WELLS FARGO ADVANTAGE GLOBAL DIVIDEND OPPORTUNITY FUND
Form N-CSR
December 30, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-22005

Wells Fargo Advantage Global Dividend Opportunity Fund

(Exact name of registrant as specified in charter)

525 Market St., San Francisco, CA 94105

(Address of principal executive offices) (Zip code)

C. David Messman

Wells Fargo Funds Management, LLC

525 Market St., San Francisco, CA 94105

(Name and address of agent for service)

Registrant s telephone number, including area code: 800-222-8222

Date of fiscal year end: October 31

Date of reporting period: October 31, 2014

Table of Contents

ITEM 1. REPORT TO STOCKHOLDERS

Table of Contents

Wells Fargo Advantage

Global Dividend Opportunity Fund

Annual Report

October 31, 2014

This closed-end fund is no longer offered as an initial public offering and is only offered through broker/dealers on the secondary market. A closed-end fund is not required to buy its shares back from investors upon request.

Table of Contents

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Contents

The views expressed and any forward-looking statements are as of October 31, 2014, unless otherwise noted, and are those of the Fund managers and/or Wells Fargo Funds Management, LLC. Discussions of individual securities, or the markets generally, or any Wells Fargo Advantage Fund are not intended as individual recommendations. Future events or results may vary significantly from those expressed in any forward-looking statements; the views expressed are subject to change at any time in response to changing circumstances in the market. Wells Fargo Funds Management, LLC and the Fund disclaim any obligation to publicly update or revise any views expressed or forward-looking statements.

The Fund has filed with the New York Stock Exchange (NYSE) its chief executive officer certification regarding compliance with the NYSE s listing standards and has filed with the SEC the certification of its chief executive officer and chief financial officer required by Section 302 of the Sarbanes-Oxley Act.

NOT FDIC INSURED ¡ NO BANK GUARANTEE ¡ MAY LOSE VALUE

Karla M. Rabusch

President

Wells Fargo Advantage Funds

Dear Valued Shareholder:

We are pleased to offer you this annual report for the *Wells Fargo Advantage Global Dividend Opportunity Fund* for the 12-month period that ended October 31, 2014. The U.S. stock market returned 17.27% for this period (as measured by the S&P 500 Index[1]), bolstered by a moderate pace of U.S. economic growth and the accommodative monetary policy of the U.S. Federal Reserve (Fed). In contrast, international developed markets stocks returned -3.20% (as measured by the MSCI EAFE Index[2]), pulled down by economic weakness in Europe, signs of slowing growth in China, and escalating tensions in Ukraine and the Middle East.

The U.S. economic slowdown in late 2013 early 2014 gave way to a rally through the second quarter of 2014; Europe, however, continued to struggle.

The fourth quarter of 2013 capped a year of strong performance for the U.S. stock market (although the utilities and telecommunication services sectors experienced particularly weak results in November 2013 December 2013). Investors gained confidence from incrementally stronger economic data, which led to the Fed s announcement that it would begin reducing its bond-buying program. However, the U.S. economy began slowing toward the end of 2013 and into 2014 as inclement weather settled in across the country. But investors cautiously looked past negative headlines, and the U.S. stock market ended the first quarter modestly higher, led by the utilities sector. In Europe, although economic data continued to show meager growth during the first quarter of 2014, investors were somewhat encouraged by supportive comments from European central bankers.

The second quarter of 2014 brought warmer temperatures that helped the U.S. economy pick up some steam. Investors were heartened by strengthening economic data, driving a solid advance for U.S. stocks. Within the U.S. stock market, the utilities sector was among the second quarter s top-performing sectors. In Europe, signs of economic improvement faded when GDP stagnated during the quarter. Although select countries, such as Spain and Portugal, provided bright spots, some of Europe s larger economies were pressured by weak economic growth and potential deflation. European stock returns generally were positive, but lackluster.

Positive U.S. economic data but increased tensions abroad led to heightened volatility throughout the last four months of the reporting period (July 2014 October 2014).

The second quarter s stock market rally in the U.S. carried into the very beginning of the third quarter of 2014. As the quarter progressed, however, the market experienced bouts of volatility as interest-rate uncertainties and increased tensions abroad worried investors. The U.S. stock market ended the third quarter up slightly, buoyed by positive economic data released during the quarter (especially a second upward revision of second-quarter GDP to 4.6%, from 4.2%). But market volatility continued in October 2014, and U.S. stocks sold off significantly. However, on the last day of October 2014, the Bank of Japan unexpectedly announced an extension of its qualitative and quantitative easing programs. Investors responded positively, pushing the U.S. stock market into positive territory for the month. In contrast to the U.S., the eurozone economy continued to sag. The weak economy has caused many European investors to lose confidence. Despite new stimulus measures announced

1. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock s weight in the index proportionate to its market value. You cannot invest directly in an index.

2. The Morgan Stanley Capital International Europe, Australasia, and Far East (MSCI EAFE) Index is an unmanaged group of securities widely regarded by investors to be representations of the stock markets of Europe, Australasia, and the Far East. You cannot invest directly in an index.

Table of Contents

by the European Central Bank in early September 2014, businesses and consumers across the 18 eurozone countries were gloomier about their prospects in September 2014 than at any time since the end of 2013.

Dividend-paying stocks tended to deliver positive results during the reporting period, especially within the utilities and financials sectors.

With the continued low yields for bonds during the reporting period, dividend-paying stocks were a big draw for investors seeking yield. They also drew investors who were seeking more defensive investments. Utilities and financials stocks in particular benefited in this environment. Utilities stocks were especially desirable because historically many tend to deliver steady revenues and profits due to their regulated businesses, and they were strong performers during the first eight months of the reporting period. However, from roughly the end of June 2014 through the end of September 2014, utilities stocks declined. This downturn coincided with a drop in natural gas prices caused largely by cooler-than-expected temperatures, which led to minimal use of gas-powered air conditioners, and robust oil drilling in the U.S. that boosted the natural gas supply in a low-demand environment. But utilities stocks bounced back in October 2014 as stock market volatility caused investors to become more defensive, bond yields declined further, and natural gas prices spiked up 11% near month-end (although not enough to overcome October s earlier price declines).

Don t let short-term uncertainty derail long-term investment goals.

Periods of uncertainty can present challenges, but experience has taught us that maintaining long-term investment goals can be an effective way to plan for the future. Although diversification cannot guarantee an investment profit or prevent losses, we believe it can be an effective way to manage investment risk and potentially smooth out overall portfolio performance. We encourage investors to know their investments and to understand that appropriate levels of risk-taking may unlock opportunities.

Thank you for choosing to invest with *Wells Fargo Advantage Funds*. We appreciate your confidence in us and remain committed to helping you meet your financial needs. For current information about your fund investments, contact your investment professional, visit our website at **wellsfargoadvantagefunds.com**, or call us directly at **1-800-222-8222**. We are available 24 hours a day, 7 days a week.

Sincerely,

Karla M. Rabusch

President

Wells Fargo Advantage Funds

Dividend-paying stocks tended to deliver positive results during the reporting period, especially within the utilities and financials sectors.

Periods of uncertainty can present challenges, but experience has taught us that maintaining long-term investment goals can be an effective way to plan for the future.

Table of Contents

Investment objective

The Fund s primary investment objective is to seek a high level of current income. The Fund s secondary objective is long-term growth of capital.

Adviser

Wells Fargo Funds Management, LLC

Subadvisers

Crow Point Partners, LLC

Wells Capital Management Incorporated

Portfolio managers

Timothy P. O Brien, CFA

Kandarp Acharya, CFA, FRM

Christian L. Chan, CFA

Average annual total returns[1] (%) as of October 31, 2014

	1 Year	5 Year	Since inception 3-28-2007
Based on market value	15.29	7.19	0.26
Based on net asset value (NAV) per share	11.19	7.61	1.82

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a shareholder may pay on fund distributions or the sales of fund shares. *Investment return and principal value of an investment will fluctuate so that an investor s shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted, which assumes the reinvestment of dividends and capital gains. Performance figures of the Fund do not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares. If taxes and such brokerage commissions had been reflected, performance would have been lower. To obtain performance information current to the most recent month-end, please call 1-800-222-8222.*

The Fund s expense ratio for the year ended October 31, 2014, was 1.07%.

Comparison of NAV vs. market value since inception[2]

Derivatives involve risks, including interest-rate risk, credit risk, the risk of improper valuation, and the risk of non-correlation to the relevant instruments they are designed to hedge or closely track. There are numerous risks associated with transactions in options on securities and/or indexes. As a writer of an index call option, the Fund forgoes the opportunity to profit from increases in the values of securities held by the Fund. However, the Fund has retained the risk of loss (net of premiums received) should the values of the Fund s portfolio securities decline. Similar risks are involved with writing call options or secured put options on individual securities held in the Fund s portfolio. This combination of potentially limited appreciation and potentially unlimited depreciation may lead to a decline in the net asset value of the Fund. The Fund s dividend capture strategy may lead to a similar result. Dividend capture strategies involve the Fund purchasing a stock before an ex-dividend date so it becomes entitled to the dividend and then typically selling the stock on or after the stock s ex-dividend date. Any decline in the value of the stock reflecting the dividend payment may over time lead to a decline in the net asset value of the Fund. Dividend capture also increases the portfolio turnover rate and related transaction costs of the Fund. Foreign investments are especially volatile and can rise or fall dramatically due to differences in the political and economic conditions of the host country. These risks are generally intensified in emerging markets. Small- and mid-cap securities may be subject to special risks associated with narrower product lines and limited financial resources compared with their large-cap counterparts, and, as a result, small- and mid-cap securities may decline significantly in market downturns and may be more volatile than those of larger companies due to their higher risk of failure. High-yield, lower-rated bonds may contain more risk due to the increased possibility of default. Illiquid securities may be subject to wide fluctuations in market value. The Fund may be subject to significant delays in disposing of illiquid securities. Accordingly, the Fund may be forced to sell these securities at less than fair market value or may not be able to sell them when the adviser or subadviser believes that it is desirable to do so.

1. Total returns based on market value are calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Total returns based on NAV are calculated based on the NAV at the beginning of the period and end of the period. Dividends and distributions, if any, are assumed for the purposes of these calculations to be reinvested at prices obtained under the Fund s Automatic Dividend Reinvestment Plan.

2. This chart does not reflect any brokerage commissions charged on the purchase and sale of the Fund s common stock. Dividends and distributions paid by the Fund have the effect of reducing the Fund s NAV.

Table of Contents

MANAGERS DISCUSSION

The Fund s return based on market value was 15.29% during the 12-month period that ended October 31, 2014. During the same period, the Fund s return based on its net asset value was 11.19%.

Overview

In the year that ended October 31, 2014, the Fund was positioned a bit less defensively compared with the prior 12-month period, with a lower allocation to cash and a reduction in the preferred-stock weighting. As of October 31, 2014, the Fund s allocation to U.S. stocks was higher than it was at the beginning of November 2013.

U.S. economic growth improved throughout the reporting period. Although the unemployment rate in the U.S. continued to decline, a notable portion of the decline can be attributed to discouraged workers exiting the labor force. Domestic jobs growth remained depressed, stuck at roughly 200,000 jobs added per month. During the period, U.S. equity and debt markets continued to be buoyed by quantitative monetary easing, which ended in October 2014 in the U.S. In this environment, U.S. dividend-paying stocks (particularly utilities), which lagged badly in 2013, performed well in 2014 as of October 31, 2014 in line with the recent strength in bond performance. In contrast with the U.S., economies in Europe and Japan delivered lackluster performance; after several years of hardship, economic growth in both locations remained elusive.

In addition to its common and preferred stock holdings, the Fund uses an options overlay strategy. Within this strategy, we continued to follow our process of selecting where to write call options by evaluating market-specific option premiums and writing only when we believed the potential rewards were sufficiently high. On the risk management front, once an option was written, we continued to monitor the underlying markets and changes to volatility. If our stop-loss thresholds were crossed, we covered the written call and looked for an opportunity to roll the option to the next month.

Ten largest holdings[3] (%) as of October 31, 2014	
Red Electrica Corporation SA	5.62
Hera SpA	5.02
Fortum Oyj	4.97
NTT DoCoMo Incorporated	4.74
Suez Environnement Company SA	4.01
Vodafone Group plc ADR	3.96
Chatham Lodging Trust	3.67
Deutsche Post AG	3.59
Veresen Incorporated	3.28
Lagardere SCA	2.32

Sector distribution[4] as of October 31, 2014

Contributors to performance

Fund holdings that contributed to performance included Red Electrica Corporacion SA, Hera SpA, Chatham Lodging Trust, National Grid plc, Shenandoah Telecommunications Company, and Physicians Realty Trust. Red Electrica, which operates Spain s high-voltage electricity transmission network, rose on news of significant tariff reform in Spain s electricity market. Hera, a regional Italian multi-utility that operates electric, gas, and water utilities, improved its efficiency by acquiring municipal utility systems at attractive prices. Chatham Lodging is a select-service hotel real estate investment trust. Select-service hotels such as Chatham Lodging have reached a point in the cycle at which it is no longer necessary to lower prices to drive occupancy; rather, rates can be raised because occupancy levels are healthy. We expect this positive pricing environment to continue for Chatham Lodging for at least the next several years because the industry is not expected to bring on enough new supply to negatively affect room rates for at least several more years. National Grid spent several years improving its operating results and rebuilding relationships with regulatory authorities, and its

operational performance and financial results have improved markedly. Shenandoah Telecom, which is primarily a wireless company operating part of Sprint Nextel Corporation s network, also has a burgeoning cable-TV business that grew through Shenandoah s acquisition, and subsequent improvement, of undercapitalized cable systems. Physicians Realty (which the Fund has owned since its 2013 initial public offering) bought health care properties at attractive yields and was able to improve its already-generous dividend.

In the options overlay portfolio, our investment strategy generated small premiums in times of low volatility during the reporting period.

3. The ten largest holdings are calculated based on the value of the securities divided by total net assets of the Fund. Holdings are subject to change and may have changed since the date specified.

4. Percentages are subject to change and are calculated based on the total long-term investments of the Fund.

Table of Contents

Detractors from performance

Within the options overlay portfolio, the net loss from calls written during two episodes of high volatility (one in August 2014, the other in October 2014) detracted from the portfolio s performance for the reporting period. Although larger-than-average premiums were collected when these calls were written, stop-loss thresholds were crossed when the high volatility subsided. As a result, the cost of covering the written calls surpassed the premiums that were collected at the times the calls were written.

Country allocation[4] as of October 31, 2014

Outlook

We recently have been seeing what appears to be a more solid economic recovery in the U.S. Although stronger economic growth should be positive for both the economy and equity investors, we believe stronger economic growth may eventually result in rising interest rates should monetary policy become less accommodative. In our view, this situation may result in a more challenging environment for preferred stocks and high-yielding common stocks. In terms of Europe, we have become less pessimistic regarding the economic situation due to the increased accommodation by the European Central Bank in recent months. However, given our positive outlook for the dollar, we believe foreign currency exposure may be a future challenge. In the near term, we don t expect a pick-up in cross-border merger and acquisition (M&A) activity by European utilities, but we believe there may be potential for M&A acceleration within the telecommunications sector that could create investment opportunities.

Regarding the Fund s options overlay portfolio, we expect to continue following our strategy of systematically collecting small premiums by writing calls that we believe have a small probability of ending up in the money. (For a call option, in the money means the option s strike price is below the market price of the underlying asset.)

Please see footnotes on page 5.

Table of Contents

Security name	Shares	Value
Common Stocks: 71.65%		
Austria: 0.72%		
Verbund AG (Utilities, Electric Utilities)	150,000	$ 3,031,057
Canada: 7.52%		
Enbridge Incorporated (Energy, Oil, Gas & Consumable Fuels)	150,000	7,104,000
Rogers Communications Incorporated Class A (Telecommunication Services, Wireless Telecommunication Services)	200,000	7,530,000
Veresen Incorporated (Energy, Oil, Gas & Consumable Fuels)	875,000	13,733,863
Veresen Incorporated Subscription Receipts (Energy, Oil, Gas & Consumable Fuels)	200,000	3,139,169
		31,507,032
Finland: 4.97%		
Fortum Oyj (Utilities, Electric Utilities)	900,000	20,853,671
France: 6.60%		
Lagardere SCA (Consumer Discretionary, Media)	400,000	9,731,964
Suez Environnement Company SA (Utilities, Multi-Utilities)	999,999	16,829,789
Veolia Environnement SA (Utilities, Multi-Utilities)	65,045	1,086,951
		27,648,704
Germany: 3.60%		
Deutsche Post AG (Industrials, Air Freight & Logistics)	480,000	15,070,884
Israel: 0.10%		
magicJack VocalTec Limited (Telecommunication Services, Diversified Telecommunication Services)	43,050	400,365
Italy: 6.68%		

ENI SpA (Energy, Oil, Gas & Consumable Fuels)	200,000	4,260,710
Hera SpA (Utilities, Multi-Utilities)	8,000,000	21,052,922
SNAM SpA (Utilities, Gas Utilities)	500,000	2,700,538
		28,014,170
Japan: 5.03%		
Nippon Telegraph & Telephone Corporation ADR (Telecommunication Services, Diversified Telecommunication Services)	25,000	787,000
NTT DoCoMo Incorporated (Telecommunication Services, Wireless Telecommunication Services)	1,200,000	19,892,277
NTT DoCoMo Incorporated ADR (Telecommunication Services, Wireless Telecommunication Services)	25,000	421,750
		21,101,027
Spain: 6.55%		
Endesa SA (Utilities, Electric Utilities)	200,000	3,893,537
Red Electrica Corporation SA (Utilities, Electric Utilities)	270,000	23,562,731
		27,456,268
Switzerland: 1.44%		
Swiss Reinsurance AG (Financials, Insurance)	75,000	6,056,748
United Kingdom: 8.52%		
National Grid plc (Utilities, Multi-Utilities)	500,000	7,406,613
Pennon Group plc (Utilities, Water Utilities)	400,000	5,333,402

The accompanying notes are an integral part of these financial statements.

Table of Contents

Security name	Shares	Value
United Kingdom (continued)		
Severn Trent plc (Utilities, Water Utilities)	200,000	$ 6,386,005
Vodafone Group plc ADR (Telecommunication Services, Wireless Telecommunication Services)	500,000	16,610,000
		35,736,020
United States: 19.92%		
AG Mortgage Investment Trust Incorporated (Financials, REITs)	20,000	381,400
Ameresco Incorporated Class A (Industrials, Construction & Engineering)	131,000	1,079,440
Ashford Hospitality Prime Incorporated (Financials, REITs)	302,100	5,235,393
CenturyLink Incorporated (Telecommunication Services, Diversified Telecommunication Services)	100,000	4,148,000
Chatham Lodging Trust (Financials, REITs)	600,000	15,372,000
CorEnergy Infrastructure Trust Incorporated (Financials, REITs)	90,000	675,900
Energen Corporation (Energy, Oil, Gas & Consumable Fuels)	55,000	3,723,500
Excel Trust Incorporated (Financials, REITs)	700,000	9,100,000
Medley Capital Corporation (Financials, Capital Markets)	100,000	1,162,000
NorthStar Asset Management Group Incorporated (Financials, Capital Markets)	62,500	1,132,500
NorthStar Realty Finance Corporation (Financials, REITs)	62,500	1,161,250
PacWest Bancorp (Financials, Banks)	200,000	8,532,000
PG&E Corporation (Utilities, Multi-Utilities)	55,000	2,767,600
Physicians Realty Trust (Financials, REITs)	342,500	5,253,950
PNM Resources Incorporated (Utilities, Electric Utilities)	100,000	2,885,000

Preferred Apartment Communities Incorporated Class A (Financials, REITs)			480,000	4,080,000
SCANA Corporation (Utilities, Multi-Utilities)			50,000	2,744,500
Shenandoah Telecommunications Company (Telecommunication Services, Wireless Telecommunication Services)			249,999	7,397,470
Spark Energy Incorporated Class A (Utilities, Electric Utilities)			126,000	2,041,200
Summit Hotel Properties Incorporated (Financials, REITs)			397,833	4,630,776
				83,503,879
Total Common Stocks (Cost $278,780,166)				300,379,825

Corporate Bonds and Notes: 0.99%	**Interest rate**	**Maturity date**	**Principal**	
United States: 0.99%				
Energy and Exploration Partners Incorporated (Energy, Oil, Gas & Consumable Fuels) (i)	8.00%	7-1-2019	$ 5,000,000	4,125,000
Total Corporate Bonds and Notes (Cost $5,000,000)				4,125,000

Preferred Stocks: 25.44%	**Dividend yield**		**Shares**	
Marshall Islands: 4.21%				
Navios Maritime Holdings Incorporated (Industrials, Marine)	8.63		59,000	1,393,580
Safe Bulkers Incorporated (Industrials, Marine)	8.00		50,000	1,147,500
Scorpio Bulkers Incorporated (Industrials, Marine)	7.50		105,000	2,577,750
Scorpio Tankers Incorporated (Energy, Oil, Gas & Consumable Fuels)	6.75		40,000	928,000
Scorpio Tankers Incorporated (Energy, Oil, Gas & Consumable Fuels)	7.50		280,000	7,000,000
Seaspan Corporation (Industrials, Marine)	6.38		105,000	2,677,500
Seaspan Corporation Series E (Industrials, Marine)	8.25		75,000	1,950,000
				17,674,330

The accompanying notes are an integral part of these financial statements.

Table of Contents

Security name	Dividend yield	Shares	Value
United States: 21.23%			
American Financial Group Incorporated (Financials, Insurance)	6.25%	50,000	$ 1,238,500
AmTrust Financial Services Series C (Financials, Insurance)	7.63	50,000	1,231,500
Arlington Asset Investment (Financials, Capital Markets)	6.63	110,000	2,680,700
Atlas Pipeline Partners Series E (Energy, Oil, Gas & Consumable Fuels)	8.25	125,000	3,255,000
Bank of America Corporation Series 5 (Financials, Banks) ±	4.96	40,000	818,000
Breitburn Energy Partner Incorporated Series A (Energy, Oil, Gas & Consumable Fuels)	8.25	185,000	4,563,950
Capitala Finance Corporation (Financials, Capital Markets)	7.13	40,000	1,020,000
Citigroup Incorporated Series L (Financials, Banks)	6.88	70,000	1,785,700
Cowen Group Incorporated (Financials, Capital Markets)	8.25	100,000	2,560,000
Customers Bancorp Incorporated (Financials, Banks)	6.38	107,450	2,825,935
DTE Energy Company Series Q (Utilities, Multi-Utilities)	5.25	3,265	79,797
DTE Energy Company Series Z (Utilities, Multi-Utilities)	6.50	1,900	51,015
DuPont Fabros Technology Incorporated Series A (Financials, REITs)	7.88	20,269	518,886
Entergy Arkansas Incorporated (Utilities, Electric Utilities)	4.90	120,000	2,848,800
Entergy Louisiana LLC (Utilities, Electric Utilities)	5.25	45,000	1,125,000
Gastar Exploration Incorporated Series B (Energy, Oil, Gas & Consumable Fuels)	10.75	56,900	1,495,901
GreenHunter Resources Incorporated (Energy, Energy Equipment & Services)	10.55	61,786	1,471,743

Hercules Technology Growth Capital Incorporated (Financials, Capital Markets)	6.25		125,000	3,100,000
HSBC USA Incorporated (Financials, Banks) ±	4.04		32,000	702,400
Indianapolis Power & Light Company (Utilities, Electric Utilities)	5.65		22,000	2,158,750
Integrys Energy Group (Utilities, Multi-Utilities) ±	5.74		100,000	2,612,000
Invesco Mortgage Capital Series B (Financials, REITs)	7.75		75,000	1,788,000
Kemper Corporation (Financials, Insurance)	7.38		49,102	1,281,562
Legacy Reserves LP Series A (Energy, Oil, Gas & Consumable Fuels) ±	4.99		29,500	682,925
Legacy Reserves LP Series B (Energy, Oil, Gas & Consumable Fuels) ±	3.56		100,000	2,305,000
Magnum Hunter Resources Corporation (Energy, Oil, Gas & Consumable Fuels)	8.00		75,000	1,837,500
Miller Energy Resources Series D (Energy, Oil, Gas & Consumable Fuels) ±	13.83		100,000	2,219,000
NextEra Energy Capital Holding Incorporated Series I (Utilities, Electric Utilities)	5.13		243,000	5,508,810
NextEra Energy Capital Holding Incorporated Series J (Utilities, Electric Utilities)	5.00		233,000	5,193,570
PPL Capital Funding Incorporated Series B (Utilities, Electric Utilities)	5.90		142,300	3,465,005
Qwest Corporation (Telecommunication Services, Diversified Telecommunication Services)	6.13		205,000	4,825,700
Resource Capital Corporation (Financials, REITs)	3.54		25,000	592,750
SCE Trust II (Utilities, Electric Utilities)	5.10		268,200	5,972,814
Sotherly Hotels Incorporated (Financials, REITs)	8.00		284,000	7,463,889
Urstadt Biddle Properties Series G (Financials, REITs)	6.75		40,000	1,014,000
Vanguard Natural Resources LLC Series B (Energy, Oil, Gas & Consumable Fuels)	7.63		150,000	3,529,500
Vanguard Natural Resources LLC Series C (Energy, Oil, Gas & Consumable Fuels)	7.75		133,500	3,169,290
				88,992,892
Total Preferred Stocks (Cost $107,085,614)				106,667,222
		Expiration date		
Warrants: 0.01%				
United States: 0.01%				
GreenHunter Water LLC (Energy, Energy Equipment & Services) *(a)*		12-31-2049	96,112	56,093

Total Warrants (Cost $0)	56,093

The accompanying notes are an integral part of these financial statements.

Table of Contents

Security name		Yield	Shares	Value
Short-Term Investments: 0.79%				
Investment Companies: 0.79%				
Wells Fargo Advantage Cash Investment Money Market Fund, Select Class (l)(u)		0.07%	3,322,411	$ 3,322,411
Total Short-Term Investments (Cost $3,322,411)				3,322,411
Total investments in securities (Cost $394,188,191) *	98.88%			414,550,551
Other assets and liabilities, net	1.12			4,706,733
Total net assets	**100.00%**			**$ 419,257,284**

Non-income-earning security

(i) Illiquid security for which the designation as illiquid is unaudited.

± Variable rate investment. The rate shown is the rate in effect at period end.

(a) The security is fair valued in accordance with procedures approved by the Board of Trustees.

(l) The security represents an affiliate of the Fund as defined in the Investment Company Act of 1940.

(u) The rate represents the 7-day annualized yield at period end.

* Cost for federal income tax purposes is $392,243,984 and unrealized gains (losses) consists of:

Gross unrealized gains	$ 48,990,057
Gross unrealized losses	(26,683,490)
Net unrealized gains	$ 22,306,567

The accompanying notes are an integral part of these financial statements.

Table of Contents

Assets	
Investments	
In unaffiliated securities, at value (cost $390,865,780)	$ 411,228,140
In affiliated securities, at value (cost $3,322,411)	3,322,411
Total investments, at value (cost $394,188,191)	414,550,551
Foreign currency, at value (cost $6,460,423)	6,396,432
Receivable for investments sold	5,905,032
Receivable for dividends and interest	1,740,522
Prepaid expenses and other assets	28,685
Total assets	428,621,222
Liabilities	
Payable for investments purchased	3,570,634
Written options, at value (premiums received $238,429)	1,041,143
Due to custodian bank	4,250,000
Advisory fee payable	351,093
Administration fee payable	18,479
Accrued expenses and other liabilities	132,589
Total liabilities	9,363,938
Total net assets	**$ 419,257,284**
NET ASSETS CONSIST OF	
Paid-in capital	$ 855,890,543
Undistributed net investment income	440,187
Accumulated net realized losses on investments	(456,599,399)
Net unrealized gains on investments	19,525,953
Total net assets	**$ 419,257,284**
NET ASSET VALUE PER SHARE	
Based on $419,257,284 divided by 49,160,825 shares issued and outstanding (unlimited shares authorized)	$8.53

The accompanying notes are an integral part of these financial statements.

Table of Contents

Statement of operations year ended October 31, 2014

Investment income	
Dividends (net of foreign withholding taxes of $2,627,304)	$ 42,813,021
Interest	132,046
Income from affiliated securities	8,088
Total investment income	42,953,155
Expenses	
Advisory fee	4,044,465
Administration fee	212,867
Custody and accounting fees	58,636
Professional fees	71,598
Shareholder report expenses	88,931
Trustees fees and expenses	8,977
Transfer agent fees	28,347
Other fees and expenses	54,838
Total expenses	4,568,659
Net investment income	38,384,496
REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS	
Net realized gains (losses) on:	
Unaffiliated securities	1,277,875
Written options	(114,318)
Net realized gains on investments	1,163,557
Net change in unrealized gains (losses) on:	
Unaffiliated securities	3,005,638
Written options	(820,581)
Net change in unrealized gains (losses) on investments	2,185,057
Net realized and unrealized gains (losses) on investments	3,348,614
Net increase in net assets resulting from operations	**$ 41,733,110**

The accompanying notes are an integral part of these financial statements.

Table of Contents

	Year ended October 31, 2014	Year ended October 31, 2013
Operations		
Net investment income	$ 38,384,496	$ 41,278,104
Net realized gains (losses) on investments	1,163,557	(32,169,379)
Net change in unrealized gains (losses) on investments	2,185,057	39,649,775
Net increase in net assets resulting from operations	41,733,110	48,758,500
Distributions to shareholders from		
Net investment income	(35,395,808)	(40,688,157)
Tax basis return of capital	0	(606,936)
Total distributions to shareholders	(35,395,808)	(41,295,093)
Total increase in net assets	6,337,302	7,463,407
Net assets		
Beginning of period	**412,919,982**	**405,456,575**
End of period	**$ 419,257,284**	**$ 412,919,982**
Undistributed (overdistributed) net investment income	**$ 440,187**	**$ (346)**

The accompanying notes are an integral part of these financial statements.

Table of Contents

(For a share outstanding throughout each period)

	Year ended October 31				
	2014	2013	2012	2011	2010
Net asset value, beginning of period	**$ 8.40**	**$ 8.25**	**$ 8.92**	**$ 10.36**	**$ 10.38**
Net investment income	0.78	0.84	0.91	1.00	0.99
Net realized and unrealized gains (losses) on investments	0.07	0.15	(0.46)	(1.32)	0.11
Total from investment operations	0.85	0.99	0.45	(0.32)	1.10
Distributions to shareholders from					
Net investment income	(0.72)	(0.83)	(0.86)	(1.12)	(0.98)[1]
Tax basis return of capital	0.00	(0.01)	(0.26)	0.00	(0.14)[1]
Total distributions to shareholders	(0.72)	(0.84)	(1.12)	(1.12)	(1.12)
Net asset value, end of period	**$ 8.53**	**$ 8.40**	**$ 8.25**	**$8.92**	**$ 10.36**
Market value, end of period	**$ 7.96**	**$ 7.56**	**$ 7.98**	**$8.32**	**$ 10.39**
Total return based on market value[2]	**15.29%**	**5.55%**	**9.79%**	**(9.76)%**	**17.35%**
Ratios to average net assets (annualized)					
Gross expenses	1.07%	1.08%	1.08%	1.05%	1.14%
Net expenses	1.07%	1.08%	1.08%	1.05%	1.14%
Net investment income	9.02%	10.26%	10.82%	10.16%	9.73%
Supplemental data					
Portfolio turnover rate	76%	163%	93%	129%	90%
Net assets, end of period (000s omitted)	$419,257	$412,920	$405,457	$438,084	$507,765

1. Calculated based upon average shares outstanding

2. Total return is calculated assuming a purchase of common stock on the first day and sale on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund s Automatic Dividend Reinvestment Plan. Total return does not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares.

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

The *Wells Fargo Advantage Global Dividend Opportunity Fund* (the Fund) was organized as a statutory trust under the laws of the state of Delaware on December 21, 2006 and is registered as a diversified closed-end management investment company under the Investment Company Act of 1940, as amended.

2. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies, which are consistently followed in the preparation of the financial statements of the Fund, are in conformity with U.S. generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities valuation

All investments are valued each business day as of the close of regular trading on the New York Stock Exchange (generally 4 p.m. Eastern Time).

Equity securities and options that are listed on a foreign or domestic exchange or market are valued at the official closing price or, if none, the last sales price. If no sale occurs on the primary exchange or market for the security that day, the prior day s price will be deemed stale and fair values will be determined in accordance with the Fund s Valuation Procedures. Non-listed OTC options are typically valued at the evaluated price provided by an independent pricing service or an independent broker-dealer that the Management Valuation Team of Wells Fargo Funds Management, LLC (Funds Management) has determined is an acceptable source.

The values of securities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team.

Many securities markets and exchanges outside the U.S. close prior to the close of the New York Stock Exchange and therefore may not fully reflect trading or events that occur after the close of the principal exchange in which the foreign securities are traded, but before the close of the New York Stock Exchange. If such trading or events are expected to materially affect the value of such securities, then fair value pricing procedures approved by the Board of Trustees of the Fund are applied. These procedures take into account multiple factors including movements in U.S. securities markets after foreign exchanges close. Foreign securities that are fair valued under these procedures are categorized as Level 2 and the application of these procedures may result in transfers between Level 1 and Level 2. Depending on market activity, such fair valuations may be frequent. Such fair value pricing may result in net asset values that are higher or lower than net asset values based on the last reported sales price or latest quoted bid price. On October 31, 2014, such fair value pricing was not used in pricing foreign securities.

Fixed income securities acquired with maturities exceeding 60 days are valued based on evaluated bid prices provided by an independent pricing service which may utilize both transaction data and market information such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data. If prices are not available from the independent pricing service or prices received are deemed not representative of market value, prices will be obtained from an independent broker-dealer.

Investments in registered open-end investment companies are valued at net asset value.

Investments which are not valued using any of the methods discussed above are valued at their fair value, as determined in good faith by the Board of Trustees. The Board of Trustees has established a Valuation Committee comprised of the Trustees and has delegated to it the authority to take any actions regarding the valuation of portfolio securities that the Valuation Committee deems necessary or appropriate, including determining the fair value of portfolio securities, unless the determination has been delegated to the Management Valuation Team. The Board of Trustees retains the authority to make or ratify any valuation decisions or approve any changes to the Valuation Procedures as it deems appropriate. On a quarterly basis, the Board of Trustees receives reports on any valuation actions taken by the Valuation Committee or the Management Valuation Team which may include items for ratification.

Valuations of fair valued securities are compared to the next actual sales price when available, or other appropriate market values, to assess the continued appropriateness of the fair valuation methodologies used. These securities are fair valued on a day-to-day basis, taking into consideration changes to appropriate market information and any significant changes to the inputs considered in the valuation process until there is a readily available price provided on an exchange or by an independent pricing service. Valuations received from an independent pricing service or independent broker-dealer quotes are periodically validated by comparisons to most recent trades and valuations provided by other independent pricing services in addition to the review of prices by the adviser and/or subadviser. Unobservable inputs used in determining fair valuations are identified based on the type of security, taking into consideration factors utilized by market participants in valuing the investment, knowledge about the issuer and the current market environment.

Foreign currency translation

The accounting records of the Fund are maintained in U.S. dollars. The values of other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at rates provided by an independent foreign currency pricing source at a time each business day specified by the Management Valuation Team. Purchases and sales of securities, and income and expenses are converted at the rate of exchange on the respective dates of such transactions. Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded and the U.S. dollar equivalent of the amounts actually paid or received. Net unrealized foreign exchange gains and losses arise from changes in the fair value of assets and liabilities other than investments in securities resulting from changes in exchange rates. The changes in net assets arising from changes in exchange rates and the changes in net assets resulting from changes in market prices of securities are not separately presented. Such changes are included in net realized and unrealized gains or losses from investments.

Options

The Fund is subject to equity price risk and foreign currency exchange rate risk in the normal course of pursuing its investment objectives. The Fund may write covered call options or secured put options on individual securities and/or indexes. When the Fund writes an option, an amount equal to the premium received is recorded as a liability and is subsequently adjusted to the current market value of the written option. Premiums received from written options that expire unexercised are recognized as realized gains on the expiration date. For exercised options, the difference between the premium received and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is treated as a realized gain or loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in calculating the realized gain or loss on the sale. If a put option is exercised, the premium reduces the cost of the security purchased. The Fund, as a writer of an option, bears the market risk of an unfavorable change in the price of the security and/or index underlying the written option.

The Fund may also purchase call or put options. The premium is included in the Statement of Assets and Liabilities as an investment, the value of which is subsequently adjusted based on the current market value of the option. Premiums paid for purchased options that expire are recognized as realized losses on the expiration date. Premiums paid for purchased options that are exercised or closed are added to the amount paid or offset against the proceeds received for the underlying security to determine the realized gain or loss. The risk of loss associated with purchased options is limited to the premium paid.

Options traded on an exchange are regulated and terms of the options are standardized. Purchased options traded over-the-counter expose the Fund to counterparty risk in the event the counterparty does not perform. This risk can be mitigated by having a master netting arrangement between the Fund and the counterparty and by having the counterparty post collateral to cover the Fund s exposure to the counterparty.

Security transactions and income recognition

Securities transactions are recorded on a trade date basis. Realized gains or losses are recorded on the basis of identified cost.

Dividend income is recognized on the ex-dividend date, except for certain dividends from foreign securities, which are recorded as soon as the Fund is informed of the ex-dividend date. Dividend income from foreign securities is recorded net of foreign taxes withheld where recovery of such taxes is not assured.

Interest income is accrued daily and bond discounts are accreted and premiums are amortized daily based on the effective interest method. To the extent debt obligations are placed on non-accrual status, any related interest income may be reduced by writing off interest receivables when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. If the issuer subsequently resumes interest payments or when the collectability of interest is reasonably assured, the debt obligation is removed from non-accrual status.

Distributions to shareholders

Distributions to shareholders from net investment income and net realized gains, if any, are recorded on the ex-dividend date. Such distributions are determined in conformity with federal income tax regulations, which may differ in amount or character from net investment income and realized gains recognized for purposes of U.S. generally accepted accounting principles.

Table of Contents

Federal and other taxes

The Fund intends to continue to qualify as a regulated investment company by distributing substantially all of its investment company taxable income and any net realized capital gains (after reduction for capital loss carryforwards) sufficient to relieve it from all, or substantially all, federal income taxes. Accordingly, no provision for federal income taxes was required.

The Fund s income and federal excise tax returns and all financial records supporting those returns for the prior three fiscal years are subject to examination by the federal and Delaware revenue authorities. Management has analyzed the Fund s tax positions taken on federal, state, and foreign tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability.

Reclassifications are made to the Fund s capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under federal income tax regulations. U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or the net asset value per share. The primary permanent differences causing such reclassifications are due to dividends from certain securities and foreign currency transactions. At October 31, 2014, as a result of permanent book-to-tax differences, the following reclassification adjustments were made on the Statement of Assets and Liabilities:

Paid-in capital	Undistributed net investment income	Accumulated net realized losses on investments
$27,791	$(2,548,155)	$2,520,364

As of October 31, 2014, capital loss carryforwards available to offset future net realized capital gains were as follows through the indicated expiration dates:

2016	2017	2018	No expiration	
			Short-term	Long-term
$164,388,931	$193,644,982	$17,121,810	$49,240,737	$34,224,248

3. FAIR VALUATION MEASUREMENTS

Fair value measurements of investments are determined within a framework that has established a fair value hierarchy based upon the various data inputs utilized in determining the value of the Fund s investments. The three-level hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to significant unobservable inputs (Level 3). The Fund s investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The inputs are summarized into three broad levels as follows:

- Level 1 quoted prices in active markets for identical securities

- Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, use of amortized cost, etc.)

- Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodologies used for valuing investments in securities are not necessarily an indication of the risk associated with investing in those securities.

Table of Contents

The following is a summary of the inputs used in valuing the Fund s assets and liabilities as of October 31, 2014:

	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Investments in :				
Common stocks				
Austria	$ 3,031,057	$ 0	$ 0	$ 3,031,057
Canada	31,507,032	0	0	31,507,032
Finland	20,853,671	0	0	20,853,671
France	27,648,704	0	0	27,648,704
Germany	15,070,884	0	0	15,070,884
Israel	400,365	0	0	400,365
Italy	28,014,170	0	0	28,014,170
Japan	21,101,027	0	0	21,101,027
Spain	27,456,268	0	0	27,456,268
Switzerland	6,056,748	0	0	6,056,748
United Kingdom	35,736,020	0	0	35,736,020
United States	83,503,879	0	0	83,503,879
Preferred stocks				
Marshall Islands	17,674,330	0	0	17,674,330
United States	76,810,253	12,182,639	0	88,992,892
Warrants				
United States	0	56,093	0	56,093
Corporate bonds and notes	0	4,125,000	0	4,125,000
Short-term investments				
Investment companies	3,322,411	0	0	3,322,411
Total assets	**$ 398,186,819**	**$ 16,363,732**	**$ 0**	**$ 414,550,551**
Liabilities				
Written options	$ 0	$ 1,041,143	$ 0	$ 1,041,143
Total liabilities	**$ 0**	**$ 1,041,143**	**$ 0**	**$ 1,041,143**

Transfers in and transfers out are recognized at the end of the reporting period. At October 31, 2014, the Fund did not have any transfers into/out of Level 1, Level 2, or Level 3.

4. TRANSACTIONS WITH AFFILIATES AND OTHER EXPENSES

Advisory fee

Funds Management, an indirect wholly owned subsidiary of Wells Fargo & Company (Wells Fargo), is the adviser to the Fund and is entitled to receive a fee at an annual rate of 0.95% of the Fund s average daily total assets. Total assets consist of the net assets of the Fund plus borrowings or other leverage for investment purposes to the extent excluded in calculating net assets.

Funds Management has retained the services of certain subadvisers to provide daily portfolio management to the Fund. The fees for subadvisory services are borne by Funds Management. Wells Capital Management Incorporated, an affiliate of Funds Management and an indirect wholly owned subsidiary of Wells Fargo, is a subadviser to the Fund and is entitled to receive a fee from Funds Management at an annual rate of 0.10% of the Fund s average daily total assets. Crow Point Partners, LLC is also a subadviser to the Fund and is entitled to receive a fee from Funds Management at an annual rate of 0.20% of the Fund s average daily total assets.

Administration fee

Funds Management also serves as the administrator to the Fund, providing the Fund with a wide range of administrative services necessary to the operation of the Fund. Funds Management is entitled to receive an annual administration fee from the Fund equal to 0.05% of the Fund s average daily total assets.

Table of Contents

5. CAPITAL SHARE TRANSACTIONS

The Fund has authorized an unlimited number of shares with no par value. For the year ended October 31, 2014 and the year ended October 31, 2013, the Fund did not issue any shares.

6. INVESTMENT PORTFOLIO TRANSACTIONS

Purchases and sales of investments, excluding U.S. government obligations (if any) and short-term securities, for the year ended October 31, 2014 were $309,914,356 and $319,725,721, respectively.

7. DERIVATIVE TRANSACTIONS

During the year ended October 31, 2014, the Fund entered into written options for economic hedging purposes.

During the year ended October 31, 2014, the Fund had written call option activities as follows:

	Number of contracts	Premiums received
Options outstanding at October 31, 2013	876	$ 39,713
Options written	10,144	1,846,573
Options expired	(6,852)	(1,105,596)
Options closed	(2,276)	(360,896)
Options exercised	(1,192)	(181,365)
Options outstanding at October 31, 2014	700	$ 238,429

Open written call options at October 31, 2014 were as follows for the Fund:

Expiration date	Counterparty	Description	Number of contracts	Strike price		Value
11-21-2014	Goldman Sachs	CAC 40 Index	271	4,324	EUR	$ (105,474)
11-21-2014	Goldman Sachs	Nikkei 225 Index	102	15,903	JPY	(624,317)
11-21-2014	Goldman Sachs	Hang Seng Index	94	24,694	HKD	(65,162)
11-21-2014	Morgan Stanley	FTSE MIB Index	233	20,105	EUR	(246,190)

The Fund had an average of 740 written option contracts during the year ended October 31, 2014.

The fair value, realized gains or losses and change in unrealized gains or losses, if any, on derivative instruments are reflected in the appropriate financial statements.

For certain types of derivative transactions, the Fund has entered into International Swaps and Derivatives Association, Inc. master agreements (ISDA Master Agreements) or similar agreements with approved counterparties.

The ISDA Master Agreements or similar agreements may have requirements to deliver/deposit securities or cash to/with an exchange or broker-dealer as collateral and allows the Fund to offset, with each counterparty, certain derivative financial instrument s assets and/or liabilities with collateral held or pledged. Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearing house for exchange traded derivatives while collateral terms are contract specific for over-the-counter traded derivatives. Cash collateral that has been pledged to cover obligations of the Fund under ISDA Master Agreements or similar agreements, if any, will be reported separately in the Statement of Assets and Liabilities. Securities pledged as collateral, if any, for the same purpose are noted in the Portfolio of Investments. With respect to balance sheet offsetting, absent an event of default by the counterparty or a termination of the agreement, the reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities are not offset across transactions between the Fund and the applicable counterparty. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by derivative type, including any collateral exposure, is as follows:

Derivative type	Counterparty	Gross amounts of liabilities in the Statement of Assets and Liabilities	Amounts subject to netting agreements	Collateral pledged	Net amount of liabilities
Written options	Goldman Sachs	$794,953	$ 0	$ 0	$ 794,953
	Morgan Stanley	246,190	0	0	246,190

Table of Contents

8. DISTRIBUTIONS TO SHAREHOLDERS

The tax character of distributions paid during the years ended October 31, 2014 and October 31, 2013 were as follows:

	Year ended October 31	
	2014	2013
Ordinary income	$35,395,808	$40,688,157
Tax basis return of capital	0	606,936

As of October 31, 2014, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	Unrealized gains	Capital loss carryforward
$440,517	$21,547,262	$(458,620,708)

9. CONCENTRATION RISK

Concentration risks result from exposure to a limited number of sectors. A fund that invests a substantial portion of its assets in any sector may be more affected by changes in that sector than would be a fund whose investments are not heavily weighted in any sector.

10. INDEMNIFICATION

Under the Trust s organizational documents, the officers and Trustees are indemnified against certain liabilities that may arise out of performance of their duties to the Trust. Additionally, in the normal course of business, the Trust may enter into contracts with service providers that contain a variety of indemnification clauses. The Trust s maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated.

11. SUBSEQUENT DISTRIBUTION

On November 7, 2014, the Fund declared a distribution of $0.18 per share payable on January 2, 2015 to shareholders of record on December 15, 2014.

This distribution is not reflected in the accompanying financial statements. The final determination of the source of all distributions is subject to change and made after the Fund s tax year-end.

Table of Contents

BOARD OF TRUSTEES AND SHAREHOLDERS OF WELLS FARGO ADVANTAGE GLOBAL DIVIDEND OPPORTUNITY FUND:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of the Wells Fargo Advantage Global Dividend Opportunity Fund (the Fund), as of October 31, 2014, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2014, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Wells Fargo Advantage Global Dividend Opportunity Fund as of October 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts

December 23, 2014

Table of Contents

TAX INFORMATION

For corporate shareholders, pursuant to Section 854 of the Internal Revenue Code, 19.89% of ordinary income dividends qualify for the corporate dividends-received deduction for the fiscal year ended October 31, 2014.

Pursuant to Section 854 of the Internal Revenue Code, $33,995,388 of income dividends paid during the fiscal year ended October 31, 2014 has been designated as qualified dividend income (QDI).

Pursuant to Section 853 of the Internal Revenue Code, the Fund expects to designate amounts as foreign taxes paid for the fiscal year ended October 31, 2014. Additional details will be available in the semiannual report.

PROXY VOTING INFORMATION

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling **1-800-222-8222**, visiting our website at **wellsfargoadvantagefunds.com**, or visiting the SEC website at sec.gov. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge on the Fund s website at **wellsfargoadvantagefunds.com** or by visiting the SEC website at sec.gov.

PORTFOLIO HOLDINGS INFORMATION

The complete portfolio holdings for the Fund are publicly available on the Fund s website (**wellsfargoadvantagefunds.com**) on a one-month delayed basis. The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q, which is available without charge by visiting the SEC website at sec.gov. In addition, the Fund s Form N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, DC, and at regional offices in New York City, at 233 Broadway, and in Chicago, at 175 West Jackson Boulevard, Suite 900. Information about the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Table of Contents

BOARD OF TRUSTEES AND OFFICERS

The following table provides basic information about the Board of Trustees (the Trustees) and Officers of the Fund. Each of the Trustees and Officers listed below acts in identical capacities for each fund in the Wells Fargo Advantage family of funds, which consists of 133 mutual funds comprising the Wells Fargo Funds Trust, Wells Fargo Variable Trust, Wells Fargo Master Trust, and four closed-end funds, including the Fund (collectively the Fund Complex). The mailing address of each Trustee and Officer is 525 Market Street, 12th Floor, San Francisco, CA 94105. The Board of Trustees is classified into three classes of which one is elected annually. Each Trustee serves a three-year term concurrent with the class from which the Trustee is elected. Each Officer serves an indefinite term.

Independent Trustees

Name and year of birth	Position held and length of service	Principal occupations during past five years or longer	Other directorships during past five years
Peter G. Gordon (Born 1942)	Trustee, since 2010; Chairman, since 2010	Co-Founder, Retired Chairman, President and CEO of Crystal Geyser Water Company. Trustee Emeritus, Colby College.	Asset Allocation Trust
Isaiah Harris, Jr. (Born 1952)	Trustee, since 2010	Retired. Prior thereto, President and CEO of BellSouth Advertising and Publishing Corp. from 2005 to 2007, President and CEO of BellSouth Enterprises from 2004 to 2005 and President of BellSouth Consumer Services from 2000 to 2003. Emeritus member of the Iowa State University Foundation Board of Governors. Emeritus Member of the Advisory Board of Iowa State University School of Business. Advisory Board Member, Palm Harbor Academy. Mr. Harris is a certified public accountant.	CIGNA Corporation; Asset Allocation Trust
Judith M. Johnson (Born 1949)	Trustee, since 2010; Audit Committee Chairman, since 2010	Retired. Prior thereto, Chief Executive Officer and Chief Investment Officer of Minneapolis Employees Retirement Fund from 1996 to 2008. Ms. Johnson is an attorney, certified public accountant and a certified managerial accountant.	Asset Allocation Trust
Leroy Keith, Jr. (Born 1939)	Trustee, since 2010*	Chairman, Bloc Global Services (development and construction). Trustee of the Evergreen Funds complex (and its predecessors) from 1983 to 2010. Former Managing Director, Almanac Capital Management (commodities firm), former Partner, Stonington Partners, Inc. (private equity fund), former Director, Obagi Medical Products Co. and former Director, Lincoln Educational Services.	Trustee, Virtus Fund Complex (consisting of 50 portfolios as of 12/16/2013); Asset Allocation Trust
	Trustee, since 2010		

David F. Larcker (Born 1950)		James Irvin Miller Professor of Accounting at the Graduate School of Business, Stanford University, Morgan Stanley Director of the Center for Leadership Development and Research and Senior Faculty of The Rock Center for Corporate Governance since 2006. From 2005 to 2008, Professor of Accounting at the Graduate School of Business, Stanford University. Prior thereto, Ernst & Young Professor of Accounting at The Wharton School, University of Pennsylvania from 1985 to 2005.	Asset Allocation Trust
Olivia S. Mitchell (Born 1953)	Trustee, since 2010	International Foundation of Employee Benefit Plans Professor, Wharton School of the University of Pennsylvania since 1993. Director of Wharton s Pension Research Council and Boettner Center on Pensions & Retirement Research, and Research Associate at the National Bureau of Economic Research. Previously, Cornell University Professor from 1978 to 1993.	Asset Allocation Trust
Timothy J. Penny (Born 1951)	Trustee, since 2010	President and CEO of Southern Minnesota Initiative Foundation, a non-profit organization, since 2007 and Senior Fellow at the Humphrey Institute Policy Forum at the University of Minnesota since 1995. Member of the Board of Trustees of NorthStar Education Finance, Inc., a non-profit organization, since 2007.	Asset Allocation Trust

Name and year of birth	Position held and length of service	Principal occupations during past five years or longer	Other directorships during past five years
Michael S. Scofield (Born 1943)	Trustee, since 2007	Served on the Investment Company Institute s Board of Governors and Executive Committee from 2008-2011 as well the Governing Council of the Independent Directors Council from 2006-2011 and the Independent Directors Council Executive Committee from 2008-2011. Chairman of the IDC from 2008-2010. Institutional Investor (Fund Directions) Trustee of Year in 2007. Trustee of the Evergreen Funds complex (and its predecessors) from 1984 to 2010. Chairman of the Evergreen Funds from 2000-2010. Former Trustee of the Mentor Funds. Retired Attorney, Law Offices of Michael S. Scofield.	Asset Allocation Trust
Donald C. Willeke (Born 1940)	Trustee, since 2010	Principal of the law firm of Willeke & Daniels. General Counsel of the Minneapolis Employees Retirement Fund from 1984 until its consolidation into the Minnesota Public Employees Retirement Association on June 30, 2010. Director and Vice Chair of The Tree Trust (non-profit corporation). Director of the American Chestnut Foundation (non-profit corporation).	Asset Allocation Trust

*Leroy Keith, Jr. will retire as a Trustee effective December 31, 2014.

Officers

Name and year of birth	Position held and length of service	Principal occupations during past five years or longer
Karla M. Rabusch (Born 1959)	President, since 2010	Executive Vice President of Wells Fargo Bank, N.A. and President of Wells Fargo Funds Management, LLC since 2003.
Nancy Wiser[1] (Born 1967)	Treasurer, since 2012	Executive Vice President of Wells Fargo Funds Management, LLC since 2011. Chief Operating Officer and Chief Compliance Officer at LightBox Capital Management LLC, from 2008 to 2011. Owned and operated a consulting business providing services to various hedge funds including acting as Chief Operating Officer and Chief Compliance Officer for a hedge fund from 2007 to 2008. Chief Operating Officer and Chief Compliance Officer of

		GMN Capital LLC from 2006 to 2007.
C. David Messman (Born 1960)	Secretary, since 2010; Chief Legal Officer, since 2010	Assistant General Counsel of Wells Fargo Bank, N.A. since 2013 and Vice President and Managing Counsel of Wells Fargo Bank N.A. from 1996 to 2013. Senior Vice President and Secretary of Wells Fargo Funds Management , LLC since 2001.
Debra Ann Early (Born 1964)	Chief Compliance Officer, since 2010	Senior Vice President and Chief Compliance Officer of Wells Fargo Funds Management, LLC since 2007. Chief Compliance Officer of Parnassus Investments from 2005 to 2007. Chief Financial Officer of Parnassus Investments from 2004 to 2007.
David Berardi (Born 1975)	Assistant Treasurer, since 2009	Vice President of Wells Fargo Funds Management, LLC since 2009. Vice President of Evergreen Investment Management Company, LLC from 2008 to 2010. Assistant Vice President of Evergreen Investment Services, Inc. from 2004 to 2008. Manager of Fund Reporting and Control for Evergreen Investment Management Company, LLC from 2004 to 2010.
Jeremy DePalma[1] (Born 1974)	Assistant Treasurer, since 2007	Senior Vice President of Wells Fargo Funds Management, LLC since 2009. Senior Vice President of Evergreen Investment Management Company, LLC from 2008 to 2010. Vice President, Evergreen Investment Services, Inc. from 2004 to 2007. Head of the Fund Reporting and Control Team within Fund Administration from 2005 to 2010.

1. Nancy Wiser acts as Treasurer of 73 funds in the Fund Complex. Jeremy DePalma acts as Treasurer of 60 funds and Assistant Treasurer of 73 funds in the Fund Complex.

Table of Contents

BOARD CONSIDERATION OF INVESTMENT ADVISORY AND SUB-ADVISORY AGREEMENTS:

Under Section 15 of the Investment Company Act of 1940 (the 1940 Act), the Board of Trustees (the Board) of *Wells Fargo Advantage Global Dividend Opportunity Fund* (the Fund), all the members of which have no direct or indirect interest in the investment advisory and sub-advisory agreements and are not interested persons of the Fund, as defined in the 1940 Act (the Independent Trustees), must determine whether to approve the continuation of the Fund s investment advisory and sub-advisory agreements. In this regard, at in-person meetings held on March 27-28, 2014 (the March Meeting) and May 15-16, 2014 (the May Meeting , and together with the March Meeting, the Meetings), the Board reviewed: (i) an investment advisory agreement with Wells Fargo Funds Management, LLC (Funds Management) for the Fund, (ii) an investment sub-advisory agreement with Wells Capital Management Incorporated (WellsCap), an affiliate of Funds Management, for the Fund, and (iii) an investment sub-advisory agreement with Crow Point Partners, LLC (Crow Point) for the Fund. The investment advisory agreement with Funds Management and the investment sub-advisory agreements with WellsCap and Crow Point (each, a Sub-Adviser and together, the Sub-Advisers) are collectively referred to as the Advisory Agreements.

At the May Meeting, the Board received the information, considered the factors and reached the conclusions discussed below, and unanimously approved the renewal of the Advisory Agreements, as it had done at the March Meeting.

At the Meetings, the Board considered the factors and reached the conclusions described below relating to the selection of Funds Management and the Sub-Advisers and the continuation of the Advisory Agreements. Prior to the Meetings, the Trustees conferred extensively among themselves and with representatives of Funds Management about these matters. Also, the Board has adopted a team-based approach, with each team consisting of a sub-set of Trustees, to assist the full Board in the discharge of its duties in reviewing performance and other matters throughout the year. The Independent Trustees were assisted in their evaluation of the Advisory Agreements by independent legal counsel, from whom they received separate legal advice and with whom they met separately.

In providing information to the Board, Funds Management and the Sub-Advisers were guided by a detailed set of requests for information submitted to them by independent legal counsel on behalf of the Independent Trustees at the start of the Board s annual contract renewal process earlier in 2014. In considering and approving the Advisory Agreements, the Trustees considered the information they believed relevant, including but not limited to the information discussed below. The Board considered not only the specific information presented in connection with the Meetings, but also the knowledge gained over time through interaction with Funds Management and the Sub-Advisers about various topics. In this regard, the Board reviewed reports of Funds Management at each of its quarterly meetings, which included, among other things, portfolio reviews and performance reports. In addition, the Board and the teams mentioned above confer with portfolio managers at various times throughout the year. The Board did not identify any particular information or consideration that was all-important or controlling, and each individual Trustee may have attributed different weights to various factors.

After its deliberations, the Board unanimously approved the continuation of the Advisory Agreements and determined that the compensation payable to Funds Management and the Sub-Advisers is reasonable. The Board considered the continuation of the Advisory Agreements for the Fund as part of its consideration of the continuation of advisory agreements for funds across the complex, but its approvals were made on a fund-by-fund basis. The following summarizes a number of important, but not necessarily all, factors considered by the Board in support of its approvals.

Nature, extent and quality of services

The Board received and considered various information regarding the nature, extent and quality of services provided to the Fund by Funds Management and the Sub-Advisers under the Advisory Agreements. This information included, among other things, a summary of the background and experience of senior management of Funds Management, and the qualifications, background, tenure and responsibilities of each of the portfolio managers primarily responsible for the day-to-day portfolio management of the Fund.

The Board evaluated the ability of Funds Management and the Sub-Advisers to attract and retain qualified investment professionals, including research, advisory and supervisory personnel. The Board further considered the compliance programs and compliance records of Funds Management and the Sub-Advisers. In addition, the Board took into account the full range of services provided to the Fund by Funds Management and its affiliates.

Fund performance and expenses

The Board considered the performance results for the Fund over various time periods ended December 31, 2013. The Board also considered these results in comparison to the performance of funds in a custom peer group that was determined by Funds Management to be similar to the Fund (the Custom Peer Group), and in comparison to the Fund s

Table of Contents

benchmark index and to other comparative data. The Board received a description of the methodology used by Funds Management to select the funds in the Custom Peer Group and discussed the limitations inherent in the use of other peer groups. The Board noted that the performance of the Fund was lower than the average performance of the Custom Peer Group for all periods under review. The Board also noted that the performance of the Fund was lower than its benchmark, the Global Dividend Opportunity Blended Index, which is a proprietary index used by the Board to help it assess the Fund s relative performance, for all periods under review except for the one-year period.

The Board received information concerning, and discussed factors contributing to, the underperformance of the Fund relative to the Custom Peer Group and benchmark for the periods under review. The Board took note of the small size of the Custom Peer Group, the explanations for the relative underperformance and recent changes to the portfolio management team responsible for the options overlay, and was satisfied with the information it received.

The Board also received and considered information regarding the Fund s net operating expense ratio and its various components, including actual management fees (which reflect fee waivers, if any, and include advisory, and administration fees), custodian and other non-management fees, and fee waiver and expense reimbursement arrangements. The Board considered this ratio in comparison to the median ratio of funds in an expense group that was determined by Lipper, Inc. (Lipper) to be similar to the Fund (the Group). Lipper is an independent provider of investment company data. The Board received a description of the methodology used by Lipper to select the funds in the expense Group and an explanation of year-to-year variations in the funds comprising such expense Group and their expense ratios. Based on the Lipper reports, the Board noted that the net operating expense ratio of the Fund was lower than the median net operating expense ratio of the expense Group.

Based on its consideration of the factors and information it deemed relevant, including those described here, the Board concluded that the overall performance and expense structure of the Fund supported the re-approval of the Advisory Agreements.

Investment advisory and sub-advisory fee rates

The Board reviewed and considered the contractual investment advisory fee rate that is payable by the Fund to Funds Management for investment advisory services (the Advisory Agreement Rate), both on a stand-alone basis and on a combined basis with the Fund s contractual administration fee rate (the Management Rate). The Board also reviewed and considered the contractual investment sub-advisory fee rates that are payable by Funds Management to each of the Sub-Advisers for investment sub-advisory services (the Sub-Advisory Agreement Rate).

Among other information reviewed by the Board was a comparison of the Management Rate of the Fund with those of other funds in the expense Group at a common asset level. The Board noted that the Management Rate of the Fund was in range of the average rate for the Fund s expense Group.

The Board also received and considered information about the portion of the total advisory fee that was retained by Funds Management after payment of the fee to the Sub-Advisers for sub-advisory services. In assessing the reasonableness of this amount, the Board received and evaluated information about the nature and extent of responsibilities retained and risks assumed by Funds Management and not delegated to or assumed by the Sub-Advisers, and about Funds Management s on-going oversight services. However, given the affiliation between Funds Management and WellsCap, the Board ascribed limited relevance to the allocation of the advisory fee between them. The Board also considered that the sub-advisory fees paid to Crow Point had been negotiated by Funds Management on an arm s-length basis.

Based on its consideration of the factors and information it deemed relevant, including those described here, the Board determined that the Advisory Agreement Rate and each Sub-Advisory Agreement Rate were reasonable in light of the services covered by the Advisory Agreements.

Profitability

The Board received and considered information concerning the profitability of Funds Management, as well as the profitability of Wells Fargo as a whole, from providing services to the Fund and the fund family as a whole. The Board did not receive or consider to be necessary separate profitability information with respect to WellsCap, because its profitability information was subsumed in the collective Wells Fargo profitability analysis. The Board also did not consider profitability with respect to Crow Point, as the sub-advisory fees paid to Crow Point had been negotiated by Funds Management on an arm s-length basis.

Funds Management explained the methodologies and estimates that it used in calculating profitability. Among other things, the Board noted that the levels of profitability reported on a fund-by-fund basis varied widely, depending on factors such as the size and type of fund. Based on its review, the Board did not deem the profits reported by Funds Management to be at a level that would prevent it from approving the continuation of the Advisory Agreements.

Table of Contents

Economies of scale

The Board considered the extent to which there may be sharing with the Fund of potential economies of scale in the provision of advisory services to the Fund. The Board noted that, as is typical of closed-end funds, there are no breakpoints in the Management Rate. Although the Fund would not share in any potential economies of scale through contractual breakpoints, the Board noted that fee waiver and expense reimbursement arrangements and competitive fee rates at the outset are means of sharing potential economies of scale with shareholders of the Fund and the fund family as a whole. The Board concluded that the Fund s fee waiver and expense arrangements constituted a reasonable approach to sharing potential economies of scale with the Fund and its shareholders. The Board also noted that it would have opportunities to revisit the Management Rate as part of future contract reviews.

Other benefits to Funds Management and the Sub-Advisers

The Board received and considered information regarding potential fall-out or ancillary benefits received by Funds Management and its affiliates, including WellsCap, and Crow Point as a result of their relationships with the Fund. Ancillary benefits could include, among others, benefits directly attributable to other relationships with the Fund and benefits potentially derived from an increase in Funds Management s and the Sub-Advisers business as a result of their relationships with the Fund. The Board also reviewed information about soft dollar credits earned and utilized by the Sub-Advisers and commissions earned by affiliated brokers from portfolio transactions.

Based on its consideration of the factors and information it deemed relevant, including those described here, the Board did not find that any ancillary benefits received by Funds Management and its affiliates, including WellsCap, or Crow Point were unreasonable.

Conclusion

After considering the above-described factors and based on its deliberations and its evaluation of the information described above, the Board unanimously approved the continuation of the Advisory Agreements for an additional one-year period and determined that the compensation payable to Funds Management and the Sub-Advisers is reasonable.

Table of Contents

AUTOMATIC DIVIDEND REINVESTMENT PLAN

All common shareholders are eligible to participate in the Automatic Dividend Reinvestment Plan (the Plan). Pursuant to the Plan, unless a common shareholder is ineligible or elects otherwise, all cash dividends and capital gains distributions are automatically reinvested by Computershare Trust Company, N.A., as agent for shareholders in administering the Plan (Plan Agent), in additional common shares of the Fund. Whenever the Fund declares an ordinary income dividend or a capital gain dividend (collectively referred to as dividends) payable either in shares or in cash, nonparticipants in the Plan will receive cash, and participants in the Plan will receive the equivalent in common shares. The shares are acquired by the Plan Agent for the participant s account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund (newly issued common shares) or (ii) by purchase of outstanding common shares on the open-market (open-market purchases) on the NYSE Amex or elsewhere. If, on the payment date for any dividend or distribution, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions (market premium), the Plan Agent will invest the amount of such dividend or distribution in newly issued shares on behalf of the participant. The number of newly issued common shares to be credited to the participant s account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value (market discount), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent s open-market purchases in connection with the reinvestment of dividends. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 30170, College Station, Texas 77842-3170 or by calling 1-800-730-6001.

Table of Contents

The following is a list of common abbreviations for terms and entities that may have appeared in this report.

ACA	ACA Financial Guaranty Corporation
ADR	American depositary receipt
ADS	American depositary shares
AGC	Assured Guaranty Corporation
AGM	Assured Guaranty Municipal
Ambac	Ambac Financial Group Incorporated
AMT	Alternative minimum tax
AUD	Australian dollar
BAN	Bond anticipation notes
BHAC	Berkshire Hathaway Assurance Corporation
BRL	Brazilian real
CAB	Capital appreciation bond
CAD	Canadian dollar
CCAB	Convertible capital appreciation bond
CDA	Community Development Authority
CDO	Collateralized debt obligation
CHF	Swiss franc
COP	Columbian Peso
CLP	Chilean peso
DKK	Danish krone
DRIVER	Derivative inverse tax-exempt receipts
DW&P	Department of Water & Power
DWR	Department of Water Resources
ECFA	Educational & Cultural Facilities Authority
EDA	Economic Development Authority
EDFA	Economic Development Finance Authority
ETF	Exchange-traded fund
EUR	Euro
FDIC	Federal Deposit Insurance Corporation
FFCB	Federal Farm Credit Banks
FGIC	Financial Guaranty Insurance Corporation
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICO	The Financing Corporation
FNMA	Federal National Mortgage Association
FSA	Farm Service Agency
GBP	Great British pound
GDR	Global depositary receipt
GNMA	Government National Mortgage Association

GO	General obligation
HCFR	Healthcare facilities revenue
HEFA	Health & Educational Facilities Authority
HEFAR	Higher education facilities authority revenue
HFA	Housing Finance Authority
HFFA	Health Facilities Financing Authority
HKD	Hong Kong dollar
HUD	Department of Housing and Urban Development
HUF	Hungarian forint
IDA	Industrial Development Authority
IDAG	Industrial Development Agency
IDR	Indonesian rupiah
IEP	Irish pound
JPY	Japanese yen
KRW	Republic of Korea won
LIBOR	London Interbank Offered Rate
LIQ	Liquidity agreement
LLC	Limited liability company
LLLP	Limited liability limited partnership
LLP	Limited liability partnership
LOC	Letter of credit
LP	Limited partnership
MBIA	Municipal Bond Insurance Association
MFHR	Multifamily housing revenue
MSTR	Municipal securities trust receipts
MTN	Medium-term note
MUD	Municipal Utility District
MXN	Mexican peso
MYR	Malaysian ringgit
National	National Public Finance Guarantee Corporation
NGN	Nigerian naira
NOK	Norwegian krone
NZD	New Zealand dollar
PCFA	Pollution Control Financing Authority
PCL	Public Company Limited
PCR	Pollution control revenue
PFA	Public Finance Authority
PFFA	Public Facilities Financing Authority
PFOTER	Puttable floating option tax-exempt receipts
plc	Public limited company
PLN	Polish zloty
PUTTER	Puttable tax-exempt receipts
R&D	Research & development
Radian	Radian Asset Assurance
RAN	Revenue anticipation notes
RDA	Redevelopment Authority
RDFA	Redevelopment Finance Authority
REIT	Real estate investment trust
ROC	Reset option certificates
RON	Romanian lei
RUB	Russian ruble

SAVRS	Select auction variable rate securities
SBA	Small Business Authority
SEK	Swedish krona
SFHR	Single-family housing revenue
SFMR	Single-family mortgage revenue
SGD	Singapore dollar
SPA	Standby purchase agreement
SPDR	Standard & Poor s Depositary Receipts
STRIPS	Separate trading of registered interest and principal securities
TAN	Tax anticipation notes
TBA	To be announced
THB	Thai baht
TIPS	Treasury inflation-protected securities
TRAN	Tax revenue anticipation notes
TRY	Turkish lira
TTFA	Transportation Trust Fund Authority
TVA	Tennessee Valley Authority
ZAR	South African rand

Table of Contents

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Table of Contents

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Table of Contents

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Table of Contents

Transfer Agent, Registrar, Shareholder Servicing

Agent & Dividend Disbursing Agent

Computershare Trust Company, N.A.

P.O. Box 30170

College Station, TX 77842-3170

1-800-730-6001

Website: wellsfargoadvantagefunds.com

Wells Fargo Funds Management, LLC, is a subsidiary of Wells Fargo & Company and is an affiliate of Wells Fargo & Company s broker/dealer subsidiaries. Certain material contained in this report may be considered marketing material and has been reviewed by Wells Fargo Funds Distributor, LLC, Member FINRA/SIPC, an affiliate of Wells Fargo & Company.

NOT FDIC INSURED ¡ NO BANK GUARANTEE ¡ MAY LOSE VALUE

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Table of Contents

ITEM 2. CODE OF ETHICS

(a) As of the end of the period, covered by the report, Wells Fargo Advantage Global Dividend Opportunity Fund has adopted a code of ethics that applies to its President and Treasurer. A copy of the code of ethics is filed as an exhibit to this Form N-CSR.

(c) During the period covered by this report, there were no amendments to the provisions of the code of ethics adopted in Item 2(a) above.

(d) During the period covered by this report, there were no implicit or explicit waivers to the provisions of the code of ethics adopted in Item 2(a) above.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Trustees of Wells Fargo Advantage Global Dividend Opportunity Fund has determined that Judith Johnson is an audit committee financial expert, as defined in Item 3 of Form N-CSR. Mrs. Johnson is independent for purposes of Item 3 of Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(a), (b), (c), (d) The following table presents aggregate fees billed in each of the last two fiscal years for services rendered to the Registrant by the Registrant s principal accountant. These fees were billed to the registrant and were approved by the Registrant s audit committee.

	Fiscal year ended October 31, 2014	Fiscal year ended October 31, 2013
Audit fees	$ 45,830	$ 44,710
Audit-related fees		
Tax fees (1)	4,410	4,300
All other fees		
	$ 50,240	$ 49,010

(1) Tax fees consist of fees for tax compliance, tax advice, tax planning and excise tax.

(e) The Chairman of the Audit Committees is authorized to pre-approve: (1) audit services for the Wells Fargo Advantage Global Dividend Opportunity Fund; (2) non-audit tax or compliance consulting or training services provided to the Wells Fargo Advantage Global Dividend Opportunity Fund by the independent auditors (Auditors) if the fees for any particular engagement are not anticipated to exceed $50,000; and (3) non-audit tax or compliance consulting or training services provided by the Auditors to a Wells Fargo Advantage Global Dividend Opportunity Fund s investment adviser and its controlling entities (where pre-approval is required because the engagement relates directly to the operations and financial reporting of the Wells Fargo Advantage Global Dividend Opportunity Fund) if the fee to the Auditors for any particular engagement is not anticipated to exceed $50,000. For any such pre-approval sought from the Chairman, Management shall prepare a brief description of the proposed services. If the Chairman approves of such service, he or she shall sign the statement prepared by Management. Such written statement shall be presented to the full Committees at their next regularly scheduled meetings.

(f) Not applicable

(g) Not applicable

Table of Contents

(h) Not applicable

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS

Not applicable.

ITEM 6. INVESTMENTS

A Portfolio of investments is included as part of the report to shareholders filed under Item 1 of this Form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

PROXY VOTING POLICIES AND PROCEDURES

REVISED AS OF AUGUST 13, 2014

1. Scope of Policies and Procedures. These Policies and Procedures (Procedures) are used to determine how to vote proxies relating to portfolio securities held by the series of Wells Fargo Funds Trust, Wells Fargo Master Trust, Wells Fargo Variable Trust, Asset Allocation Trust, Wells Fargo Advantage Global Dividend Opportunity Fund, Wells Fargo Advantage Income Opportunities Fund, Wells Fargo Advantage Multi-Sector Income Fund, and Wells Fargo Advantage Utilities & High Income Fund (the Trusts) except for those series that exclusively hold non-voting securities (hereafter, all such series, and all such Trusts not having separate series, holding voting securities are referred to as the Funds).

2. Voting Philosophy. The Funds and Wells Fargo Funds Management, LLC (Funds Management) have adopted these Procedures to ensure that proxies are voted in the best interests of Fund shareholders, without regard to any relationship that any affiliated person of the Fund (or an affiliated person of such affiliated person) may have with the issuer. Funds Management exercises its voting responsibility, as a fiduciary, with the goal of maximizing value to shareholders consistent with governing laws and the investment policies of each Fund. While securities are not purchased to exercise control or to seek to effect corporate change through share ownership, the Funds support sound corporate governance practices within companies in which they invest.

3. Responsibilities

(a) Board of Trustees. The Board of Trustees of each Trust (the Board) has delegated the responsibility for voting proxies relating to the Funds portfolio securities to Funds Management. The Board retains the authority to make or ratify any voting decisions or approve any changes to these Procedures as the Board deems appropriate. Funds Management will provide reports to the Board regarding voting matters when and as reasonably requested by the Board. The Board shall review these Procedures as often as it deems appropriate to consider whether any revisions are warranted. On an annual basis, the Board shall receive and review a report from Funds Management on the proxy voting process.

(b) Funds Management Proxy Committee

(i) Responsibilities. The Funds Management Proxy Voting Committee (the Proxy Committee) shall be responsible for overseeing the proxy voting process to ensure its implementation in conformance with these Procedures. The Proxy Committee shall monitor Institutional Shareholder Services (ISS), the proxy voting agent for Funds Management, to determine that ISS is accurately applying the Procedures as set forth herein. The Proxy Committee shall review the continuing appropriateness of the Procedures set forth herein, recommend revisions to the Board as necessary and provide an annual update to the Board on the proxy voting process.

(ii) Voting Guidelines. Appendix A hereto sets forth guidelines regarding how proxies will be voted on the issues specified. ISS will vote proxies for or against as directed by the

Table of Contents

guidelines. Where the guidelines specify a case by case determination for a particular issue, ISS will forward the proxy to the Proxy Committee for a vote determination by the Proxy Committee. Finally, with respect to issues for which a vote for or against is specified by the Procedures, the Proxy Committee shall have the authority to direct ISS to forward the proxy to the Proxy Committee for a discretionary vote by the Proxy Committee if the Proxy Committee determines that a case-by-case review of such matter is warranted. The Proxy Committee may also consult Fund sub-advisers on certain proxy voting issues on a case-by-case basis as the Proxy Committee deems appropriate or to the extent that a sub-adviser of a Fund makes a recommendation regarding a proxy voting issue. As a general matter, however, proxies are voted consistently on the same matter when securities of an issuer are held by multiple Funds.

(iii) Proxy Committee. In all cases, the Proxy Committee will exercise its voting discretion in accordance with the voting philosophy of the Funds. In cases where a proxy is forwarded by ISS to the Proxy Committee, the Proxy Committee may be assisted in its voting decision through receipt of: (i) independent research and voting recommendations provided by ISS or other independent sources; (ii) input from the investment sub-adviser responsible for purchasing the security; and (iii) information provided by company management and shareholder groups.

Voting decisions made by the Proxy Committee will be reported to ISS to ensure that the vote is registered in a timely manner and included in Form N-PX reporting.

(iv) Securities on Loan. As a general matter, securities on loan will not be recalled to facilitate proxy voting (in which case the borrower of the security shall be entitled to vote the proxy). However, if the Proxy Committee is aware of an item in time to recall the security and has determined in good faith that the importance of the matter to be voted upon outweighs the loss in lending revenue that would result from recalling the security (i.e., if there is a controversial upcoming merger or acquisition, or some other significant matter), the security will be recalled for voting.

(v) Practical Limitations to Proxy Voting. While Funds Management uses its best efforts to vote proxies, in certain circumstances it may be impractical or impossible for Funds Management to vote proxies (e.g., limited value or unjustifiable costs). For example, in accordance with local law or business practices, many foreign companies prevent the sales of shares that have been voted for a certain period beginning prior to the shareholder meeting and ending on the day following the meeting (share blocking). Due to these restrictions, Funds Management must balance the benefits to its clients of voting proxies against the potentially serious portfolio management consequences of a reduced flexibility to sell the underlying shares at the most advantageous time. As a result, Funds Management will generally not vote those proxies in the absence of an unusual, significant vote or compelling economic importance. Additionally, Funds Management may not be able to vote proxies for certain foreign securities if Funds Management does not receive the proxy statement in time to vote the proxies due to custodial processing delays.

(vi) Conflicts of Interest. Funds Management may have a conflict of interest regarding a proxy to be voted upon if, for example, Funds Management or its affiliates have other relationships with the issuer of the proxy. In most instances, conflicts of interest are avoided through a strict and objective application of the voting guidelines attached hereto. However, when the Proxy Committee is aware of a material conflict of interest regarding a matter that would otherwise require a vote by the Proxy Committee, the Proxy Committee shall address the material conflict by using any of the following methods: (1) instructing ISS to vote in accordance with the recommendation ISS makes to its clients; (2) disclosing the conflict to the Board and obtaining their consent before voting; (3) submitting the matter to the Board to exercise its authority to vote on such matter; (4) engaging an independent fiduciary who will direct the Proxy Committee on voting instructions for the proxy; (5) consulting with outside legal counsel for guidance

Table of Contents

on resolution of the conflict of interest; (6) erecting information barriers around the person or persons making voting decisions; (7) voting in proportion to other shareholders (mirror voting); or (8) voting in other ways that are consistent with each Fund s obligation to vote in the best interests of its shareholders. Additionally, the Proxy Committee will not permit its votes to be influenced by any conflict of interest that exists for any other affiliated person of the Fund (such as a sub-adviser or principal underwriter) or any affiliated persons of such affiliated persons and the Proxy Committee will vote all such matters without regard to the conflict.

Funds Management may also have a conflict of interest regarding a proxy to be voted on if a member of the Board has an affiliation, directly or indirectly, with a public or private company (an Identified Company). Identified Companies include a Board member s employer, as well as any company of which the Board member is a director or officer or a 5% or more shareholder. The Proxy Committee shall address such a conflict by instructing ISS to vote in accordance with the recommendation ISS makes to its clients.

(vii) Meetings. The Proxy Committee shall convene as needed and when discretionary voting determinations need to be considered, and shall have the authority to act by vote of a majority of the Proxy Committee members available at that time. The Proxy Committee shall also meet at least semi-annually to review the Procedures and the performance of ISS in exercising its proxy voting responsibilities.

(viii) Membership. The voting members of the Proxy Committee shall be Tom Biwer, Travis Keshemberg, Patrick McGuinnis and Erik Sens. Andrew Owen shall be a non-voting member and serve in an advisory capacity on the Proxy Committee. Changes to the membership of the Proxy Committee will be made only with Board approval. Upon departure from Funds Management, a member s position on the Proxy Committee will automatically terminate.

4. Disclosure of Policies and Procedures. Each Fund shall disclose in its statement of additional information a description of the policies and procedures it uses to determine how to vote proxies relating to securities held in its portfolio. In addition, each Fund shall disclose in its semi- and annual reports that a description of its proxy voting policies and procedures is available without charge, upon request, by calling 1-800-222-8222, on the Fund s web site at www.wellsfargo.com/advantagefunds and on the Securities and Exchange Commission s website at http://www.sec.gov.

5. Disclosure of Proxy Voting Record. Each Trust shall file with the Commission an annual report on Form N-PX not later than August 31 of each year (beginning August 31, 2004), containing the Trust s proxy voting record for the most recent twelve-month period ended June 30.

Each Fund shall disclose in its statement of additional information and semi- and annual reports that information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge on the Funds web site at www.wellsfargo.com/advantagefunds or by accessing the Commission s web site at www.sec.gov.

Each Fund shall disclose the following information on Form N-PX for each matter relating to a portfolio security considered at any shareholder meeting held during the period covered by the report and with respect to which the Fund was entitled to vote:

The name of the issuer of the portfolio security;

The exchange ticker symbol of the portfolio security;

The Council of Uniform Securities Identification Procedures (CUSIP) number for the portfolio security (unless the CUSIP is not available through reasonably practicable means, in which case it will be omitted);

The shareholder meeting date;

A brief identification of the matter voted on;

Whether the matter was proposed by the issuer or by a security holder;

Whether the Fund cast its vote on the matter;

How the Fund cast its vote (e.g. for or against a proposal, or abstain; for or withhold regarding election of directors); and

Table of Contents

Whether the Fund cast its vote for or against management.

Form N-PX shall be made available to Fund shareholders through the SEC web site.

Table of Contents

APPENDIX A

TO

PROXY VOTING POLICIES AND PROCEDURES

Funds Management will vote proxies relating to portfolio securities held by the Trusts in accordance with the following proxy voting guidelines. To the extent the specific guidelines below do not address a proxy voting proposal, Funds Management will vote pursuant to ISS current U.S. and International proxy voting guidelines. Proxies related to issues not addressed by the specific guidelines below or by ISS current U.S. and International proxy voting guidelines will be forwarded to the Proxy Committee for a vote determination by the Proxy Committee.

Uncontested Election of Directors or Trustees

THE FUNDS will generally vote for all uncontested director or trustee nominees. The Nominating Committee is in the best position to select nominees who are available and capable of working well together to oversee management of the company. THE FUNDS will not require a performance test for directors.	FOR
THE FUNDS will generally vote for reasonably crafted shareholder proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors, unless the company has adopted formal corporate governance principles that present a meaningful alternative to the majority voting standard.	FOR
<u>Board and Committee Independence</u>	
THE FUNDS will withhold votes from insiders and affiliated outsiders on boards that are not at least majority independent.	
THE FUNDS will withhold votes from any insiders or affiliated outsiders on audit, compensation or nominating committees. THE FUNDS will withhold votes from any insiders or affiliated outsiders on the board if any of these key committees has not been established.	WITHHOLD
	WITHHOLD
<u>Attendance and Overboarding</u>	
THE FUNDS will withhold votes from directors who sit on more than six boards.	
THE FUNDS will withhold votes from CEO directors who sit on more than two outside boards besides their own.	WITHHOLD
THE FUNDS will withhold votes for a director if the nominee fails to attend at least 75% of the board and committee meetings without a valid excuse.	WITHHOLD
<u>Responsiveness</u>	
THE FUNDS will withhold votes from the entire board (except for new nominees) where the director(s) receive more than 50% withhold votes out of those cast and the issue that was the underlying cause of the high level of withhold votes has not been addressed.	WITHHOLD
<u>Poor Governance Practices</u>	WITHHOLD

THE FUNDS will withhold votes from all directors (except for new nominees) if the company has adopted or renewed a poison pill without shareholder approval since the company s last annual meeting, does not put the pill to a vote at the current annual meeting,

Table of Contents

and does not have a requirement or does not commit to put the pill to shareholder vote within 12 months. In addition, THE FUNDS will withhold votes on all directors at any company that responds to the majority of the shareholders voting by putting the poison pill to a shareholder vote with a recommendation other than to eliminate the pill.	WITHHOLD
THE FUNDS will vote against routine election of directors if any of the following apply: company fails to disclose adequate information in a timely manner, serious issues with the finances, questionable transactions, conflicts of interest, record of abuses against minority shareholder interests, bundling of director elections, and/or egregious governance practices.	WITHHOLD
<u>Audit Issues</u>	
THE FUNDS will withhold votes from members of the Audit Committee and/or the full board if poor accounting practices, which rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures, are identified.	WITHHOLD
THE FUNDS will withhold votes from members of the Audit Committee if the company receives an adverse opinion on the company s financial statements from its auditor.	
THE FUNDS will withhold votes from members of the Audit Committee if there is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.	WITHHOLD
<u>Compensation Issues</u>	WITHHOLD
THE FUNDS will withhold votes from compensation committee members where there is a pay-for-performance disconnect (for Russell 3000 companies).	WITHHOLD
THE FUNDS will withhold votes from compensation committee members if they fail to submit one-time transferable stock options (TSO s) to shareholders for approval.	
Ratification of Auditors	
THE FUNDS will vote against auditors and withhold votes from audit committee members if non-audit fees are greater than audit fees, audit-related fees, and permitted tax fees, combined. THE FUNDS will follow the disclosure categories being proposed by the SEC in applying the above formula.	AGAINST/ WITHHOLD
With the above exception, THE FUNDS will generally vote for proposals to ratify auditors unless:	FOR
an auditor has a financial interest in or association with the company, and is therefore not independent, or	AGAINST
there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company s financial position.	AGAINST
THE FUNDS will vote against proposals that require auditors to attend annual meetings as auditors are regularly reviewed by the board audit committee, and such attendance is unnecessary.	AGAINST
THE FUNDS will vote for shareholder proposals requesting a shareholder vote for audit firm ratification.	

Table of Contents

THE FUNDS will vote against shareholder proposals asking for audit firm rotation. This practice is viewed as too disruptive and too costly to implement for the benefit achieved.	FOR
	AGAINST
Company Name Change/Purpose	
THE FUNDS will vote for proposals to change the company name as management and the board is best suited to determine if such change in company name is necessary.	FOR
However, where the name change is requested in connection with a reorganization of the company, the vote will be based on the merits of the reorganization.	CASE-BY-CASE
In addition, THE FUNDS will generally vote for proposals to amend the purpose of the company. Management is in the best position to know whether the description of what the company does is accurate, or whether it needs to be updated by deleting, adding or revising language.	FOR
Employee Stock Purchase Plans/401(k) Employee Benefit Plans	
THE FUNDS will vote for proposals to adopt, amend or increase authorized shares for employee stock purchase plans and 401(k) plans for employees as properly structured plans enable employees to purchase common stock at a slight discount and thus own a beneficial interest in the company, provided that the total cost of the company s plan is not above the allowable cap for the company.	FOR
Similarly, THE FUNDS will generally vote for proposals to adopt or amend thrift and savings plans, retirement plans, pension plans and profit plans.	FOR
Anti-Hedging/Pledging/Speculative Investments Policy	
THE FUNDS will consider proposals prohibiting named executive officers from engaging in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging stock as collateral for a loan on a case-by-case basis. The company s existing policies regarding responsible use of company stock will be considered.	CASE-BY-CASE
Approve Other Business	
THE FUNDS will generally vote for proposals to approve other business. This transfer of authority allows the corporation to take certain ministerial steps that may arise at the annual or special meeting.	FOR
However, THE FUNDS retains the discretion to vote against such proposals if adequate information is not provided in the proxy statement, or the measures are significant and no further approval from shareholders is sought.	AGAINST
Independent Board of Directors/Board Committees	
THE FUNDS will vote for proposals requiring that two-thirds of the board be independent directors. An independent board faces fewer conflicts and is best prepared to protect stockholders interests.	FOR

Table of Contents

THE FUNDS will vote for proposals requesting that the board audit, compensation and/or nominating committees be composed of independent directors only. Committees should be composed entirely of independent directors in order to avoid conflicts of interest.	FOR
THE FUNDS will vote against proposals from shareholders requesting an independent compensation consultant.	AGAINST
Director Fees	
THE FUNDS will vote for proposals to set director fees.	FOR
Minimum Stock Requirements by Directors	
THE FUNDS will vote against proposals requiring directors to own a minimum number of shares of company stock in order to qualify as a director, or to remain on the board. Minimum stock ownership requirements can impose an across-the-board requirement that could prevent qualified individuals from serving as directors.	AGAINST
Indemnification and Liability Provisions for Directors and Officers	
THE FUNDS will vote for proposals to allow indemnification of directors and officers, when the actions taken were on behalf of the company and no criminal violations occurred. THE FUNDS will also vote in favor of proposals to purchase liability insurance covering liability in connection with those actions. Not allowing companies to indemnify directors and officers to the degree possible under the law would limit the ability of the company to attract qualified individuals.	FOR
Alternatively, THE FUNDS will vote against indemnity proposals that are overly broad. For example, THE FUNDS will oppose proposals to indemnify directors for acts going beyond mere carelessness, such as gross negligence, acts taken in bad faith, acts not otherwise allowed by state law or more serious violations of fiduciary obligations.	AGAINST
Nominee Statement in the Proxy	
THE FUNDS will vote against proposals that require board nominees to have a statement of candidacy in the proxy, since the proxy statement already provides adequate information pertaining to the election of directors.	AGAINST
Director Tenure/Retirement Age	
THE FUNDS will vote against proposals to limit the tenure of directors as such limitations based on an arbitrary number could prevent qualified individuals from serving as directors. However, THE FUNDS is in favor of inserting cautionary language when the average director tenure on the board exceeds 15 years for the entire board.	AGAINST
The Funds will vote for proposals to establish a mandatory retirement age for directors provided that such retirement age is not less than 65.	FOR
Board Powers/Procedures/Qualifications	
THE FUNDS will consider on a case-by-case basis proposals to amend the corporation s By-laws so that the Board of Directors shall have the power, without the assent or vote of the shareholders, to make, alter, amend, or rescind the By-laws, fix the amount to be	CASE-BY-CASE

Table of Contents

reserved as working capital, and fix the number of directors and what number shall constitute a quorum of the Board. In determining these issues, THE FUNDS will rely on the proxy voting Guidelines.

Adjourn Meeting to Solicit Additional Votes

THE FUNDS will examine proposals to adjourn the meeting to solicit additional votes on a case-by-case basis. As additional solicitation may be costly and could result in coercive pressure on shareholders, THE FUNDS will consider the nature of the proposal and its vote recommendations for the scheduled meeting.	CASE-BY-CASE
THE FUNDS will vote for this item when:	
THE FUNDS is supportive of the underlying merger proposal; the company provides a sufficient, compelling reason to support the adjournment proposal; and the authority is limited to adjournment proposals requesting the authority to adjourn solely to solicit proxies to approve a transaction THE FUNDS supports.	FOR

Reimbursement of Solicitation Expenses

THE FUNDS will consider contested elections on a case-by-case basis, considering the following factors: long-term financial performance of the target company relative to its industry; management s track record; background of the proxy contest; qualifications of director or trustee nominees (both slates); evaluation of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals can be met; and stock ownership positions.	CASE-BY-CASE

Board Structure: Staggered vs. Annual Elections

THE FUNDS will consider the issue of classified boards on a case-by-case basis. In some cases, the division of the board into classes, elected for staggered terms, can entrench the incumbent management and make them less responsive to shareholder concerns. On the other hand, in some cases, staggered elections may provide for the continuity of experienced directors on the Board.	CASE-BY-CASE

Removal of Directors

THE FUNDS will consider on a case-by-case basis proposals to eliminate shareholders rights to remove directors with or without cause or only with approval of two-thirds or more of the shares entitled to vote.	CASE-BY-CASE
However, a requirement that a 75% or greater vote be obtained for removal of directors is abusive and will warrant a vote against the proposal.	AGAINST

Board Vacancies

THE FUNDS will vote against proposals that allow the board to fill vacancies without shareholder approval as these authorizations run contrary to basic shareholders rights.	AGAINST
Alternatively, THE FUNDS will vote for proposals that permit shareholders to elect directors to fill board vacancies.	FOR

Cumulative Voting

Table of Contents

THE FUNDS will vote on proposals to permit or eliminate cumulative voting on a case-by-case basis based upon the existence of a counter balancing governance structure and company performance, in accordance with its proxy voting guideline philosophy.	CASE-BY-CASE
THE FUNDS will vote against cumulative voting if the board is elected annually.	AGAINST
Board Size	
THE FUNDS will vote for proposals that seek to fix the size of the board, as the ability for management to increase or decrease the size of the board in the face of a proxy contest may be used as a takeover defense.	FOR
However, if the company has cumulative voting, downsizing the board may decrease a minority shareholder s chances of electing a director.	
By increasing the size of the board, management can make it more difficult for dissidents to gain control of the board. Fixing the size of the board also prevents a reduction in the board size as a means to oust independent directors or those who cause friction within an otherwise homogenous board.	
Shareholder Rights Plan (Poison Pills)	
THE FUNDS will generally vote for proposals that request a company to submit its poison pill for shareholder ratification.	FOR
Alternatively, THE FUNDS will analyze proposals to redeem a company s poison pill, or requesting the ratification of a poison pill on a case-by-case basis.	CASE-BY-CASE
Poison pills are one of the most potent anti-takeover measures and are generally adopted by boards without shareholder approval. These plans harm shareholder value and entrench management by deterring stock acquisition offers that are not favored by the board.	
Fair Price Provisions	
THE FUNDS will consider fair price provisions on a case-by-case basis, evaluating factors such as the vote required to approve the proposed mechanism, the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price.	CASE-BY-CASE
THE FUNDS will vote against fair price provisions with shareholder vote requirements of 75% or more of disinterested shares.	AGAINST
Greenmail	
THE FUNDS will generally vote in favor of proposals limiting the corporation s authority to purchase shares of common stock (or other outstanding securities) from a holder of a stated interest (5% or more) at a premium unless the same offer is made to all shareholders. These are known as anti-greenmail provisions. Greenmail discriminates against rank-and-file shareholders and may have an adverse effect on corporate image.	FOR

9

Table of Contents

NOTE 3—BALANCE SHEET DETAIL

	December 31, 2017	March 31, 2017
	(In thousands)	
Inventories:		
Work-in-progress	$ 2,683	$ 2,112
Finished goods	4,046	6,803
Inventory at distributors	66	296
	$ 6,795	$ 9,211

	December 31, 2017	March 31, 2017
	(In thousands)	
Accounts receivable, net:		
Accounts receivable	$ 5,627	$ 6,453
Less: Allowances for sales returns, doubtful accounts and other	(82)	(104)
	$ 5,545	$ 6,349

	December 31, 2017	March 31, 2017
	(In thousands)	
Prepaid expenses and other current assets:		
Prepaid tooling and masks	$ 419	$ 836
Prepaid income taxes	—	43
Escrow deposit	762	1,234
Other receivables	207	216
Other prepaid expenses and other current assets	685	448
	$ 2,073	$ 2,777

	December 31, 2017	March 31, 2017
	(In thousands)	
Property and equipment, net:		
Computer and other equipment	$ 18,491	$ 18,585
Software	4,902	4,793
Land	3,900	3,900
Building and building improvements	2,310	2,256
Furniture and fixtures	107	111
Leasehold improvements	725	715
Construction in progress	302	—
	30,737	30,360
Less: Accumulated depreciation	(23,070)	(22,671)
	$ 7,667	$ 7,689

Depreciation expense was $245,000 and $289,000 for the three months ended December 31, 2017 and 2016, respectively, and $714,000 and $919,000 for the nine months ended December 31, 2017 and 2016, respectively.

The Company expects expenditures of approximately $1,000,000 to be incurred in the next twelve months for construction on our headquarters building in Sunnyvale, CA in addition to the $302,000 spent as of December 31, 2017. The Company expects to occupy the upgraded portion of its headquarters building in the first half of fiscal 2019.

Table of Contents

	December 31, 2017	March 31, 2017
	(In thousands)	
Other assets:		
Escrow deposit	$ 1,000	$ 1,750
Non-current deferred income taxes	98	22
Prepaid income taxes	—	552
Deposits	131	132
	$ 1,229	$ 2,456

The escrow deposit at December 31, 2017 and March 31, 2017 includes approximately $1.0 million and $1.8 million, respectively, placed in escrow in connection with the Company's acquisition of MikaMonu Group Ltd. ("MikaMonu") on November 23, 2015. During the quarter ended December 31, 2017 $750,000 was reclassified to current assets.

The following tables summarize the components of intangible assets and related accumulated amortization balances at December 31, 2017 and March 31, 2017 (in thousands):

	As of December 31, 2017		
	Gross Carrying Amount	Accumulated amortization	Net Carrying Amount
Intangible assets:			
Product designs	$ 590	$ (590)	$ —
Patents	4,220	(1,153)	3,067
Software	80	(80)	—
Total	$ 4,890	$ (1,823)	$ 3,067

	As of March 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Product designs	$ 590	$ (590)	$ —

Patents	4,220	(918)	3,302
Software	80	(80)	—
Total	$ 4,890	$ (1,588)	$ 3,302

Amortization of intangible assets included in cost of revenues was $78,000 and $78,000 for the three months ended December 31, 2017 and 2016, respectively, and $235,000 and $270,000 for the nine months ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, the estimated future amortization expense of intangible assets in the table above is as follows (in thousands):

Fiscal year ending March 31,	
2018 (remaining three months)	$ 78
2019	267
2020	233
2021	233
2022	233
Thereafter	2,023
Total	$ 3,067

Table of Contents

	December 31, 2017	March 31, 2017
	(In thousands)	
Accrued expenses and other liabilities:		
Accrued compensation	$ 3,122	$ 3,990
Escrow indemnity accrual	5	484
Accrued professional fees	27	66
Accrued commissions	256	238
Contingent consideration	757	1,117
Accrued retention payment	260	251
Miscellaneous accrued expenses	823	905
	$ 5,250	$ 7,051

	December 31, 2017	March 31, 2017
	(In thousands)	
Other accrued expenses:		
Contingent consideration	$ 5,194	$ 5,083
Other long-term accrued liabilities	260	335
	$ 5,454	$ 5,418

NOTE 4—GOODWILL

Goodwill represents the difference between the purchase price and the estimated fair value of the identifiable assets acquired and liabilities assumed in a business combination. The Company tests for goodwill impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset is more likely than not impaired. The Company has one reporting unit. The Company assesses goodwill for impairment on an annual basis on the last day of February in the fourth quarter of its fiscal year.

The Company had a goodwill balance of $8.0 million as of both March 31, 2017 and December 31, 2017. The goodwill resulted from the acquisition of MikaMonu Group Ltd. in fiscal 2016.

The Company utilized a two-step quantitative analysis to complete its annual impairment test during the fourth quarter of fiscal 2017 and concluded that there was no impairment, as the fair value of its sole reporting unit exceeded its carrying value. The Company determined that the second step of the impairment test was not necessary. No triggering event took place subsequent to the fiscal 2017 annual assessment that necessitated a quantitative impairment analysis for the Company's one reporting unit.

NOTE 5—INCOME TAXES

The current portion of the Company's unrecognized tax benefits was $0 at both December 31, 2017 and March 31, 2017. The long-term portion at December 31, 2017 and March 31, 2017 was $823,000 and $244,000, respectively, of which the timing of the resolution is uncertain. As of December 31, 2017, $1.3 million of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. As of December 31, 2017 and March 31, 2017, the Company's net deferred tax assets of $5.6 million and $8.9 million, respectively, were subject to a full valuation allowance.

On December 22, 2017, the "Tax Cuts and Jobs Act" ("H.R. 1") was signed into law, significantly impacting several sections of the Internal Revenue Code. This new law includes significant changes to the U.S. corporate income tax system, including a permanent reduction in the corporate income tax rate from 35% to 21%, limitations on the deductibility of interest expense and executive compensation and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system. The Company remeasured all deferred tax assets and liabilities as of December 22, 2017, based on the provisions of H.R. 1. This new legislation resulted in a estimated tax provision of $639,000 in the quarter ended December 31, 2017 related to the transition tax associated with deemed repatriation of foreign earnings. In addition, as a result of provisions in the new

Table of Contents

legislation related to indefinite lived net operating loss carryovers and the refundability of minimum tax credit carryovers, the Company recorded a deferred tax benefit related to a valuation allowance release of $99,000 in the quarter ended December 31, 2017. Finally, the Company recorded a liability for taxes payable of $68,000 at December 31, 2017 that will be paid over a period of up to eight years.

This original estimate may be materially impacted by a number of additional considerations, including but not limited to the issuance of the final regulations, the Company's ongoing analysis of the new law and the Company's actual earnings for the fiscal year ending March 31, 2018.

Management believes that within the next twelve months the Company will have no reduction in uncertain tax benefits, including interest and penalties, related to positions taken with respect to credits and loss carryforwards on previously filed tax returns.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the provision for income taxes in the Condensed Consolidated Statements of Operations.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. Fiscal years 2013 through 2017 remain open to examination by federal tax authorities, and fiscal years 2011 through 2017 remain open to examination by California tax authorities.

The Company's estimated annual effective income tax rate was approximately (13.7%) and 7.4% as of December 31, 2017 and 2016, respectively. The annual effective tax rates as of December 31, 2017 and 2016 vary from the United States statutory income tax rate primarily due to valuation allowances in the United States, whereby pre-tax losses do not result in the recognition of corresponding income tax benefits and expenses, the foreign tax differential, and the impact of new tax reform.

NOTE 6—FINANCIAL INSTRUMENTS

Fair value measurements

Authoritative accounting guidance for fair value measurements provides a framework for measuring fair value and related disclosures. The guidance applies to all financial assets and financial liabilities that are measured on a recurring basis. The guidance requires fair value measurement to be classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities. The fair value of available-for-sale securities included in the Level 1 category is based on quoted prices that are readily and regularly available in an active market. As of December 31, 2017, the Level 1 category included money market funds of $9.5 million, which were included in cash and cash equivalents on the Condensed Consolidated Balance Sheets.

Level 2: Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The fair value of available-for-sale securities included in the Level 2 category is based on the market values obtained from an independent pricing service that were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well-established independent pricing vendors and broker-dealers. As of December 31, 2017, the Level 2 category included short-term investments of $17.0 million and long-term investments of $8.2 million, which were comprised of certificates of deposit, corporate debt securities and government and agency securities.

Level 3: Valuations based on inputs that are unobservable and involve management judgment and the reporting entity's own assumptions about market participants and pricing. As of December 31, 2017, the Company's Level 3 financial instruments measured at fair value on the Condensed Consolidated Balance Sheets consisted of the contingent consideration liability related to the acquisition of MikaMonu. The fair value of the contingent consideration liability was initially determined as of the acquisition date using unobservable inputs. These inputs include the estimated amount and timing of future cash flows, the probability of success (achievement

13

of the various contingent events) and a risk-adjusted discount rate of approximately 14.8% used to adjust the probability-weighted cash flows to their present value. Subsequent to the acquisition date, at each reporting period, the contingent consideration liability is re-measured to fair value with changes recorded in selling, general and administrative expenses in the Consolidated Statements of Operations. The change in fair value for the three month and nine month periods ended December 31, 2017 were $41,000 and $121,000, respectively.

The fair value of financial assets measured on a recurring basis is as follows (in thousands):

		Fair Value Measurements at Reporting Date Using		
	December 31, 2017	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 9,520	$ 9,520	$ —	$ —
Marketable securities	25,229	—	25,229	—
Total	$ 34,749	$ 9,520	$ 25,229	$ —

		Fair Value Measurements at Reporting Date Using		
	March 31, 2017	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 6,293	$ 6,293	$ —	$ —
Marketable securities	29,097	—	29,097	—
Total	$ 35,390	$ 6,293	$ 29,097	$ —

Short-term and long-term investments

All of the Company's short-term and long-term investments are classified as available-for-sale. Available-for-sale debt securities with maturities greater than twelve months are classified as long-term investments when they are not intended for use in current operations. Investments in available-for-sale securities are reported at fair value with unrecognized gains (losses), net of tax, as a component of accumulated other comprehensive income (loss) in the Condensed Consolidated Balance Sheets. The Company had money market funds of $9.5 million and $6.3 million at December 31, 2017 and March 31, 2017, respectively, included in cash and cash equivalents on the Condensed Consolidated Balance Sheets. The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when declines are determined to be other-than-temporary.

Table of Contents

The following table summarizes the Company’s available-for-sale investments:

	December 31, 2017			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Short-term investments:				
Corporate notes	$ 555	$ —	$ —	$ 555
Certificates of deposit	7,500	1	(16)	7,485
Foreign government obligations	5,431	—	(26)	5,405
State and municipal obligations	1,585	—	—	1,585
Agency bonds	2,002	—	(2)	2,000
Total short-term investments	$ 17,073	$ 1	$ (44)	$ 17,030
Long-term investments:				
Certificates of deposit	$ 8,250	$ —	$ (51)	$ 8,199
Total long-term investments	$ 8,250	$ —	$ (51)	$ 8,199

	March 31, 2017			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Short-term investments:				
State and municipal obligations	$ 1,632	$ 1	$ —	$ 1,633
Corporate notes	557	—	(2)	555
Agency bonds	3,012	—	(7)	3,005
Foreign government obligations	1,001	—	(1)	1,000
Certificates of deposit	10,000	9	(3)	10,006
Total short-term investments	$ 16,202	$ 10	$ (13)	$ 16,199
Long-term investments:				
Certificates of deposit	$ 7,500	$ 3	$ (39)	$ 7,464
Foreign government obligations	5,442	—	(8)	5,434
Total long-term investments	$ 12,942	$ 3	$ (47)	$ 12,898

The Company’s investment portfolio consists of both corporate and governmental securities that have a maximum maturity of three years. All unrealized gains and losses are due to changes in interest rates and bond yields. Subject to normal credit risks, the Company has the ability to realize the full value of all these investments upon maturity.

The deferred tax asset related to unrecognized gains and losses on short-term and long-term investments was $21,000 and $17,000 at December 31, 2017 and March 31, 2017, respectively.

As of December 31, 2017, contractual maturities of the Company's available-for-sale investments were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	$ 17,073	$ 17,030
Maturing in one to three years	8,250	8,199
	$ 25,323	$ 25,229

The Company classifies its short-term investments as "available-for-sale" as they are intended to be available for use in current operations.

15

Table of Contents

NOTE 7—COMMITMENTS AND CONTINGENCIES

Indemnification obligations

The Company is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in the context of contracts entered into by the Company, under which the Company agrees to hold the other party harmless against losses arising from a breach of representations and covenants related to such matters as title to assets sold and certain intellectual property rights. In each of these circumstances, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by it under these agreements.

It is not possible to predict the maximum potential amount of future payments that may be required under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material effect on its business, financial condition, cash flows or results of operations.

Product warranties

The Company warrants its products to be free of defects generally for a period of three years. The Company estimates its warranty costs based on historical warranty claim experience and includes such costs in cost of revenues. Warranty costs and the accrued warranty liability were not material as of December 31, 2017 and March 31, 2017 and for the three months and nine months ended December 31, 2017 or 2016.

NOTE 8—STOCK-BASED COMPENSATION

As of December 31, 2017, 4,575,111 shares of common stock were available for grant under the Company's 2016 Equity Incentive Plan.

The following table summarizes the Company's stock option activities for the nine months ended December 31, 2017:

	Shares Available for Grant	Number of Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Intrinsic Value
Balance at March 31, 2017	5,464,185	7,622,830		$ 5.09	
Granted	(898,874)	898,874		$ 7.17	
Exercised	—	(523,773)		$ 4.39	$ 1,787,814
Forfeited	9,800	(97,200)		$ 5.10	
Balance at December 31, 2017	4,575,111	7,900,731	5.68	$ 5.37	
Options vested and exercisable		4,884,592	3.96	$ 5.20	$ 13,630,614
Options vested and expected to vest		7,829,674	5.65	$ 5.36	$ 20,474,445

The weighted average fair value per underlying share of options granted during the three months ended December 31, 2017 and 2016 was $2.35 and $1.75, respectively, and for the nine months ended December 31, 2017 and 2016 was $2.49 and $1.56, respectively.

16

Table of Contents

Options outstanding by exercise price at December 31, 2017 were as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares Underlying Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Vested and Exercisable	Weighted Average Exercise Price
$ 2.43 - 3.43	884,945	$ 3.29	3.50	733,789	$ 3.27
$ 3.60 - 4.17	1,037,183	$ 3.98	2.94	942,089	$ 4.02
$ 4.30 - 4.98	1,201,191	$ 4.82	5.79	713,709	$ 4.74
$ 4.99 - 5.23	1,158,816	$ 5.10	7.70	175,239	$ 5.12
$ 5.28 - 6.00	990,966	$ 5.64	5.61	815,243	$ 5.71
$ 6.16 - 6.54	857,658	$ 6.35	5.57	630,425	$ 6.41
$ 6.61 - 6.86	843,896	$ 6.80	6.48	604,005	$ 6.78
$ 7.00 - 7.26	733,506	$ 7.20	8.04	161,513	$ 7.00
$ 7.40	83,990	$ 7.40	9.35	-	$ -
$ 9.20	108,580	$ 9.20	3.08	108,580	$ 9.20
	7,900,731	$ 5.37	5.68	4,884,592	$ 5.20

The following table summarizes stock-based compensation expense by line item in the Condensed Consolidated Statements of Operations, all relating to employee stock plans:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
	(In thousands)			
Cost of revenues	$ 73	$ 78	$ 186	$ 209
Research and development	292	251	843	712
Selling, general and administrative	170	100	492	438
Total	$ 535	$ 429	$ 1,521	$ 1,359

As stock-based compensation expense recognized in the Condensed Consolidated Statement of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures in accordance with authoritative guidance. The Company estimates forfeitures at the time of grant and revises the original estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

No tax benefit related to stock-based compensation was recognized in the three months or nine months ended December 31, 2017 or December 31, 2016 due to a full valuation allowance. There were no windfall tax benefits realized from exercised stock options in either of these periods. Compensation cost capitalized within inventory at December 31, 2017 was immaterial. As of December 31, 2017, the Company's total unrecognized compensation cost was $4.2 million, which will be recognized over a weighted average period of 2.18 years. The Company calculated the fair value of stock-based awards in the periods presented using the Black-Scholes option pricing model and the following weighted average assumptions:

17

Table of Contents

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Stock Option Plans:				
Risk-free interest rate	2.00%	1.62%	1.84 - 2.00%	1.12 - 1.62%
Expected life (in years)	5.00	5.00	5.00	5.00
Volatility	35.5%	33.3%	35.5 - 36.5%	33.3 - 34.8%
Dividend yield	— %	— %	— %	— %
Employee Stock Purchase Plan:				
Risk-free interest rate	1.42%	0.45%	1.04 - 1.42%	0.38 - 0.45%
Expected life (in years)	0.50	0.50	0.50	0.50
Volatility	38.8%	30.8%	38.8 - 51.1%	30.8 - 39.6%
Dividend yield	— %	— %	— %	— %

NOTE 9—SEGMENT AND GEOGRAPHIC INFORMATION

Based on its operating management and financial reporting structure, the Company has determined that it has one reportable business segment: the design, development and sale of integrated circuits.

The following is a summary of net revenues by geographic area based on the location to which product is shipped:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
	(In thousands)			
United States	$ 6,404	$ 3,838	$ 15,820	$ 14,094
China	1,372	2,024	4,319	8,121

Singapore	1,068	2,947	4,768	8,502
Netherlands	1,145	1,576	3,128	3,539
Rest of the world	1,129	1,099	3,417	3,532
	$ 11,118	$ 11,484	$ 31,452	$ 37,788

All sales are denominated in United States dollars.

Table of Contents

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

This Quarterly Report on Form 10-Q, and in particular the following Management’s Discussion and Analysis of Financial Condition and Results of Operations, includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements involve risks and uncertainties. Forward-looking statements are identified by words such as “anticipates,” “believes,” “expects,” “intends,” “may,” “will,” and other similar expressions. In addition, any statements which refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those set forth in this report under “Risk Factors,” those described elsewhere in this report, and those described in our other reports filed with the Securities and Exchange Commission (“SEC”). We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update these forward-looking statements after the filing of this report. You are urged to review carefully and consider our various disclosures in this report and in our other reports publicly disclosed or filed with the SEC that attempt to advise you of the risks and factors that may affect our business.

Overview

We are a fabless semiconductor company that designs, develops and markets static random access memories, or SRAMs, that operate at speeds of less than 10 nanoseconds, which we refer to as Very Fast SRAMs, and low latency dynamic random access memories, or LLDRAMs, primarily for the networking and telecommunications markets. We are subject to the highly cyclical nature of the semiconductor industry, which has experienced significant fluctuations, often in connection with fluctuations in demand for the products in which semiconductor devices are used. Our revenues have been substantially impacted by significant fluctuations in sales to our largest customer, Nokia (Alcatel-Lucent), and Cisco Systems, which was our largest customer in years past. We expect that future direct and indirect sales to these two customers will continue to fluctuate significantly on a quarterly basis. The worldwide financial crisis and the resulting economic impact on the end markets we serve have adversely impacted our financial results since the second half of fiscal 2009, and we expect that the unsettled global economic environment will continue to affect our operating results in future periods. However, with no debt, substantial liquidity and a history of positive cash flows from operations, we believe we are in a better financial position than many other companies of our size.

Revenues. Our revenues are derived primarily from sales of our Very Fast SRAM products. Sales to networking and telecommunications OEMs accounted for 63% to 66% of our net revenues during our last three fiscal years. We also sell our products to OEMs that manufacture products for defense applications such as radar and guidance systems, for professional audio applications such as sound mixing systems, for test and measurement applications such as high-speed testers, for automotive applications such as smart cruise control and voice recognition systems, and for medical applications such as ultrasound and CAT scan equipment.

As is typical in the semiconductor industry, the selling prices of our products generally decline over the life of the product. Our ability to increase net revenues, therefore, is dependent upon our ability to increase unit sales volumes of existing products and to introduce and sell new products with higher average selling prices in quantities sufficient to compensate for the anticipated declines in selling prices of our more mature products. Although we expect the average selling prices of individual products to decline over time, we believe that, over the next several quarters, our overall average selling prices will increase due to a continuing shift in product mix to a higher percentage of higher price, higher density products. Our ability to increase unit sales volumes is dependent primarily upon increases in customer demand but, particularly in periods of increasing demand, can also be affected by our ability to increase production through the availability of increased wafer fabrication capacity from Taiwan Semiconductor Manufacturing Company, or TSMC, and Powerchip, our wafer suppliers, and our ability to increase the number of good integrated circuit die produced from each wafer through die size reductions and yield enhancement activities.

We may experience fluctuations in quarterly net revenues for a number of reasons. Historically, orders on hand at the beginning of each quarter are insufficient to meet our revenue objectives for that quarter and are generally cancelable up to 30 days prior to scheduled delivery. Accordingly, we depend on obtaining and shipping orders in the same quarter to achieve our revenue objectives. In addition, the timing of product releases, purchase orders and product availability could result in significant product shipments at the end of a quarter. Failure to ship these products by the end of the quarter may adversely affect our operating results. Furthermore, our customers may delay scheduled delivery dates and/or cancel orders within specified timeframes without significant penalty.

We sell our products through our direct sales force, international and domestic sales representatives and distributors. Historically, revenues from product sales, except for sales to distributors that have price protection and ship from stock and debit rights, are generally recognized upon shipment, net of sales returns and allowances. Sales to consignment warehouses, who purchase products from us for use by contract manufacturers, are recorded upon delivery to the contract manufacturer. Sales to distributors that have price protection and ship from stock and debit rights are recorded as deferred revenues for financial reporting purposes and recognized as revenues when the products are resold by the distributors to the OEM. Sales to certain distributors are made under agreements allowing for returns or credits under certain circumstances. We therefore defer recognition of revenue on sales to those distributors under these terms until products are resold by the distributor. We have been revising certain distribution agreements to eliminate ship from stock and debits and price protection. Under these revised distribution agreements, we recognized additional revenue of $848,000 for the three months ended December 31, 2017 upon shipment of the product as the price was fixed and determinable.

Nokia (Alcatel-Lucent) was our largest customer in fiscal 2017, 2016 and 2015. Nokia (Alcatel-Lucent) purchases products directly from us and through contract manufacturers and distributors. Purchases by Nokia (Alcatel-Lucent) represented approximately 36%, 41%, 32% and 25% of our net revenues in the nine months ended December 31, 2017 and in fiscal 2017, 2016 and 2015, respectively. Cisco Systems, our largest OEM customer prior to fiscal 2014, purchases our products primarily through its consignment warehouse, Wintec Industries Inc., and also purchases some products through its contract manufacturers and directly from us. Based on information provided to us by Cisco Systems' consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 6%, 9%, 9% and 13% of our net revenues in the nine months ended December 31, 2017 and in fiscal 2017, 2016 and 2015, respectively. Our revenues have been substantially impacted by significant fluctuations in sales to Nokia (Alcatel-Lucent) and Cisco Systems, and we expect that future direct and indirect sales to these two customers will continue to fluctuate substantially on a quarterly basis and that such fluctuations may significantly affect our operating results in future periods. To our knowledge, none of our other OEM customers accounted for more than 10% of our net revenues in the nine months ended December 31, 2017 or in fiscal 2017, 2016 or 2015.

Cost of Revenues. Our cost of revenues consists primarily of wafer fabrication costs, wafer sort, assembly, test and burn-in expenses, the amortized cost of production mask sets, stock-based compensation and the cost of materials and overhead from operations. All of our wafer manufacturing and assembly operations, and a significant portion of our wafer sort testing operations, are outsourced. Accordingly, most of our cost of revenues consists of payments to TSMC, Powerchip and independent assembly and test houses. Because we do not have long-term, fixed-price supply contracts, our wafer fabrication and other outsourced manufacturing costs are subject to the cyclical fluctuations in demand for semiconductors. Cost of revenues also includes expenses related to supply chain management, quality assurance, and final product testing and documentation control activities conducted at our headquarters in Sunnyvale, California and our branch operations in Taiwan.

Gross Profit. Our gross profit margins vary among our products and are generally greater on our higher density products and, within a particular density, greater on our higher speed and industrial temperature products. We expect that our overall gross margins will fluctuate from period to period as a result of shifts in product mix, changes in average selling prices and our ability to control our cost of revenues, including costs associated with outsourced wafer fabrication and product assembly and testing.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related expenses for design engineers and other technical personnel, the cost of developing prototypes, stock-based compensation and fees paid to consultants. We charge all research and development expenses to operations as incurred. We charge mask costs used in production to cost of revenues over a 12-month period. However, we charge costs related to pre-production mask sets, which are not used in production, to research and development expenses at the time they are incurred. These charges often arise as we transition to new process technologies and, accordingly, can cause research and development expenses to fluctuate on a quarterly basis. We believe that continued investment in research and development is critical to our long-term success, and we expect to continue to devote

Table of Contents

significant resources to product development activities. In particular, we are devoting substantial resources to the development of a new category of in-place associative computing products based on patented technology obtained in our acquisition of MikaMonu in November 2015. Accordingly, we expect that our research and development expenses will continue to be substantial in future periods and may lead to operating losses in some periods. Such expenses as a percentage of net revenues may fluctuate from period to period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of commissions paid to independent sales representatives, salaries, stock-based compensation and related expenses for personnel engaged in sales, marketing, administrative, finance and human resources activities, professional fees, costs associated with the promotion of our products and other corporate expenses. We expect that our sales and marketing expenses will increase in absolute dollars in future periods if we are able to grow and expand our sales force but that, to the extent our revenues increase in future periods, these expenses will generally decline as a percentage of net revenues. We also expect that, in support of any future growth that we are able to achieve, general and administrative expenses will generally increase in absolute dollars.

Results of Operations

The following table sets forth statement of operations data as a percentage of net revenues for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	49.0	43.4	48.7	45.6
Gross profit	51.0	56.6	51.3	54.4
Operating expenses:				
Research and development	38.1	33.2	40.5	30.7
Selling, general and administrative	22.3	21.3	24.7	21.1
Total operating expenses	60.4	54.5	65.2	51.8
Income (loss) from operations	(9.4)	2.1	(13.9)	2.6
Interest and other income, net	1.0	0.5	1.0	0.8
Income (loss) before income taxes	(8.4)	2.6	(12.9)	3.4
Provision for (benefit from) income taxes	5.3	(0.5)	2.3	0.2
Net income (loss)	(13.7)	3.1	(15.2)	3.2

Net Revenues. Net revenues decreased by 3.2% from $11.5 million in the three months ended December 31, 2016 to $11.1 million in the three months ended December 31, 2017 and by 16.8% from $37.8 million in the nine months ended December 31, 2016 to $31.5 million in the nine months ended December 31, 2017. The reduction in both periods reflected the continuing weakness in the global networking and telecommunications markets and, in particular, continued weakness in Asia. Direct and indirect sales to Nokia (Alcatel-Lucent), currently our largest customer, decreased from $4.5 million in the three months ended December 31, 2016 to $3.9 million in the three months ended December 31, 2017 and from $15.7 million in the nine months ended December 31, 2016 to $11.2 million in the nine months ended December 31, 2017. The decrease in the each period reflected a continuing inventory correction by Nokia (Alcatel-Lucent) to reduce inventory levels to align them with production requirements. Direct and indirect sales to Cisco Systems, our largest customer prior to 2014, decreased from $1.1 million in the three months ended December 31, 2016 to $565,000 in the three months ended December 31, 2017 and from $3.6 million in the nine months ended December 31, 2016 to $1.9 million in the nine months ended December 31, 2017 reflecting softness in the market for its switches and routers that incorporate our products. Shipments of our SigmaQuad product line accounted for 54.5% of total shipments in the three months ended December 31, 2017 compared to 54.2% of total shipments in the three months ended December 31, 2016 and 48.2% of total shipments in the nine months ended December 31, 2017 compared to 55.8% of total shipments in the nine months ended December 31, 2016. The decline in SigmaQuad shipments in each period is primarily due to the decline in sales to Nokia (Alcatel-Lucent) discussed above.

Cost of Revenues. Cost of revenues increased by 9.1% from $5.0 million in the three months ended December 31, 2016 to $5.4 million in the three months ended December 31, 2017 and decreased by 11.1% from $17.2 million in the nine months ended December 31, 2016 to $15.3 million in the three months ended December 31, 2017. The increase in cost of revenues in the current three month period is primarily due to changes in amounts charged to cost of revenue for potentially excess inventory and changes in the mix of product shipped during each period. The decrease in cost of revenues in the nine month period was primarily due to the decrease in net revenues discussed above. Cost of revenues included stock-based compensation expense of $73,000 and $78,000 for the three months ended December 31, 2017 and 2016, respectively, and $186,000 and $209,000 for the nine months ended December 31, 2017 and 2016, respectively.

Gross Profit. Gross profit decreased by 12.6% from $6.5 million in the three months ended December 31, 2016 to $5.7 million in the three months ended December 31, 2017 and by 21.5% from $20.6 million in the nine months ended December 31, 2016 to $16.1 million in the nine months ended December 31, 2017. Gross margin decreased from 56.6% in the three months ended December 31, 2016 to 51.0% in the three months ended December 31, 2017 and from 54.4% in the nine months ended December 31, 2016 to 51.3% in the nine months ended December 31, 2017. The decrease in gross profit in the three months and nine months ended December 31, 2017 is primarily related to the decreases in net revenues discussed above and a provision for excess and obsolete inventories of $427,000 for the three months ended December 31, 2017 compared to $158,000 in the three months ended December 31, 2016 and a provision for excess and obsolete inventories of $1.2 million for the nine months ended December 31, 2017 compared to $491,000 in the nine months December 31, 2016. The decreases in gross margin are primarily related to changes in the mix of products and customers and changes in the provision for excess and obsolete inventories discussed above.

Research and Development Expenses. Research and development expenses increased by 11.0% from $3.8 million in the three months ended December 31, 2016 to $4.2 million in the three months ended December 31, 2017. This increase was primarily due to an increase of $261,000 in payroll related expenses related to our associative processor development activities. Research and development expenses included stock-based compensation expense of $292,000 and $251,000 for the three months ended December 31, 2017 and 2016, respectively. Research and development expenses increased from $11.6 million in the nine months ended December 31, 2016 to $12.7 million in the nine months ended December 31, 2017. The increase was primarily due to an increase of $1.3 million in payroll related expenses partially offset by a decrease of $564,000 for purchased IP, both primarily related to our associative processor development activities. Research and development expenses included stock-based compensation expense of $843,000 and $712,000 for the nine months ended December 31, 2017 and 2016, respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were essentially unchanged at $2.4 million in the three months ended December 31, 2016 compared to $2.5 million in the three months ended December 31, 2017. Increases in stock-based compensation expenses, professional fees and independent sales representative commissions were primarily offset by a decrease in payroll related expenses. Selling, general and administrative expenses included stock-based compensation expense of $170,000 and $100,000 for the three months ended December 31, 2017 and 2016, respectively. Selling, general and administrative expenses decreased 2.4% from $8.0 million in the nine months ended December 31, 2016 to $7.8 million in the nine months ended December 31, 2017. This decrease was primarily related to a decrease in payroll related expenses of $174,000 and a lesser decrease in professional fees. Selling, general and administrative expenses included stock-based compensation expense of $492,000 and $438,000 for the nine months ended December 31, 2017 and 2016, respectively.

Interest and Other Income (Expense), Net. Interest and other income (expense), net increased 62.3% from income of $61,000 in the three months ended December 31, 2016 to $99,000 in the three months ended December 31, 2017. Interest income increased by $32,000 due to higher interest rates received on our cash and short-term and long-term investments. Foreign exchange losses were $20,000 for the three months ended December 31, 2016 as compared to $14,000 for the three months ended December 31, 2017. Interest and other income (expense), net increased 1.7% from income of $295,000 in the nine months ended December 31, 2016 to $300,000 in the nine months ended December 31, 2017. Interest income increased by $82,000 due to higher interest rates received on our cash and short-term and long-term investments. Foreign exchange gains were $68,000 for the nine months ended

Table of Contents

December 31, 2016 as compared to a loss $9,000 for the nine months ended December 31, 2017. The exchange gains and losses in each period were related to our Taiwan branch operations and our operations in Israel.

Provision for (benefit from) Income Taxes. The benefit for income taxes increased from $53,000 in the three months ended December 31, 2016 to a provision of $590,000 in the three months ended December 31, 2017 and the provision increased 1,025.0% from $64,000 in the nine months ended December 31, 2016 to $720,000 in the nine months ended December 31, 2017. These changes were primarily due to a tax provision of $639,000 related to the transition tax associated with deemed repatriation of foreign earnings and the re-measurement of deferred tax assets and liabilities based on the provisions of H.R. 1 recorded in the quarter ended December 31, 2017 as well as from fluctuations in the relative mix of income among our operating jurisdictions.

Net Income (Loss). Net income was $348,000 in the three months ended December 31, 2016 compared to a net loss of $1.5 million in the three months ended December 31, 2017. Net income was $1.2 million in the nine months ended December 31, 2016 compared to a net loss of $4.8 million in the nine months ended December 31, 2017. These fluctuations were primarily due to the changes in net revenues, gross profit and operating expenses discussed above.

Liquidity and Capital Resources

As of December 31, 2017, our principal sources of liquidity were cash, cash equivalents and short-term investments of $56.8 million compared to $49.9 million as of March 31, 2017.

Net cash used in operating activities was $605,000 for the nine months ended December 31, 2017 compared to net cash provided by operating activities was $1.3 million for the nine months ended December 31, 2016. The primary uses of cash in the current nine month period were a net loss of $4.8 million, a decrease in deferred revenue of $1.3 million and a lesser decrease in accrued expenses and other liabilities. The decrease in deferred revenue is primarily due to the recognition of $848,000 in additional revenue resulting from revisions to the distribution agreement with our largest distributor in the United States that eliminated ship from stock and debits and price protection rights that the distributor previously had. The primary sources of cash in the current nine month period were stock-based compensation of $1.5 million, a decrease in inventory of $1.3 million and a provision for excess and obsolete inventories of $1.2 million, depreciation and amortization expenses of $948,000 and a reduction in accounts receivable of $826,000. The primary sources of cash in the nine months ended December 31, 2016 were net income of $1.2 million, stock-based compensation of $1.4 million and depreciation and amortization expenses of $1.2 million. The primary use of cash in the nine months ended December 31, 2016 was an increase in inventory of $2.6 million. Our inventory balance increased in the prior period primarily due to the assembling of our LLDRAM products to support shipments in the subsequent six to nine months as we qualified a new assembly vendor.

Net cash provided by investing activities was $4.5 million in the nine months ended December 31, 2017 compared to $3.3 million in the nine months ended December 31, 2016. Investment activities in the nine months ended December 31, 2017 consisted primarily of the maturity of certificates of deposit of $10.5 million, partially offset by the purchase of agency bonds and certificates of deposit of $6.7 million and the purchase of property and equipment of $436,000. Investment activities in the nine months ended December 31, 2016 consisted primarily of the maturity of corporate notes, state and municipal obligations and certificates of deposit of $17.6 million, partially offset by the purchase of agency bonds and certificates of deposit of $14.1 million and the purchase of property and equipment for $194,000.

Net cash provided by financing activities in the nine months ended December 31, 2017 primarily consisted of the net proceeds from the sale of common stock pursuant to our employee stock plans of $2.9 million, partially offset the by release of an escrow deposit related to our acquisition of Mika Monu in November 2015 in the amount of $850,000. Net cash used in financing activities in the nine months ended December 31, 2016 primarily consisted of the repurchase of $7.1 million of our common stock at an average purchase price of $4.33 per share, partially offset by the net proceeds from the sale of common stock pursuant to our employee stock plans.

The Company’s estimated annual effective income tax rate was approximately (13.7%) as of December 31, 2017. We expect H.R. 1 to impact our net income, diluted earnings per share, and cash flows in future periods, due

Table of Contents

primarily to the reduction in the federal corporate tax rate. We currently estimate that our blended consolidated effective income tax rate for full-year fiscal 2018 will approximate (3.0%) before discrete items. The blended statutory Federal tax rates for the year ending March 31, 2018 and 2019 will be 31.5% and 21%. These tax-related estimates may differ from actual results, possibly materially, due to changes in interpretations of H.R. 1 and assumptions made by us, as well as guidance that may be issued and actions we may take as a result of H.R. 1. See Note 5, Income Taxes, for further information.

We believe that our existing balances of cash, cash equivalents and short-term investments, and cash flow expected to be generated from our future operations will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. Our future capital requirements will depend on many factors, including revenue growth, if any, that we experience, the extent to which we utilize subcontractors, the levels of inventory and accounts receivable that we maintain, the timing and extent of spending to support our product development efforts and the expansion of our sales and marketing. Additional capital may also be required for the consummation of any acquisition of businesses, products or technologies that we may undertake. We cannot assure that additional equity or debt financing, if required, will be available on terms that are acceptable or at all.

Contractual Obligations

The following table describes our contractual obligations as of December 31, 2017:

	Payments due by period				
	2018	2019 and 2020	2021 and 2022	After 2022	Total
Facilities and equipment leases	$ 107,000	$ 767,000	$ 265,000	$ 7,000	$ 1,146,000
Wafer and test purchase obligations	698,000	779,000	—	—	1,477,000
	$ 805,000	$ 1,546,000	$ 265,000	$ 7,000	$ 2,623,000

As of December 31, 2017, the current portion of our unrecognized tax benefits was $0, and the long-term portion was $823,000. We expect to make federal income tax payments in the next twelve months of approximately $5,000. As a result of H.R 1, we recorded a liability for taxes payable of $68,000 at December 31, 2017 that will be paid over a period of up to eight years.

We expect expenditures of approximately $1,000,000 to be incurred in the next twelve months for construction on our headquarters building in Sunnyvale, CA.

In connection with the acquisition of MikaMonu on November 23, 2015, we are required to make contingent consideration payments to the former MikaMonu shareholders conditioned upon the retention of MikaMonu's key employee and the achievement of certain product development milestones and revenue targets for products based on the MikaMonu technology. As of December 31, 2017, the accrual for potential contingent consideration was $5.9 million.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

Please refer to Note 5 to our condensed consolidated financial statements appearing under Part I, Item 1 for a discussion regarding how H.R. 1 may impact the Company's critical accounting policies and estimates.

Off-Balance Sheet Arrangements

At December 31, 2017, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually

Table of Contents

narrow or limited purposes. Accordingly, we are not exposed to the type of financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Recent Accounting Pronouncements

Please refer to Note 1 to our condensed consolidated financial statements appearing under Part I, Item 1 for a discussion of recent accounting pronouncements that may impact the Company.

Item 3.Quantitative and Qualitative Disclosure About Market Risk

Foreign Currency Exchange Risk. Our revenues and expenses, except those expenses related to our operations in Taiwan and in Israel, including subcontractor manufacturing expenses, are denominated in U.S. dollars. As a result, we have relatively little exposure for currency exchange risks, and foreign exchange gains and losses have been minimal to date. We do not currently enter into forward exchange contracts to hedge exposure denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. In the future, if we feel our foreign currency exposure has increased, we may consider entering into hedging transactions to help mitigate that risk.

Interest Rate Sensitivity. We had cash, cash equivalents, short-term investments and long-term investments totaling $65.0 million at December 31, 2017. These amounts were invested primarily in money market funds, state and municipal obligations, certificates of deposit, government agency bonds and foreign government obligations. The cash, cash equivalents and short-term marketable securities are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. We believe a hypothetical 100 basis point increase or decrease in interest rates would not materially affect the fair value of our interest-sensitive financial instruments. Declines in interest rates, however, will reduce future investment income.

Item 4.Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2017, our Chief Executive Officer and

Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in this report is made known to them by others on a timely basis, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in order to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported by us within the time periods specified in the SEC's rules and instructions for Form 10-Q.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 1A.Risk Factors

Our future performance is subject to a variety of risks. If any of the following risks actually occur, our business, financial condition and results of operations could suffer and the trading price of our common stock could decline. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations. You should also refer to other information contained in this report, including our condensed consolidated financial statements and related notes. The risk factors described below do not contain any

Table of Contents

material changes from those previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

Unpredictable fluctuations in our operating results could cause our stock price to decline.

Our quarterly and annual revenues, expenses and operating results have varied significantly and are likely to vary in the future. For example, in the eleven fiscal quarters ended December 31, 2017, we recorded net revenues of as much as $14.0 million and as little as $9.6 million and quarterly operating income of as much as $389,000 and, in eight quarters, operating losses, including our operating loss of $1.8 million in the quarter ended September 30, 2017. We therefore believe that period-to-period comparisons of our operating results are not a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our stock price. In future periods, we may not have any revenue growth, or our revenues could decline. Furthermore, if our operating expenses exceed our expectations, our financial performance could be adversely affected. Factors that may affect periodic operating results in the future include:

- changes in our customers' inventory management practices;
- unpredictability of the timing and size of customer orders, since most of our customers purchase our products on a purchase order basis rather than pursuant to a long-term contract;
- our ability to anticipate and conform to new industry standards;
- fluctuations in availability and costs associated with materials needed to satisfy customer requirements;
- manufacturing defects, which could cause us to incur significant warranty, support and repair costs, lose potential sales, harm our relationships with customers and result in write-downs;
- changes in our product pricing policies, including those made in response to new product announcements and pricing changes of our competitors; and
- our ability to address technology issues as they arise, improve our products' functionality and expand our product offerings.

Our expenses are, to a large extent, fixed, and we expect that these expenses will increase in the future. We will not be able to adjust our spending quickly if our revenues fall short of our expectations. If this were to occur, our operating results would be harmed. If our operating results in future quarters fall below the expectations of market analysts and investors, the price of our common stock could fall.

Our two largest OEM customers account for a significant percentage of our net revenues. If either of these customers, or any of our other major customers, reduces the amount they purchase or stop purchasing our products, our operating results will suffer.

Nokia (Alcatel-Lucent), currently our largest customer, purchases our products directly from us and through contract manufacturers and distributors. Purchases by Nokia (Alcatel-Lucent) represented approximately 36%, 41%, 32% and 25% of our net revenues in the nine months ended December 31, 2017 and in fiscal 2017, 2016 and 2015, respectively. Cisco Systems, historically our largest OEM customer, purchases our products through its consignment warehouses and contract manufacturers and directly from us. Purchases by Cisco Systems represented approximately 6%, 9%, 9% and 13% of our net revenues in the nine months ended December 31, 2017 and in fiscal 2017, 2016 and 2015, respectively. We expect that our operating results in any given period will continue to depend significantly on orders from our key OEM customers, particularly Nokia (Alcatel-Lucent) and Cisco Systems, and our future success is dependent to a large degree on the business success of these OEMs over which we have no control. We do not have long-term contracts with Nokia (Alcatel-Lucent), Cisco Systems or any of our other major OEM customers, distributors or contract manufacturers that obligate them to purchase our products. We expect that future direct and indirect sales to Nokia (Alcatel-Lucent), Cisco Systems and our other key OEM customers will continue to fluctuate significantly on a quarterly basis and that such fluctuations may substantially affect our

26

Table of Contents

operating results in future periods. If we fail to continue to sell to our key OEM customers, distributors or contract manufacturers in sufficient quantities, our business could be harmed.

We have incurred significant losses in prior periods and may incur losses in the future.

We have incurred significant losses in prior periods. We incurred losses of $115,000, $2.2 million and $5.0 million during fiscal 2017, 2016 and 2015, respectively. Our operating expenses over the past several years included substantial expenses related to legal proceedings which resulted in operating losses. Although these proceedings are substantially concluded, there can be no assurance that our Very Fast SRAMs will continue to receive broad market acceptance, that our new product development initiatives will be successful or that we will be able to achieve sustained revenue growth or profitability.

We depend upon the sale of our Very Fast SRAMs for most of our revenues, and a downturn in demand for these products could significantly reduce our revenues and harm our business.

We derive most of our revenues from the sale of Very Fast SRAMs, and we expect that sales of these products will represent the substantial majority of our revenues for the foreseeable future. Our business depends in large part upon continued demand for our products in the markets we currently serve, and adoption of our products in new markets. Market adoption will be dependent upon our ability to increase customer awareness of the benefits of our products and to prove their high-performance and cost-effectiveness. We may not be able to sustain or increase our revenues from sales of our products, particularly if the networking and telecommunications markets were to experience another significant downturn in the future. Any decrease in revenues from sales of our products could harm our business more than it would if we offered a more diversified line of products.

If we do not successfully develop new products to respond to rapid market changes due to changing technology and evolving industry standards, particularly in the networking and telecommunications markets, our business will be harmed.

If we fail to offer technologically advanced products and respond to technological advances and emerging standards, we may not generate sufficient revenues to offset our development costs and other expenses, which will hurt our business. The development of new or enhanced products is a complex and uncertain process that requires the accurate anticipation of technological and market trends. In particular, the networking and telecommunications markets are rapidly evolving and new standards are emerging. We are vulnerable to advances in technology by competitors, including new SRAM architectures, new forms of DRAM and the emergence of new memory technologies that could enable the development of products that feature higher performance or lower cost. We may experience development, marketing and other technological difficulties that may delay or limit our ability to respond to technological changes, evolving industry standards, competitive developments or end-user requirements. For example, because we have limited experience developing integrated circuits, or IC, products other than Very Fast SRAMs and LLDRAMs, our efforts to introduce new products may not be successful and our business may suffer. Other challenges that we face include:

· our products may become obsolete upon the introduction of alternative technologies;

· we may incur substantial costs if we need to modify our products to respond to these alternative technologies;

· we may not have sufficient resources to develop or acquire new technologies or to introduce new products capable of competing with future technologies;

- new products that we develop may not successfully integrate with our end-users' products into which they are incorporated;

- we may be unable to develop new products that incorporate emerging industry standards;

27

Table of Contents

- we may be unable to develop or acquire the rights to use the intellectual property necessary to implement new technologies; and

- when introducing new or enhanced products, we may be unable to manage effectively the transition from older products.

Our future success is substantially dependent on the successful development of new in-place associative computing products which entails significant risks.

Since our acquisition of MikaMonu in November 2015, our principal strategic objective has been the development of a new category of in-place associative computing products based on patented technology that we acquired in the acquisition. We have devoted, and are continuing to devote, substantial efforts and resources to this development effort. This ongoing project involves the commercialization of new, cutting-edge technology, will require a substantial effort over a year or more and will be subject to significant risks. In addition to the typical risks associated with the development of technologically advanced products (as outlined in the previous paragraph), this project will be subject to enhanced risks of technological problems related to the development of an entirely new category of products, substantial risks of delays or unanticipated costs that may be encountered and risks associated with the establishment of entirely new markets and customer relationships. Our inability to successfully conclude this major development effort and establish a market for the products we hope to develop would have a material adverse effect on our future financial and business success, including our prospects for increased revenues. Additionally, if we are unable to meet the expectations of market analysts and investors with respect to this major development effort, then the price of our common stock could fall.

We are subject to the highly cyclical nature of the networking and telecommunications markets.

Our products are incorporated into routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment used in the highly cyclical networking and telecommunications markets. We expect that the networking and telecommunications markets will continue to be highly cyclical, characterized by periods of rapid growth and contraction. Our business and our operating results are likely to fluctuate, perhaps quite severely, as a result of this cyclicality.

The market for Very Fast SRAMs is highly competitive.

The market for Very Fast SRAMs, which are used primarily in networking and telecommunications equipment, is characterized by price erosion, rapid technological change, cyclical market patterns and intense foreign and domestic competition. Several of our competitors offer a broad array of memory products and have greater financial, technical, marketing, distribution and other resources than we have. Some of our competitors maintain their own semiconductor fabrication facilities, which may provide them with capacity, cost and technical advantages over us. We cannot assure you that we will be able to compete successfully against any of these competitors. Our ability to compete successfully in this market depends on factors both within and outside of our control, including:

- real or perceived imbalances in supply and demand of Very Fast SRAMs;

- the rate at which OEMs incorporate our products into their systems;

- the success of our customers' products;
- our ability to develop and market new products; and
- the supply and cost of wafers.

In addition, we are vulnerable to advances in technology by competitors, including new SRAM architectures and new forms of DRAM, or the emergence of new memory technologies that could enable the development of products that feature higher performance, lower cost or lower power capabilities. Additionally, the trend toward

28

Table of Contents

incorporating SRAM into other chips in the networking and telecommunications markets has the potential to reduce future demand for Very Fast SRAM products. There can be no assurance that we will be able to compete successfully in the future. Our failure to compete successfully in these or other areas could harm our business.

The average selling prices of our products are expected to decline, and if we are unable to offset these declines, our operating results will suffer.

Historically, the average unit selling prices of our products have declined substantially over the lives of the products, and we expect this trend to continue. A reduction in overall average selling prices of our products could result in reduced revenues and lower gross margins. Our ability to increase our net revenues and maintain our gross margins despite a decline in the average selling prices of our products will depend on a variety of factors, including our ability to introduce lower cost versions of our existing products, increase unit sales volumes of these products, and introduce new products with higher prices and greater margins. If we fail to accomplish any of these objectives, our business will suffer. To reduce our costs, we may be required to implement design changes that lower our manufacturing costs, negotiate reduced purchase prices from our independent foundries and our independent assembly and test vendors, and successfully manage our manufacturing and subcontractor relationships. Because we do not operate our own wafer foundry or assembly facilities, we may not be able to reduce our costs as rapidly as companies that operate their own foundries or facilities.

Global economic and market conditions may adversely affect our business, financial condition and results of operations.

We sell our products to end customers both in the United States and internationally. We also rely heavily on our suppliers in Asia. We are therefore susceptible to adverse domestic and international economic and market conditions. In recent years, turmoil in global financial markets and economic conditions has impacted credit availability, consumer spending and capital expenditures, including expenditures for networking and telecommunications equipment. Weakness in global networking and telecommunications markets, particularly in Asia, has continued to adversely impact our revenues in recent quarters. Slowness in economic growth, domestically and in our key markets, uncertainty regarding macroeconomic trends, and volatility in financial markets may continue to adversely affect our business, financial condition and results of operations over coming quarters.

We are dependent on a number of single source suppliers, and if we fail to obtain adequate supplies, our business will be harmed and our prospects for growth will be curtailed.

We currently purchase several key components used in the manufacture of our products from single sources and are dependent upon supply from these sources to meet our needs. If any of these suppliers cannot provide components on a timely basis, at the same price or at all, our ability to manufacture our products will be constrained and our business will suffer. Most significantly, we obtain wafers for our Very Fast SRAM products from a single foundry, TSMC, and most of them are packaged at ASE. Wafers for our LLDRAM products are obtained exclusively from Powerchip. If we are unable to obtain an adequate supply of wafers from TSMC or Powerchip or find alternative sources in a timely manner, we will be unable to fulfill our customer orders and our operating results will be harmed. We do not have supply agreements with TSMC, Powerchip, ASE or any of our other independent assembly and test suppliers, and instead obtain manufacturing services and products from these suppliers on a purchase-order basis. Our suppliers, including TSMC and Powerchip, have no obligation to supply products or services to us for any specific product, in any specific quantity, at any specific price or for any specific time period. As a result, the loss or failure to perform by any of these suppliers could adversely affect our business and operating results.

Should any of our single source suppliers experience manufacturing failures or yield shortfalls, be disrupted by natural disaster or political instability, choose to prioritize capacity or inventory for other uses or reduce or eliminate deliveries to us for any other reason, we likely will not be able to enforce fulfillment of any delivery commitments and we would have to identify and qualify acceptable replacements from alternative sources of supply. In particular, if TSMC is unable to supply us with sufficient quantities of wafers to meet all of our requirements, we would have to allocate our products among our customers, which would constrain our growth and might cause some of them to seek alternative sources of supply. Since the manufacturing of wafers and other components is extremely

Table of Contents

complex, the process of qualifying new foundries and suppliers is a lengthy process and there is no assurance that we would be able to find and qualify another supplier without materially adversely affecting our business, financial condition and results of operations.

Because we outsource our wafer manufacturing and independent wafer foundry capacity is limited, we may be required to enter into costly long-term supply arrangements to secure foundry capacity.

We do not have long-term supply agreements with TSMC or Powerchip, but instead obtain our wafers on a purchase order basis. In order to secure future wafer supply from TSMC or Powerchip or from other independent foundries, we may be required to enter into various arrangements with them, which could include:

· contracts that commit us to purchase specified quantities of wafers over extended periods;

· investments in and joint ventures with the foundries; or

· non-refundable deposits with or prepayments or loans to foundries in exchange for capacity commitments.

We may not be able to make any of these arrangements in a timely fashion or at all, and these arrangements, if any, may not be on terms favorable to us. Moreover, even if we are able to secure independent foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

If we are unable to offset increased wafer fabrication costs by increasing the average selling prices of our products, our gross margins will suffer.

If there is a significant upturn in the networking and telecommunications markets that results in increased demand for our products and competing products, the available supply of wafers may be limited. As a result, we could be required to obtain additional manufacturing capacity in order to meet increased demand. Securing additional manufacturing capacity may cause our wafer fabrication costs to increase. If we are unable to offset these increased costs by increasing the average selling prices of our products, our gross margins will decline.

We rely heavily on distributors and our success depends on our ability to develop and manage our indirect distribution channels.

A significant percentage of our sales are made to distributors and to contract manufacturers who incorporate our products into end products for OEMs. For example, in the nine months ended December 31, 2017 and in fiscal 2017, 2016 and 2015, our distributor Avnet Logistics accounted for 34.7%, 25.5%, 28.2% and 35.2%, respectively, of our net revenues. Avnet Logistics and our other existing distributors may choose to devote greater resources to marketing and supporting the products of other companies. Since we sell through multiple channels and distribution networks, we may have to resolve potential conflicts between these channels. For example, these conflicts may result from the different discount levels offered by multiple channel distributors to their customers or, potentially, from our direct sales force targeting the same equipment manufacturer accounts as our indirect channel distributors. These conflicts may harm our business or reputation.

We may be unable to accurately predict future sales through our distributors, which could harm our ability to efficiently manage our resources to match market demand.

Our financial results, quarterly product sales, trends and comparisons are affected by fluctuations in the buying patterns of the OEMs that purchase our products from our distributors. While we attempt to assist our distributors in maintaining targeted stocking levels of our products, we may not consistently be accurate or successful. This process involves the exercise of judgment and use of assumptions as to future uncertainties, including end user demand. Inventory levels of our products held by our distributors may exceed or fall below the levels we consider desirable on a going-forward basis. This could result in distributors returning unsold inventory to us, or in us not having sufficient inventory to meet the demand for our products. If we are not able to accurately

Table of Contents

predict sales through our distributors or effectively manage our relationships with our distributors, our business and financial results will suffer.

A small number of customers generally account for a significant portion of our accounts receivable in any period, and if any one of them fails to pay us, our financial position and operating results will suffer.

At December 31, 2017, four customers accounted for 38%, 18%, 14% and 14% of our accounts receivable, respectively. If any of these customers do not pay us, our financial position and operating results will be harmed. Generally, we do not require collateral from our customers.

We have previously disclosed a material weakness in our internal control over financial reporting relating to the evaluation and calculation of our inventory reserve which management believes has been fully remediated. Should we have inadequately remediated this material weakness or should we otherwise fail to maintain effective internal control over financial reporting and disclosure controls and processes, our ability to report our financial condition and results of operations accurately and on a timely basis could be adversely affected.

In connection with the completion of the quarter-end closing and review procedures for the quarter ended December 31, 2013, certain errors were identified in the evaluation and calculation of our inventory write-down for the quarter and nine month period then ended that were the result of a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

During these closing and review procedures, our management determined that we had not designed and maintained effective controls over the review of supporting information to confirm the completeness and accuracy of our calculations for the write-down of excess or obsolete inventory, thereby affecting the valuation of our inventory as of December 31, 2013. While this control deficiency did not result in any material misstatement of our historical financial statements, it did result in adjustments identified by our auditors as part of their quarterly review process, and require corrections after our initial estimate of excess and obsolete inventory write-downs for the three month period ended December 31, 2013.

A material weakness in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information. Following the identification of the error in our financial statements and the material weakness that gave rise to the error, our management implemented a remediation plan which it believes fully remediated the material weakness. Should our remediation efforts prove to have been inadequate or should we otherwise fail to maintain effective internal control over financial reporting and disclosure controls and procedures, we could be unable to meet our reporting obligations accurately and on a timely basis. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could adversely affect the trading price of our common stock.

Our acquisition of companies or technologies could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results.

In November 2015, we acquired all of the outstanding capital stock of privately held MikaMonu Group Ltd., a development-stage, Israel-based company that specializes in in-place associative computing for markets including big data, computer vision and cyber security. We also acquired substantially all of the assets related to the SRAM memory device product line of Sony Corporation in 2009. We intend to supplement our internal development activities by seeking opportunities to make additional acquisitions or investments in companies, assets or technologies that we believe are complementary or strategic. Other than the MikaMonu and Sony acquisitions, we have not made any such acquisitions or investments, and therefore our experience as an organization in making such acquisitions and investments is limited. In connection with the MikaMonu acquisition, we are subject to risks related to potential problems, delays or anticipated costs that may be encountered in the development of products based on the MikaMonu technology and the establishment of new markets and customer relationships for the potential new

31

Table of Contents

products. In addition, in connection with the MikaMonu acquisition and any future acquisitions or investments we may make, we face numerous other risks, including:

- difficulties in integrating operations, technologies, products and personnel;
- diversion of financial and managerial resources from existing operations;
- risk of overpaying for or misjudging the strategic fit of an acquired company, asset or technology;
- problems or liabilities stemming from defects of an acquired product or intellectual property litigation that may result from offering the acquired product in our markets;
- challenges in retaining key employees to maximize the value of the acquisition or investment;
- inability to generate sufficient return on investment;
- incurrence of significant one-time write-offs; and
- delays in customer purchases due to uncertainty.

If we proceed with additional acquisitions or investments, we may be required to use a considerable amount of our cash, or to finance the transaction through debt or equity securities offerings, which may decrease our financial liquidity or dilute our stockholders and affect the market price of our stock. As a result, if we fail to properly evaluate and execute acquisitions or investments, our business and prospects may be harmed.

Claims that we infringe third party intellectual property rights could seriously harm our business and require us to incur significant costs.

In recent years, there has been significant litigation in the semiconductor industry involving patents and other intellectual property rights. We have recently been involved in protracted patent infringement litigation, and we could become subject to additional claims or litigation in the future as a result of allegations that we infringe others' intellectual property rights or that our use of intellectual property otherwise violates the law. Claims that our products infringe the proprietary rights of others would force us to defend ourselves and possibly our customers, distributors or manufacturers against the alleged infringement. Any such litigation regarding intellectual property could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations. Similarly, changing our products or processes to avoid infringing the rights of others may be costly or impractical. If any claims received in the future were to be upheld, the consequences to us could require us to:

· stop selling our products that incorporate the challenged intellectual property;

· obtain a license to sell or use the relevant technology, which license may not be available on reasonable terms or at all;

· pay damages; or

· redesign those products that use the disputed technology.

Although patent disputes in the semiconductor industry have often been settled through cross-licensing arrangements, we may not be able in any or every instance to settle an alleged patent infringement claim through a cross-licensing arrangement in part because we have a more limited patent portfolio than many of our competitors. If a successful claim is made against us or any of our customers and a license is not made available to us on commercially reasonable terms or we are required to pay substantial damages or awards, our business, financial condition and results of operations would be materially adversely affected.

32

Table of Contents

Our business will suffer if we are unable to protect our intellectual property.

Our success and ability to compete depends in large part upon protecting our proprietary technology. We rely on a combination of patent, trade secret, copyright and trademark laws and non-disclosure and other contractual agreements to protect our proprietary rights. These agreements and measures may not be sufficient to protect our technology from third-party infringement. Monitoring unauthorized use of our intellectual property is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Our attempts to enforce our intellectual property rights could be time consuming and costly. We were recently involved in litigation to enforce our intellectual property rights and to protect our trade secrets. Additional litigation of this type may be necessary in the future. Any such litigation could result in substantial costs and diversion of resources. If competitors are able to use our technology without our approval or compensation, our ability to compete effectively could be harmed.

System security risks, data protection, cyber-attacks and systems integration issues could disrupt our internal operations or the operations of our business partners, and any such disruption could harm our reputation or cause a reduction in our expected revenue, increase our expenses, negatively impact our results of operation or otherwise adversely affect our stock price.

Security breaches, computer malware and cyber-attacks have become more prevalent and sophisticated in recent years. Experienced computer programmers and hackers may be able to penetrate our network security or the network security of our business partners, and misappropriate or compromise our confidential and proprietary information, create system disruptions or cause shutdowns. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions and delays that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business on the cloud. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or confidential data about us, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive than originally anticipated. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes and could adversely affect our financial results, stock price and reputation.

We may experience difficulties in transitioning to smaller geometry process technologies and other more advanced manufacturing process technologies, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

In order to remain competitive, we expect to continue to transition the manufacture of our products to smaller geometry process technologies. This transition will require us to migrate to new manufacturing processes for our products and redesign certain products. The manufacture and design of our products is complex, and we may experience difficulty in transitioning to smaller geometry process technologies or new manufacturing processes. These difficulties could result in reduced manufacturing yields, delays in product deliveries and increased expenses. We are dependent on our relationships with TSMC and Powerchip to transition successfully to smaller geometry process technologies and to more advanced manufacturing processes. We cannot assure you that TSMC or Powerchip will be able to effectively manage the transition or that we will be able to maintain our relationship with them. If we or TSMC or Powerchip experience significant delays in this transition or fail to implement these transitions, our business, financial condition and results of operations could be materially and adversely affected.

Table of Contents

Manufacturing process technologies are subject to rapid change and require significant expenditures for research and development.

We continuously evaluate the benefits of migrating to smaller geometry process technologies in order to improve performance and reduce costs. Historically, these migrations to new manufacturing processes have resulted in significant initial design and development costs associated with pre-production mask sets for the manufacture of new products with smaller geometry process technologies. For example, in fiscal 2014, we incurred $809,000 and $648,000, respectively, in research and development expense associated with pre-production mask sets which were not later used in production as part of the transition to our new 40 nanometer SRAM process technology and 63 nanometer DRAM process technology. We will incur similar expenses in the future as we continue to transition our products to smaller geometry processes. The costs inherent in the transition to new manufacturing process technologies will adversely affect our operating results and our gross margin.

Our products are complex to design and manufacture and could contain defects, which could reduce revenues or result in claims against us.

We develop complex products. Despite testing by us and our OEM customers, design or manufacturing errors may be found in existing or new products. These defects could result in a delay in recognition or loss of revenues, loss of market share or failure to achieve market acceptance. These defects may also cause us to incur significant warranty, support and repair costs, divert the attention of our engineering personnel from our product development efforts, result in a loss of market acceptance of our products and harm our relationships with our OEM customers. Our OEM customers could also seek and obtain damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

Defects in wafers and other components used in our products and arising from the manufacturing of these products may not be fully recoverable from TSMC or our other suppliers. For example, in the quarter ended December 31, 2005, we incurred a charge of approximately $900,000 related to the write-off of inventory resulting from an error in the assembly process at one of our suppliers. This write-off adversely affected our operating results for fiscal 2006.

Demand for our products may decrease if our OEM customers experience difficulty manufacturing, marketing or selling their products.

Our products are used as components in our OEM customers' products, including routers, switches and other networking and telecommunications products. Accordingly, demand for our products is subject to factors affecting the ability of our OEM customers to successfully introduce and market their products, including:

- capital spending by telecommunication and network service providers and other end-users who purchase our OEM customers' products;
- the competition our OEM customers face, particularly in the networking and telecommunications industries;
- the technical, manufacturing, sales and marketing and management capabilities of our OEM customers;
- the financial and other resources of our OEM customers; and

· the inability of our OEM customers to sell their products if they infringe third-party intellectual property rights.

As a result, if OEM customers reduce their purchases of our products, our business will suffer.

34

Table of Contents

Our products have lengthy sales cycles that make it difficult to plan our expenses and forecast results.

Our products are generally incorporated in our OEM customers' products at the design stage. However, their decisions to use our products often require significant expenditures by us without any assurance of success, and often precede volume sales, if any, by a year or more. If an OEM customer decides at the design stage not to incorporate our products into their products, we will not have another opportunity for a design win with respect to that customer's product for many months or years, if at all. Our sales cycle can take up to 24 months to complete, and because of this lengthy sales cycle, we may experience a delay between increasing expenses for research and development and our sales and marketing efforts and the generation of volume production revenues, if any, from these expenditures. Moreover, the value of any design win will largely depend on the commercial success of our OEM customers' products. There can be no assurance that we will continue to achieve design wins or that any design win will result in future revenues.

Any significant order cancellations or order deferrals could adversely affect our operating results.

We typically sell products pursuant to purchase orders that customers can generally cancel or defer on short notice without incurring a significant penalty. Any significant cancellations or deferrals in the future could materially and adversely affect our business, financial condition and results of operations. Cancellations or deferrals could cause us to hold excess inventory, which could reduce our profit margins, increase product obsolescence and restrict our ability to fund our operations. We generally recognize revenue upon shipment of products to a customer. If a customer refuses to accept shipped products or does not pay for these products, we could miss future revenue projections or incur significant charges against our income, which could materially and adversely affect our operating results.

If our business grows, such growth may place a significant strain on our management and operations and, as a result, our business may suffer.

We are endeavoring to expand our business, and any growth that we are successful in achieving could place a significant strain on our management systems, infrastructure and other resources. To manage such growth of our operations and resulting increases in the number of our personnel, we will need to invest the necessary capital to continue to improve our operational, financial and management controls and our reporting systems and procedures. Our controls, systems and procedures may prove to be inadequate should we experience significant growth. In addition, we may not have sufficient administrative staff to support our operations. For example, we currently have only five employees in our finance department in the United States, including our Chief Financial Officer. Furthermore, our officers have limited experience in managing large or rapidly growing businesses. If our management fails to respond effectively to changes in our business, our business may suffer.

We are substantially dependent on the continued services and performance of our senior management and other key personnel.

Our future success is substantially dependent on the continued services and continuing contributions of our senior management who must work together effectively in order to design our products, expand our business, increase our revenues and improve our operating results. Members of our senior management team have long-standing and important relationships with our key customers and suppliers. The loss of services of Lee-Lean Shu, our President and Chief Executive Officer, Robert Yau, our Vice President of Engineering, Dr. Avidan Akerib our Vice President of Associative Computing, any other executive officer or other key employee could significantly delay or prevent the achievement of our development and strategic objectives. We do not have employment contracts with, nor maintain key person insurance on, any of our executive officers or other key employees.

If we are unable to recruit or retain qualified personnel, our business and product development efforts could be harmed.

We must continue to identify, recruit, hire, train, retain and motivate highly skilled technical, managerial, sales and marketing and administrative personnel. Competition for these individuals is intense, and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. We may encounter difficulties in recruiting and retaining a sufficient number of qualified engineers, which could harm our ability to develop new

Table of Contents

products and adversely impact our relationships with existing and future end-users at a critical stage of development. The failure to recruit and retain necessary technical, managerial, sales, marketing and administrative personnel could harm our business and our ability to obtain new OEM customers and develop new products.

Our international business exposes us to additional risks.

Products shipped to destinations outside of the United States accounted for 49.7%, 59.1%, 60.3% and 66.2% of our net revenues in the nine months ended December 31, 2017 and in fiscal 2017, 2016 and 2015, respectively. Moreover, a substantial portion of our products is manufactured and tested in Taiwan, and we are now conducting business operations in Israel as a result of our acquisition of MikaMonu. We intend to continue expanding our international business in the future. Conducting business outside of the United States subjects us to additional risks and challenges, including:

- heightened price sensitivity from customers in emerging markets;
- compliance with a wide variety of foreign laws and regulations and unexpected changes in these laws and regulations;
- legal uncertainties regarding taxes, tariffs, quotas, export controls, competition, export licenses and other trade barriers;
- potential political and economic instability in, or foreign conflicts that involve or affect, the countries in which we, our customers and our suppliers are located;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles;
- difficulties and costs of staffing and managing personnel, distributors and representatives across different geographic areas and cultures, including assuring compliance with the U. S. Foreign Corrupt Practices Act and other U. S. and foreign anti-corruption laws;
- limited protection for intellectual property rights in some countries; and
- fluctuations in freight rates and transportation disruptions.

Moreover, our reporting currency is the U.S. dollar. However, a portion of our cost of revenues and our operating expenses is denominated in currencies other than the U.S. dollar, primarily the New Taiwanese dollar. As a result, appreciation or depreciation of other currencies in relation to the U.S. dollar could result in transaction gains or losses that could impact our operating results. We do not currently engage in currency hedging activities to reduce the risk of financial exposure from fluctuations in foreign exchange rates.

U.S. federal income tax reform could adversely affect us.

On December 22, 2017, the "Tax Cuts and Jobs Act" ("H.R. 1") was signed into law, significantly impacting several sections of the Internal Revenue Code. This new law includes significant changes to the U.S. corporate income tax system, including a permanent reduction in the corporate income tax rate from 35% to 21%, limitations on the deductibility of interest expense and executive compensation and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system. We are continuing to examine the impact that H.R. 1 may have on our business. We have remeasured all deferred tax assets and liabilities as of December 22, 2017, based on the provisions of H.R. 1. This new legislation resulted in an estimated tax provision of $639,000 in the quarter ended December 31, 2017 related to the transition tax associated with deemed repatriation of foreign earnings. In addition, as a result of provisions in the new legislation related to indefinite lived net operating loss carryovers and the refundability of minimum tax credit carryovers, we recorded a deferred tax benefit related to a valuation allowance release of $99,000 in the quarter ended December 31, 2017. Finally, we recorded a liability for taxes payable of $68,000 at December 31, 2017 that will be paid over a period of up to eight years.

Table of Contents

This estimated tax provision and the impact of H.R. 1 is based on our management's current knowledge and assumptions and recognized impacts could be materially different from estimated provisions based upon a number of additional considerations, including but not limited to the issuance of the final regulations, our ongoing analysis of the new law and our actual earnings for the fiscal year ending March 31, 2018.

TSMC and Powerchip, as well as our other independent suppliers and many of our OEM customers have operations in the Pacific Rim, an area subject to significant earthquake risk and adverse consequences related to the potential outbreak of contagious diseases such as the H1N1 Flu.

The foundries that manufacture our Fast SRAM and LLDRAM products, TSMC and Powerchip, and all of the principal independent suppliers that assemble and test our products are located in Taiwan. Many of our customers are also located in the Pacific Rim. The risk of an earthquake in these Pacific Rim locations is significant. The occurrence of an earthquake or other natural disaster near the fabrication facilities of TSMC or our other independent suppliers could result in damage, power outages and other disruptions that impair their production and assembly capacity. Any disruption resulting from such events could cause significant delays in the production or shipment of our products until we are able to shift our manufacturing, assembling, packaging or production testing from the affected contractor to another third-party vendor. In such an event, we may not be able to obtain alternate foundry capacity on favorable terms, or at all.

The outbreak of SARS in 2003 curtailed travel to and from certain countries, primarily in the Asia-Pacific region, and limited travel within those countries. If there were to be another outbreak of a contagious disease, such as SARS or the H1N1 Flu, that significantly affected the Asia-Pacific region, the operations of our key suppliers could be disrupted. In addition, our business could be harmed if such an outbreak resulted in travel being restricted, as it was during parts of 2003, or if it adversely affected the operations of our suppliers or our OEM customers or the demand for our products or our OEM customers' products.

Changes in Taiwan's political, social and economic environment may affect our business performance.

Because much of the manufacturing and testing of our products is conducted in Taiwan, our business performance may be affected by changes in Taiwan's political, social and economic environment. For example, any political instability resulting from the relationship among the United States, Taiwan and the People's Republic of China could damage our business. Moreover, the role of the Taiwanese government in the Taiwanese economy is significant. Taiwanese policies toward economic liberalization, and laws and policies affecting technology companies, foreign investment, currency exchange rates, taxes and other matters could change, resulting in greater restrictions on our ability and our suppliers' ability to do business and operate facilities in Taiwan. If any of these changes were to occur, our business could be harmed and our stock price could decline.

We may need to raise additional capital in the future, which may not be available on favorable terms or at all, and which may cause dilution to existing stockholders.

We may need to seek additional funding in the future. We do not know if we will be able to obtain additional financing on favorable terms, if at all. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, and we may be required to reduce operating costs, which could seriously harm our business. In addition, if we issue equity securities, our stockholders may experience dilution or the new equity securities may have rights, preferences or privileges senior to those of our common stock.

Some of our products are incorporated into advanced military electronics, and changes in international geopolitical circumstances and domestic budget considerations may hurt our business.

Some of our products are incorporated into advanced military electronics such as radar and guidance systems. Military expenditures and appropriations for such purchases rose significantly in recent years. However, as the current conflict in Afghanistan winds down, demand for our products for use in military applications may decrease, and our operating results could suffer. Domestic budget considerations may also adversely affect our operating results. For example, if governmental appropriations for military purchases of electronic devices that include our products are reduced, our revenues will likely decline.

Our operations involve the use of hazardous and toxic materials, and we must comply with environmental laws and regulations, which can be expensive, and may affect our business and operating results.

We are subject to federal, state and local regulations relating to the use, handling, storage, disposal and human exposure to hazardous and toxic materials. If we were to violate or become liable under environmental laws in the future as a result of our inability to obtain permits, human error, accident, equipment failure or other causes, we could be subject to fines, costs, or civil or criminal sanctions, face property damage or personal injury claims or be required to incur substantial investigation or remediation costs, which could be material, or experience disruptions in our operations, any of which could have a material adverse effect on our business. In addition, environmental laws could become more stringent over time imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business.

We face increasing complexity in our product design as we adjust to new and future requirements relating to the material composition of our products, including the restrictions on lead and other hazardous substances that apply to specified electronic products put on the market in the European Union, China and California. Other countries, including at the federal and state levels in the United States, are also considering similar laws and regulations. Certain electronic products that we maintain in inventory may be rendered obsolete if they are not in compliance with such laws and regulations, which could negatively impact our ability to generate revenue from those products. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, or in the worst case decreased revenue, and could even require that we redesign or change how we manufacture our products. Such redesigns result in additional costs and possible delayed or lost revenue.

The trading price of our common stock is subject to fluctuation and is likely to be volatile.

The trading price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control, including:

· actual or anticipated declines in operating results;

· changes in financial estimates or recommendations by securities analysts;

· the institution of legal proceedings against us or significant developments in such proceedings;

· announcements by us or our competitors of financial results, new products, significant technological innovations, contracts, acquisitions, strategic relationships, joint ventures, capital commitments or other events;

· changes in industry estimates of demand for Very Fast SRAM products;

· the gain or loss of significant orders or customers;

· recruitment or departure of key personnel; and

· market conditions in our industry, the industries of our customers and the economy as a whole.

In recent years the stock market in general, and the market for technology stocks in particular, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. The market price of our common stock might experience significant fluctuations in the future, including fluctuations unrelated to our performance. These fluctuations could materially adversely affect our business relationships, our ability to obtain future financing on favorable terms or otherwise harm our business. In addition, in the past, securities class action litigation has often been brought against a company following periods of volatility

38

Table of Contents

in the market price of its securities. This risk is especially acute for us because the extreme volatility of market prices of technology companies has resulted in a larger number of securities class action claims against them. Due to the potential volatility of our stock price, we may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources. This could harm our business and cause the value of our stock to decline.

Use of a portion of our cash reserves to repurchase shares of our common stock presents potential risks and disadvantages to us and our stockholders.

From November 2008 through December 2017, we repurchased and retired an aggregate of 11,983,942 shares of our common stock at a total cost of $60.6 million, including 3,846,153 shares repurchased at a total cost of $25 million pursuant to a modified "Dutch auction" self-tender offer that we completed in August 2014 and additional shares repurchased in the open market pursuant to our stock repurchase program. At December 31, 2017, we had outstanding authorization from our Board of Directors to purchase up to an additional $4.4 million of our common stock from time to time under our repurchase program. Although our Board has determined that these repurchases are in the best interests of our stockholders, they expose us to certain risks including:

- the risks resulting from a reduction in the size of our "public float," which is the number of shares of our common stock that are owned by non-affiliated stockholders and available for trading in the securities markets, which may reduce the volume of trading in our shares and result in reduced liquidity and, potentially, lower trading prices;

- the risk that our stock price could decline and that we would be able to repurchase shares of our common stock in the future at a lower price per share than the prices we have paid in our tender offer and repurchase program; and

- the risk that the use of a portion of our cash reserves for this purpose has reduced, or may reduce, the amount of cash that would otherwise be available to pursue potential cash acquisitions or other strategic business opportunities.

Our executive officers, directors and entities affiliated with them hold a substantial percentage of our common stock.

As of January 31, 2018, our executive officers, directors and entities affiliated with them beneficially owned approximately 34% of our outstanding common stock. As a result, these stockholders will be able to exercise substantial influence over, and may be able to effectively control, matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, which could have the effect of delaying or preventing a third party from acquiring control over or merging with us.

The provisions of our charter documents might inhibit potential acquisition bids that a stockholder might believe are desirable, and the market price of our common stock could be lower as a result.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock. Our Board of Directors can fix the price, rights, preferences, privileges and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock might delay or prevent a change in control transaction. As a result, the market price of our common stock and the voting and other rights of our stockholders might be adversely affected. The issuance of preferred stock might result in the loss of voting control to other stockholders. We have no current plans to issue any shares of preferred stock. Our charter documents also contain other provisions, which might discourage, delay or prevent a merger or acquisition, including:

· our stockholders have no right to remove directors without cause;

· our stockholders have no right to act by written consent;

· our stockholders have no right to call a special meeting of stockholders; and

39

Table of Contents

- stockholders must comply with advance notice requirements to nominate directors or submit proposals for consideration at stockholder meetings.

These provisions could also have the effect of discouraging others from making tender offers for our common stock. As a result, these provisions might prevent the market price of our common stock from increasing substantially in response to actual or rumored takeover attempts. These provisions might also prevent changes in our management.

Table of Contents

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

Stock Repurchase Program

Our Board of Directors has authorized us to repurchase, at management's discretion, shares of our common stock. Under the repurchase program, we may repurchase shares from time to time on the open market or in private transactions. The specific timing and amount of the repurchases will be dependent on market conditions, securities law limitations and other factors. The repurchase program may be suspended or terminated at any time without prior notice. During the quarter ended December 31, 2017, we did not repurchase any of our shares under the repurchase program.

(1)

Table of Contents

Item 6.Exhibits

Exhibit Number	Name of Document
31.1	Certification of Lee-Lean Shu, President, Chief Executive Officer and Chairman, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Douglas M. Schirle, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Lee-Lean Shu, President, Chief Executive Officer and Chairman, and Douglas M. Schirle, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

Table of Contents

SIGNATURES

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

Date: February 2, 2018

GSI Technology, Inc.

By: /s/ LEE-LEAN SHU
Lee-Lean Shu
President, Chief Executive Officer and Chairman

By: /s/ DOUGLAS M. SCHIRLE
Douglas M. Schirle
Chief Financial Officer