

SEACHANGE INTERNATIONAL INC  
Form 10-Q  
June 18, 2007  
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**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended April 30, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21393

\_\_\_\_\_  
**SEACHANGE INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

\_\_\_\_\_

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**50 Nagog Park, Acton, MA 01720**

**04-3197974**  
(IRS Employer Identification No.)

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (978) 897-0100

\_\_\_\_\_

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject

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to such filing requirements for the past 90 days. YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares outstanding of the registrant's Common Stock on June 15, 2007 was 29,531,755.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****SEACHANGE INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands, except share and per share data)*

	April 30, 2007	January 31, 2007 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 38,178	\$ 31,179
Marketable securities	5,787	11,231
Accounts receivable, net of allowance for doubtful accounts of \$468 at April 30, 2007 and \$466 at January 31, 2007	27,682	28,854
Unbilled receivables	6,485	5,562
Inventories, net	21,111	19,350
Income taxes receivable	383	409
Prepaid expenses and other current assets	4,139	2,990
<b>Total current assets</b>	<b>103,765</b>	<b>99,575</b>
Property and equipment, net	29,411	30,720
Marketable securities	13,920	12,885
Investments in affiliates	14,674	14,312
Intangible assets, net	12,220	13,054
Goodwill	23,952	23,726
Other assets	4,791	5,024
<b>Total assets</b>	<b>\$ 202,733</b>	<b>\$ 199,296</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 10,399	\$ 10,003
Income taxes payable	1,400	941
Other accrued expenses	6,554	5,884
Customer deposits	7,676	2,016
Deferred revenues	19,548	21,806
Deferred tax liabilities	453	366
<b>Total current liabilities</b>	<b>46,030</b>	<b>41,016</b>
Distributions and losses in excess of investment	866	
Deferred tax liabilities and income taxes payable, long-term	2,338	1,121
<b>Total liabilities</b>	<b>49,234</b>	<b>42,137</b>
Commitments and contingencies (Note 8)		
Stockholders equity:		
Convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 29,413,953 and 29,345,103 shares issued and outstanding at April 30, 2007 and January 31, 2007, respectively	294	293

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Additional paid-in capital	185,859	184,976
Accumulated deficit	(34,644)	(29,685)
Accumulated other comprehensive income	1,990	1,575
<b>Total stockholders' equity</b>	<b>153,499</b>	<b>157,159</b>
Total liabilities and stockholders' equity	\$ 202,733	\$ 199,296

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

**Table of Contents****SEACHANGE INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands, except per share data)*

	<b>Three months ended</b>	
	<b>April 30,</b>	<b>April 30,</b>
	<b>2007</b>	<b>2006</b>
	<b>(unaudited)</b>	
Revenues:		
Products	\$ 20,928	\$ 18,031
Services	17,916	15,210
	38,844	33,241
Cost of revenues:		
Products	9,362	9,516
Services	11,643	8,344
	21,005	17,860
Gross profit	17,839	15,381
Operating expenses:		
Research and development	10,299	10,207
Selling and marketing	5,766	5,217
General and administrative	4,902	4,624
Amortization of intangible assets	797	1,410
	21,764	21,458
Loss from operations	(3,925)	(6,077)
Interest income	468	393
Interest expense	(1)	(9)
Loss before income taxes and equity income in earnings of affiliates	(3,458)	(5,693)
Income tax (provision) benefit	(1,263)	1,188
Equity income in earnings of affiliates	218	150
Net loss	\$ (4,503)	\$ (4,355)
Basic loss per share	\$ (0.15)	\$ (0.15)
Diluted loss per share	\$ (0.15)	\$ (0.15)
Weighted average common shares outstanding:		
Basic	29,389	28,468
Diluted	29,389	28,468

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

**Table of Contents****SEACHANGE INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS***(in thousands)*

	<b>Three months ended</b>	
	<b>April 30,</b>	<b>April 30,</b>
	<b>2007</b>	<b>2006</b>
	<b>(unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (4,503)	\$ (4,355)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Depreciation	2,030	1,727
Amortization of intangibles and capitalized software	1,156	1,571
Inventory valuation charge	274	122
Allowance for doubtful accounts receivable	75	103
Discounts earned and amortization of premiums on marketable securities	(25)	17
Equity loss (earnings) in investments in affiliates	(218)	(150)
Stock-based compensation	751	848
Deferred income taxes	794	(152)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	1,146	3,905
Unbilled receivables	(923)	173
Inventories	(2,340)	(3,338)
Income taxes receivable	26	
Prepaid expenses and other assets	(1,117)	1,127
Accounts payable	377	3,272
Income taxes payable	438	(1,699)
Accrued expenses	650	(283)
Accrued litigation reserve		(7,986)
Customer deposits	5,660	271
Deferred revenues	(2,260)	(881)
Other	(4)	(7)
<b>Net cash provided by (used in) operating activities</b>	<b>1,987</b>	<b>(5,715)</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(875)	(3,378)
Proceeds from sale of property and equipment	468	
Purchases of marketable securities	(7,723)	(6,789)
Proceeds from sale and maturity of marketable securities	12,183	18,150
Acquisition or formation of businesses	(154)	(15)
Capital distribution from investment in affiliate	869	
<b>Net cash provided by investing activities</b>	<b>4,768</b>	<b>7,968</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net of issuance costs	136	183
<b>Net cash provided by financing activities</b>	<b>136</b>	<b>183</b>

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Effect of exchange rates on cash	108	139
Net increase in cash and cash equivalents	6,999	2,575
Cash and cash equivalents, beginning of period	31,179	21,594
Cash and cash equivalents, end of period	\$ 38,178	\$ 24,169
Supplemental disclosure of noncash activities:		
Transfer of items originally classified as inventories to equipment	\$ 305	\$ 1,229

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



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**SEACHANGE INTERNATIONAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of SeaChange International, Inc. and its subsidiaries ( SeaChange or the Company ). SeaChange believes that the unaudited condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments), necessary for a fair statement of SeaChange s financial position, results of operations and cash flows at the dates and for the periods indicated. The results of operations for the periods presented are not necessarily indicative of results expected for the full fiscal year or any other future periods. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended January 31, 2007, included in SeaChange s Annual Report on Form 10-K for such fiscal year. The balance sheet at January 31, 2007 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. A certain reclassification has been made to conform the prior period amounts to the current period presentation for deferred income taxes (previously presented as a part of prepaids and other assets) to a separate line within our cash flows from operating activities for the three months ended April 30, 2007. The reclassifications had no impact on the Company s results of operations or financial position.

**2. Significant accounting policies**

*Principles of Consolidation*

The Company consolidates the financial statements of its wholly owned subsidiaries and all inter-company accounts are eliminated in consolidation. SeaChange also holds minority investments in the capital stock of certain private companies having product offerings or customer relationships that have strategic importance. The Company evaluates its equity and debt investments and other contractual relationships with affiliate companies in order to determine whether the guidelines of FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities, as revised under FIN 46R should be applied in the financial statements. FIN No. 46R addresses consolidation by business enterprises of variable interest entities that possess certain characteristics. A variable interest entity ( VIE ) is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The primary beneficiary is required to consolidate the financial position and results of the VIE. Since the adoption of FIN 46R, the Company concluded that FIN 46R has not required the consolidation of any affiliated company.

The Company s investments in affiliates include investments accounted for under the cost method and the equity method of accounting. The investments that represent less than a 20% ownership interest of the common shares of the affiliate are carried at cost. Under the equity method of accounting, which generally applies to investments that represent 20% to 50% ownership of the common shares of the affiliate, SeaChange s proportionate ownership share of the earnings or losses of the affiliate are included in equity income (loss) in earnings of affiliates in the consolidated statement of operations.

*Revenue Recognition and Allowance for Doubtful Accounts*

Revenues from sales of hardware, software and systems that do not require significant modification or customization of the underlying software are recognized when title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is considered probable. Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities are deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements are recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. For contracts, where some level of profit is assured but the Company is only able to estimate ranges of amounts of total contract revenue and total contract cost, SeaChange uses the lowest probable level of profits in accounting for the contract revenues and costs. Accounting for contract amendments and customer change orders are included in contract accounting when executed. Revenue from shipping and handling costs and other out-of-pocket expenses reimbursed by customers are included in revenues and cost of revenues. SeaChange s share of intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.



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SeaChange's transactions frequently involve the sales of hardware, software, systems and services in multiple element arrangements. Revenues under multiple element arrangements are recorded based on the residual method of accounting. Under this method, the total arrangement value is allocated first to undelivered elements, based on their fair values, with the remainder being allocated to the delivered elements. Where fair value of undelivered service elements has not been established, the total arrangement value is recognized over the period during which the services are performed. The amounts allocated to undelivered elements, which may include project management, training, installation, maintenance and technical support and certain hardware and software components, are based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation, training and project management revenue is based upon standard hourly billing rates and the estimated time required to complete the service. These services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple element arrangements that include software development with significant modification or customization and systems sales where vendor-specific objective evidence of the fair value does not exist for the undelivered elements of the arrangement (other than maintenance and technical support), percentage of completion accounting is applied for revenue recognition purposes to the entire arrangement with the exception of maintenance and technical support. For transactions in which consideration, including equity instruments, is given to a customer, SeaChange accounts for the value of this consideration as an adjustment to revenue.

SeaChange recognizes revenue for product and services only in those situations where collection from the customer is probable. The Company performs ongoing credit evaluations of customers' financial condition but generally does not require collateral. For some international customers, SeaChange requires an irrevocable letter of credit to be issued by the customer before the purchase order is accepted. The Company monitors payments from customers and assesses any collection issues. The Company maintains allowances for specific doubtful accounts and other risk categories of accounts based on estimates of losses resulting from the inability of the Company's customers to make required payments and records these allowances as a charge to general and administrative expenses. SeaChange bases its allowances for doubtful accounts on historical collections and write-off experience, current trends, credit assessments, and other analysis of specific customer situations.

Any taxes assessed by a governmental authority related to revenue-producing transactions (e.g. sales or value-added taxes) are reported on a net basis and excluded from revenues.

**3. Earnings (Loss) Per Share**

Earnings (loss) per share are presented in accordance with SFAS No. 128, Earnings Per Share, which requires the presentation of basic earnings (loss) per share and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing earnings (loss) available to common shareholders by the weighted-average shares of common stock outstanding during the period. For the purposes of calculating diluted earnings (loss) per share, the denominator includes both the weighted average number of shares of common stock outstanding during the period and the weighted average number of shares of potential common stock, such as stock options and restricted stock units and warrants, calculated using the treasury stock method.

All stock options outstanding for the three months ended April 30, 2007 and 2006 were antidilutive based on the Company's net losses. The number of options that were antidilutive at April 30, 2007 and 2006 include 4,262,365 and 6,557,719 shares, respectively, whose dilutive effect was not included in the calculation as a result of the Company's net losses.

Below is a summary of the shares used in calculating basic and diluted income (loss) per share for the periods indicated:

		<b>Three months ended</b>	
		<b>April 30,</b>	<b>April 30,</b>
		<b>2007</b>	<b>2006</b>
Weighted average shares used in calculating earnings per share	Basic	29,389,000	28,468,000
Dilutive common stock equivalents			
Weighted average shares used in calculating earnings per share	Diluted	29,389,000	28,468,000

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