months ended May 2, 2015 compared to the corresponding period in the prior fiscal year. The increase was primarily the result of an increase in demand for our products in the Smart TV market in Brazil.

Major customers

During the three months ended May 2, 2015, Sunjet Components Corporation accounted for 12% of our net revenue. During the three months ended May 3, 2014, Benchmark Electronics accounted for 11% of our net revenue.

As of May 2, 2015, Nanning Fugui Precision and Digi-Key Corporation accounted for approximately 15% and 10% of net accounts receivable, respectively. As of May 3, 2014, Benchmark Electronics and Nanning Fugui Precision accounted for approximately 19% and 13% of net accounts receivable, respectively.

Gross profit and gross margin

The following table sets forth our gross profit and gross margin (in thousands, except percentages):

	Three Months Ended	
	May 2, 2015	May 3, 2014
Gross profit	$29,348	$20,225
Gross margin %	52.5 %	54.9 %

Gross profit increased $9.1 million, or 45%, for the three months ended May 2, 2015, compared to the corresponding period in the prior fiscal year. The increase was primarily due to higher gross profit per unit, or GPUs, within the Smart TV market resulting from continued penetration of our new product offerings with a related impact of $8.6 million and increases in sales volumes within the IoT Devices market with a related impact of $3.5 million. Gross profit was negatively impacted by $2.6 million lower sales in license technology, which has very little cost of revenue. Our gross margin declined 2.4 percentage points for the three months ended May 2, 2015, compared to the corresponding period in the prior fiscal year primarily due to the aforementioned decline in license and other revenue.

Although average selling prices, or ASPs, declined across some of our target markets, we continued our significant efforts to reduce the average cost per unit, or ACU, across our markets. The decrease in ACUs was primarily due to cost reduction efforts through restructuring and other activities targeting fixed costs. Our fixed costs include items such as depreciation and amortization and compensation costs for operations.

Our future gross margin could be impacted by our product mix and could be adversely affected by further growth in sales of products that have lower gross margins. Our gross margin may also be impacted by the geographic mix of our revenue and may be adversely affected by increased sales discounts, rebates, royalties, and product pricing attributable to competitive factors. Additionally, our manufacturing-related costs may be negatively impacted by constraints in our supply chain, which in turn could negatively affect gross margin. If any of the preceding factors that in the past have negatively impacted our gross margin arises in the future, our gross margin could decline.

Research and development expense

Research and development expense consists of compensation and benefits costs including variable compensation expense, development and design costs such as mask, prototyping, testing and subcontracting costs, depreciation and amortization of our engineering design tools and equipment costs, stock-based compensation expense, and other expenses such as costs for facilities and travel. During certain periods, research and development expense may fluctuate relative to product development phases and project timing. The following table sets forth our research and development expense and the related change (in thousands, except percentages):

	Three Months Ended			
	May 2, 2015	May 3, 2014	$ Change	% Change
Research and development expense	$16,313	$17,103	$ (790)	(5 %)
Percent of net revenue	29.2 %	46.4 %		

The decrease in research and development expense is primarily due to our restructuring efforts principally through reduction in force during fiscal 2015, the effects of which are being realized during the three months ended May 2, 2015 and decreases of $0.2 million and $0.1 million in support costs and depreciation, respectively. We hired additional employees in more cost beneficial jurisdictions during fiscal 2015 to contribute to the development of emerging technologies within the Smart TV market which partially offset the reductions experienced as part of our restructuring efforts.

Sales and marketing expense

Sales and marketing expense consists primarily of compensation and benefits costs, including commissions to our direct sales force, stock-based compensation expense, trade shows, travel and entertainment expenses and external commissions. Our sales and marketing expense is summarized as follows (in thousands, except percentages):

	Three Months Ended			
	May 2, 2015	May 3, 2014	$ Change	% Change
Sales and marketing expense	$5,811	$5,450	$ 361	7 %
Percent of net revenue	10.4 %	14.8 %		

The increase in sales and marketing expense was largely due to an increase in tradeshow costs of $0.4 million.

General and administrative expense

General and administrative expense consists primarily of compensation and benefits costs, stock-based compensation expense, legal, accounting and other professional fees and facilities expenses. Our general and administrative expense is summarized as follows (in thousands, except percentages):

	Three Months Ended			
	May 2, 2015	May 3, 2014	$ Change	% Change
General and administrative expense	$5,772	$5,031	$ 741	15 %
Percent of net revenue	10.3 %	13.6 %		

The increase in general and administrative expense was primarily due to higher professional fees of $0.6 million associated with legal, information technology and audit and tax activities.

Impairment of IP, mask sets and design tools

We test long-lived assets, including our purchased intangible assets, for impairment whenever events or changes in circumstances, such as a change in technology, indicate that the carrying value of these assets may not be recoverable. If indicators of impairment exist, we determine whether the carrying value of an asset or asset group is recoverable, based on comparisons to undiscounted expected future cash flows that the assets are expected to generate. If an asset is not recoverable, we record an impairment loss equal to the amount by which the carrying value of the asset exceeds its fair value. We primarily use the income valuation approach to determine the fair value of our long-lived assets and purchased intangible assets. We also periodically review our current assets for other-than-temporary declines in fair-value based on the specific identification method and write-down the carrying value when an other-than temporary decline has occurred.

Our business requires investment in purchased intellectual properties, mask sets and design tools that are technologically advanced but can quickly become significantly underutilized or rendered obsolete by rapid changes in demand in the semiconductor industry. We periodically review our purchased intellectual properties, mask sets and design tools for possible impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. As a result of this review, we recorded an impairment charge for a design tool of less than $0.1 million and $0.1 million during the three months ended May 2, 2015 and May 3, 2014, respectively.

Restructuring costs

In fiscal 2013, as a result of significant expansion in our infrastructure and operational activities in connection with purchases and acquisitions that took place between fiscal years 2008 and 2013, and in response to certain redundancies, underperforming operations and delays in programs and product releases, we implemented a restructuring program to realign our global operating expenses with our new business conditions, and to improve efficiency, competitiveness and profitability. Costs relating to facilities closure or lease commitment are recognized when the facility has been exited. Termination costs are recognized when the costs are deemed both probable and estimable and after notification to impacted employees has occurred.

During the quarter ended May 2, 2015, we incurred restructuring charges of less than $0.1 million, substantially all of which was related to facility exit cost adjustments, which was reflected in operating expenses.

During the quarter ended May 3, 2014, as part of our continuing efforts to reduce expenses, we incurred restructuring charges of $1.0 million, all of which was related to workforce reductions of 29 employees across several geographic regions, the majority of which were in our operations in Israel. Of the total restructuring charges recorded in the first fiscal quarter ended May 3, 2014, less than $0.1 million was reflected in cost of revenue and $1.0 million was reflected in operating expenses.

Expenses recognized for restructuring activities impacting our operating expenses are included in “Restructuring costs” in the condensed consolidated statements of operations. Our restructuring measures could negatively impact our revenue and results of operations in the future as a result of less employees developing future products and working to sell our products.

A combined summary of the recent activity of the restructuring plans initiated by us is as follows (in thousands):

	Workforce Reduction	Asset Impairment	Facility Exit Costs	Total	Cumulative Restructuring Costs
Liability, February 1, 2014	$ 363	$ -	$ 2	$ 365	$ 5,570
Charges in fiscal 2015	1,083	-	(20)	1,063	1,063
Cash payments	(1,382)	-	8	(1,374)	-
Non-cash items	38	-	10	48	-
Liability, January 31, 2015	102	-	-	102	6,633
Charges for the three months ended May 2, 2015	3	-	6	9	9
Cash payments	(3)	-	(7)	(10)	-
Non-cash items	-		1	1	-
Balance at May 2, 2015	$ 102	$ -	$ -	$ 102	$ 6,642

Interest and other income (expense), net

The following table sets forth net interest and other income (expense) and the related change (in thousands, except percentages):

	Three Months Ended May 2, 2015	May 3, 2014	$ Change	% Change
Interest and other income (expense), net	$ 671	$ (52)	$ 723	1,390 %

Interest and other income (expense) primarily consists of interest income from marketable securities, income from refundable research and development credits, gains or losses on foreign exchange transactions, gains or losses on sales of marketable securities and gains or losses on disposals of software, equipment and leasehold improvements. The increase of $0.7 million, or 1,390%, for the three months ended May 2, 2015 compared to the corresponding period in the prior fiscal year was primarily due to cash received of $0.5 million, which had been held in an escrow account from the liquidation of an investment that occurred in fiscal 2014 and a favorable change of $0.2 million in foreign currency fluctuations.

Provision for income taxes

We recorded a provision for income taxes of $2.5 million and $1.4 million for the three months ended May 2, 2015 and May 3, 2014, respectively. The increase in tax expense is primarily attributable to higher profitability in taxable jurisdictions in the first quarter of fiscal year 2016 as compared to the same period in fiscal year 2015 and changes in tax reserves. During the three months ended May 2, 2015 and May 3, 2014, we were unable to reasonably project our annual effective tax rate, and therefore computed our provision for income taxes based on year-to-date actual financial results. Included in our provision for income taxes are foreign exchange gains or losses on unsettled income tax liabilities.

Liquidity and Capital Resources

The following table sets forth the balances of cash and cash equivalents and short-term marketable securities (in thousands):

	May 2, 2015	**January 31, 2015**
Cash and cash equivalents	$69,334	$83,502
Short-term marketable securities	8,448	6,347
	$77,782	$89,849

As of May 2, 2015, our principal sources of liquidity consisted of cash and cash equivalents and short-term marketable securities of $77.8 million, which represents approximately $2.20 per share of outstanding common stock as compared to $2.54 as of January 31, 2015. Working capital as of May 2, 2015 was $98.2 million. Total cash and cash equivalents decreased by $14.2 million compared to January 31, 2015, due to changes in operating assets and liabilities of $12.6 million, purchases of intangible and tangible assets of $3.2 million, net purchases of marketable securities of $7.0 million, partially offset by net income generated of $7.9 million after adjusting for non-cash items and $0.7 million of an excess tax benefit from stock-based compensation.

As of May 2, 2015, we held $9.2 million of long-term marketable securities. Although these marketable securities have maturities of greater than one year, we hold them as available-for-sale and may access these funds prior to their contractual maturities.

The following table sets forth the primary net cash inflows and outflows (in thousands):

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Net cash (used in) provided by:		
Operating activities	$(4,676)	$(6,285)
Investing activities	(10,296)	4,716
Financing activities	865	621
Effect of foreign exchange rate changes on cash and cash equivalents	(61)	53
Net decrease in cash and cash equivalents	$(14,168)	$(895)

Cash flows from operating activities

Net cash used in operating activities of $4.7 million for the three months ended May 2, 2015 was primarily due to a net change of $12.6 million in operating assets and liabilities offset by $7.9 million of net income after non-cash adjustments of $8.3 million. Cash used in accounts receivable of $5.4 million during the three months ended May 2, 2015 was primarily related to increased revenue and timing of collections. Cash provided by accounts payable of $2.2 million during the three months ended May 2, 2015 was primarily a result of timing of payments. Cash used in income taxes payable of $3.4 million was primarily the result of large income tax payments in Singapore and Israel. Cash used in inventory of $5.1 million was primarily the result of increased purchases in anticipation of expected demand primarily within the Smart TV and IoT Devices markets.

Net cash used in operating activities of $4.7 million for the three months ended May 2, 2015 represents a $1.6 million decrease from the cash used in operating activities during the corresponding period in fiscal 2015. The change was partially attributable to the decrease in net loss of $10.5 million after adjusting for non-cash items. Changes in cash provided by accounts payable contributed $6.6 million to the overall increase from the three months ended May 3, 2014. Changes in cash used for inventory and accounts receivable of $5.6 million and $9.3 million, respectively, partially offset our increase in earnings.

During the three months ended May 2, 2015, we experienced higher media processor wafer purchases resulting in an increase of inventory. The change in accounts payable from the corresponding period in fiscal 2015 was primarily due to timing of payments. The change in accounts receivable from the corresponding period in fiscal 2015 was primarily the result of increased revenue as well as the timing of product shipments and collections.

Cash flows from our operating activities will continue to fluctuate based upon our ability to grow net revenues while reducing our costs through restructuring efforts and managing the timing of payments to us from customers and to vendors from us, the timing of inventory purchases and subsequent manufacture and sale of our products.

Cash flows from investing activities

Net cash used in investing activities was $10.3 million for the three months ended May 2, 2015, which was due to net purchases of marketable securities, purchases of IP and software, equipment and leasehold improvements of $7.0 million, $1.6 million and $1.7 million, respectively. Purchases of intangible and tangible property were primarily to support the development and advancement of emerging technologies within our target markets.

Net cash used in investing activities of $10.3 million for the three months ended May 2, 2015 represents a $15.0 million decrease from the amount of cash provided by investing activities during the corresponding period in fiscal 2015. The decrease was primarily due to the purchases of marketable securities of $7.1 million during the three months ended May 2, 2015 with no corresponding purchase in the corresponding period in the prior fiscal year. Additionally, we received proceeds from the sale and maturities of marketable securities of $6.6 million during the three months ended May 3, 2014 with nominal sales or maturities during the three months ended May 2, 2015. Increased purchases of tangible and intangible property and equipment were made in comparison to the corresponding period in fiscal 2015 resulting in a net decrease of $1.1 million.

Cash flows from financing activities

Net cash provided by financing activities was $0.9 million for the three months ended May 2, 2015, which was due to the excess tax benefit from stock-based compensation and net proceeds from the exercise of employee stock options and stock purchase rights. The change from the corresponding period in fiscal 2015 was primarily the result of higher exercise activity related to stock options and stock purchase rights.

Our marketable securities primarily include corporate bonds, money market funds, municipal bonds and notes and fixed income mutual funds. We monitor all of our marketable securities for impairment and if these securities are reported to have had a decline in fair value, we may need to use significant judgment to identify events or circumstances that would likely have a significant adverse effect on the future value of each investment including: (i) the nature of the investment; (ii) the cause and duration of any impairment; (iii) the financial condition and near term prospects of the issuer; (iv) for securities with a reported decline in fair value, our ability to hold the security for a period of time sufficient to allow for any anticipated recovery of fair value; (v) the extent to which fair value may differ from cost; and (vi) a comparison of the income generated by the securities compared to alternative investments. We would recognize an impairment charge if a decline in the fair value of our marketable securities is judged to be other-than-temporary.

Contractual obligations and commitments

We generally do not have guaranteed price or quantity commitments from any of our suppliers. Additionally, we generally acquire products for sale to our customers based on purchase orders received as well as forecasts from such customers. Purchase orders with delivery dates greater than twelve weeks are typically cancelable without penalty to our customers. We currently place non-cancelable orders to purchase semiconductor wafers, other materials and finished goods from our suppliers on an eight to twelve week lead-time basis.

The following table sets forth the amounts of payments due under specified contractual obligations as of May 2, 2015 (in thousands):

	Payments due by Period				
	Fiscal 2016 (Remaining)	**Fiscal 2017 - 2018**	**Fiscal 2019 - 2020**	**Thereafter**	**Total**

	9 months)				
Operating leases	$3,343	$4,410	$1,588	$ 1,143	$10,484
Design tools	5,582	2,698	-	-	8,280
Non-cancelable purchase obligations	29,136	-	-	-	29,136
Total contractual obligations	$38,061	$7,108	$1,588	$ 1,143	$47,900

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our exposure to market risk since January 31, 2015.

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We face exposure to market risk from adverse movements in interest rates and foreign currency exchange rates, which could impact our operations and financial condition. In the past, to mitigate some of the foreign currency exchange rate risk, we utilized derivative financial instruments to hedge certain foreign currency exposures. However, we discontinued this practice in fiscal 2015 as we determined the balance sheet exposure to be relatively low based on the factors described below.

Interest rate sensitivity: As of May 2, 2015 and January 31, 2015, we held approximately $87.0 million and $94.1 million, respectively, of cash, cash equivalents and short-term and long-term marketable securities. If short-term interest rates were to decrease 10%, the decreased interest income associated with these cash, cash equivalents and marketable securities would not have a significant impact on our net income (loss) and cash flows.

Foreign currency exchange rate sensitivity: We transact our revenue in U.S. dollars. The U.S. dollar is our reporting currency. The U.S. dollar is our functional currency except for our subsidiaries in China, Denmark, France, Japan, Taiwan, Korea and Vietnam where the Chinese Yuan, Danish Krone, Euro, Japanese Yen, Taiwanese Dollar, Korean Won and Vietnamese Dong are the functional currencies, respectively. Additionally, significant portions of our Israel subsidiary's expenses are payroll related and are denominated in Israeli Shekels. This foreign currency exposure gives rise to market risk associated with exchange rate movements of the U.S. Dollar against the Israeli Shekel. To the extent the U.S. dollar weakens against the Israeli Shekel, our Israeli subsidiary will experience a negative impact on its results of operations.

As of May 2, 2015, we did not have any foreign exchange forward contracts to hedge certain balance sheet exposures and inter-company balances against future movements in foreign exchange rates.

We maintain certain cash balances denominated in the Chinese Yuan, Danish Krone, Euro, Japanese Yen, Hong Kong Dollar, Israeli Shekel, Singapore Dollar, Taiwanese Dollar, Korean Won and Vietnamese Dong. If foreign exchange rates were to weaken against the U.S. Dollar immediately and uniformly by 10% from the exchange rates at May 2, 2015 and January 31, 2015, the fair value of these foreign currency amounts would decline and we would record a charge of approximately $0.5 million and $0.8 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures and implementing controls and procedures.

As of May 2, 2015, the end of the period covered by this Annual Report on Form 10-Q, we have, with the participation of our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and effectiveness of our disclosure controls and procedures, as such terms are defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities and Exchange Act of 1934 as amended (the "Exchange Act"). Based on this evaluation, we have concluded that our disclosure controls and procedures were effective as of May 2, 2015.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended May 2, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 9, “Commitments and contingencies,” in the Notes to condensed consolidated financial statements, included in Part I, Item 1, of this Form 10-Q.

ITEM 1A. RISK FACTORS

There has been no material changes in the risk factors previously disclosed in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

The Company has established a meeting date for its 2015 annual meeting of shareholders (the “2015 Annual Meeting”). The 2015 Annual Meeting will be held at the Company’s offices located at 47467 Fremont Blvd., Fremont, California beginning at 2:00 P.M., Pacific Time, on August 20, 2015.

ITEM 6. EXHIBITS

(a) Exhibits

The following exhibits are filed herewith:

31.1 Certification of the President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer and Secretary pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)

32.2 Certificate of Chief Financial Officer and Secretary pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

(1) The certificates contained in Exhibits 32.1 and 32.2 are not deemed "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934 and are not to be incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registration specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirement 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.

	SIGMA DESIGNS, INC.
Date: June 9, 2015	
	By: /s/ Thinh Q. Tran
	Thinh Q. Tran
	President and Chief Executive Officer
	(Principal Executive Officer)
	By: /s/ Elias N. Nader
	Elias N. Nader
	Chief Financial Officer and Secretary
	(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

(1) The certificates contained in Exhibits 32.1 and 32.2 are not deemed “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934 and are not to be incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registration specifically incorporates it by reference.