SEACHANGE INTERNATIONAL INC
Form 10-K
April 14, 2009

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 31, 2009

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 0-21393

# SEACHANGE INTERNATIONAL, INC.

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **04-3197974** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |

**50 Nagog Park, Acton, MA 01720**
**(Address of principal executive offices, including zip code)**

**(978)-897-0100**
**(Registrant’s telephone number, including area code)**

**Securities Registered Pursuant To Section 12(b) Of The Act:**

**Common Stock, $.01 par value**

**Securities Registered Pursuant To Section 12(g) Of The Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation of S-K is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o | Smaller reporting company o |

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

As of July 31, 2008, the aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price for the registrant’s Common Stock on the Nasdaq Global Select Market on such date was $206,103,418. The number of shares of the registrant’s Common Stock outstanding as of the close of business on April 7, 2009 was 30,649,256.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the definitive Proxy Statement (which is expected to be filed within 120 days after the Company’s fiscal year end) relating to the registrant’s Annual Meeting of Stockholders to be held on or about July 15, 2009 to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## PART I

### ITEM 1. Business

SeaChange International, Inc. (“SeaChange”, “we” or “us”), a Delaware corporation founded on July 9, 1993, is a leading developer, manufacturer and marketer of digital video systems and services. These products and services facilitate the aggregation, licensing, storage, management and distribution of video, television programming and advertising content. We sell our products and services worldwide to cable system operators, including Cablevision, Comcast, Cox Communications, Virgin Media, and Rogers; telecommunications companies, including Telekom Austria, Turk Telekom and Verizon Communications; and broadcast television companies, including ABC Disney, Ascent Media, Clear Channel, China Central Television and MTV Networks.

Our digital video systems are designed to enable our customers to reduce subscriber turnover and access new revenue-generating opportunities from subscribers, advertisers and electronic commerce initiatives. Using our products and services, we believe our customers can increase their revenues by offering additional services such as on demand television, which allows, for example, the operator to offer a variety of programming for viewing whenever a subscriber chooses and incorporates the ability for subscribers to pause, rewind and fast-forward on demand content. Our systems also allow our customers to insert advertising into broadcast and on demand programming. Our advertising systems allow our customers to target advertising segments to specific subscribers in a particular geographic and/or demographic market. In addition, our systems enable broadband system operators to offer other interactive television services that allow subscribers to customize and/or dynamically interact with their television, enhancing their viewing experience.

The primary thrust of our business has been supplying systems to deliver video assets in the evolving On Demand television environment. Through acquisitions and partnerships we have expanded our capabilities, products and services to address the needs of video content owners broadcasters, and content aggregators, and to address the delivery of content to devices other than the television, such as mobile phones and PCs. Our products and services include hardware and software for content management and delivery systems, middleware that drives set top box applications such as games, advertising systems that help pay for content and services that involve the acquisition and distribution of video content. We believe that our strategy of expanding our product line will position SeaChange to support and maintain our existing customer base, take advantage of new customers entering the on demand marketplace and to enter adjacent markets.

Our core technologies provide a foundation for products and services that can be deployed in next generation systems capable of increased levels of subscriber interactivity. We have received several awards for technological excellence, including Emmy Awards for our patented MediaCluster ® technology and for our role in the growth of video on demand.

**Industry Background**

**Cable System Operators and Telecommunications Companies**

According to SNL Kagan, the number of households paying for TV access today, such as cable subscription but excluding satellite, has been estimated at 110 million in the Americas and approximately 560 million worldwide. Over the last several years, cable system operators and telecommunications companies have spent billions of dollars to upgrade their networks from analog to digital, yielding a significant increase in available bandwidth, channel capacity and two-way interactive capability. We believe this investment reflects their intent to provide video on demand, advertising insertion, internet access and other value-added services to their customers that will differentiate them from competing service providers, including satellite delivery systems.

In 2001, North American cable system operators and telecommunications companies began the deployment of residential video on demand capability allowing subscribers to watch video programming at any time with pause, rewind, fast forward and a number of additional interactive capabilities. All of the major North American cable system operators have deployed video on demand services in one or more major residential markets. The various on demand applications offered by cable system operators and, increasingly, telecommunications operators, include movies-on-demand, subscription video on demand, such as Home Box Office (HBO), as well as news, sports, music videos, games, niche programming and time-shifted broadcast programming.

Cable companies have also begun to market telephony services. In response, telecommunications operators, notably AT&T and Verizon in the U.S., are aggressively providing competitive digital television and video services. Elsewhere, international telecommunications companies with high-speed network capacity are actively exploring and launching similar television services.

In addition, because cable television programming is transmitted over broadband (high bandwidth networks), cable system and telecom operators have the opportunity to segment and target their programming to viewers in selected geographies. In the future, we believe that the ability of operators to target viewers will extend to individual household-level targeting of advertisements in video on demand applications, generating revenue which may help support the worldwide deployment and growth of video on demand content and services.



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Increased demand for video and audio content over the internet will also require a substantial increase in storage capacity and bandwidth over time. We believe that cable system operators and telecommunications companies will play an integral role in providing these broadband internet applications. We also believe that in order to offer high quality video applications over the internet, cable system operators and telecommunications companies will need more storage and delivery systems capable of complex management and scheduling of video streams.

### Broadcast Television Companies

Both domestically and internationally, broadcast television companies face a number of new challenges to their business. In digital broadcasting, changing ownership trends, new consumer alternatives (e.g., cable television, satellite television, or internet) and evolving viewership models (e.g., Personal Video Recorders (PVR), cell phones, Personal Digital Assistants (PDA), etc.) are creating a more complex competitive environment for our customers that calls for greater efficiencies and business innovation. We believe broadcast television companies are therefore turning away from their out-dated tape-based systems with robotic libraries, which are cumbersome and require high levels of maintenance and manual intervention.

Some television broadcasters are using digital bandwidth to originate multiple program streams. As this application further develops, television broadcasters will require more video storage and delivery systems that can effectively manage and deliver these multiple television signals. As a result, we believe that television broadcasters will continue to automate their entire programming and advertising to reduce overall operating costs and improve reliability. We expect new opportunities to emerge for broadcasters and video on demand operators to create new business synergies that will likely require digital video storage and delivery systems.

## SeaChange Business Segments

In fiscal 2009, we realigned our business segments and financial reporting structure to better portray the Companys strategic direction and potential areas for growth. The Company now reports its financial results within three segments: Software, Servers and Storage, and Media Services. Financial information about our business segments is included in Managements Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements.

| | Year ended January 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | Amount | % | Amount | % | Amount | % |
| Revenues by segment: | (in thousands, except percentages) | | | | | |
| Software | $ 132,237 | 65% | $ 113,269 | 63% | $ 100,386 | 62% |
| Servers and Storage | 53,640 | 27% | 48,997 | 27% | 48,080 | 30% |
| Media Services | 15,959 | 8% | 17,627 | 10% | 12,868 | 8% |
| Total | $ 201,836 | | $ 179,893 | | $ 161,334 | |

### Software

In 2006, we began selling our SeaChange Axiom® On Demand software independent of our hardware and offering subscription services for the software in an effort to increase market share and enhance revenue stability through more recurring revenues. Additionally, by porting our software to other third party hardware platforms, we expect to increase our market share with opportunities at competitive vendors installations.

We also develop, sell and support software products in the middleware and advertising categories. Our middleware and application business is focused on producing set-top box client middleware software products and end-to-end interactive television applications, and performing system integration and software customization services. Our client middleware solutions include the VODlink® Platform Suite built for and deployed on common North American cable set top boxes, and the TV Navigator platform deployed in Europe and Asia.

Our advertising insertion software products are available for both the traditional analog environment (the way that video signals have been transmitted for the past 60 years), and for the digital environment, which provides the cable operator with a significant increase in available bandwidth, channel capacity and two-way capability. Based on currently available industry sources and our internal data, we believe our Spot System is the leading analog video insertion system in the United States in the multichannel television market for advertisements and other short-form video. Over the last several years, our customers have begun to migrate to digital video ad insertion, and we believe our digital video ad insertion system is establishing a strong market position as well. Our SeaChange AdPulse On Demand Advertising software platform allows operators to generate new advertising revenue from inserting ads, dynamically, in on demand content while it provides detailed tracking and reporting on views and usage of inserted ads.

Revenue sources from the Software segment fall into two categories:

- product revenues such as licensing, and software development for those products and
- related services such as subscriptions (annual software subscriptions for upgrades) professional services, installation, training, project management, product maintenance, and technical support for those software products.

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**Servers and Storage**

Combining the advantages of standards-based hardware with our patented MediaCluster® technology, our hardware products deliver high-density streaming, clustered ingest and scalable storage for video on demand, time-shifted TV, network PVR (Personal Video Recorder) applications, as well as broadcast play to air and archiving.

Revenue sources for our Servers and Storage segment fall into several categories. New deployments are typically sold on a capacity basis and include one year of maintenance. As our customers add more content and more users, they return to purchase more streaming and storage capacity. The additional content usually also leads to increased usage levels by the subscribers which also translates in to add-on-sales. Recurring revenue consists of maintenance contracts after the first year.

We offer several configurations of our MediaCluster video servers to meet the evolving needs of our customers for independently scalable ingest, streaming and storage.

Servers and Storage segment includes:

- product revenues from VOD and Broadcast server product lines and
- related services such as professional services, installation, training, project management, product maintenance, and technical support for those products.

**Media Services**

Through the acquisition of On Demand Group Limited (ODG), completed in September of 2005 and Mobix Interactive Ltd. on November 19, 2008, SeaChange continues to expand its media content services, consisting of content aggregation and distribution. ODG is a leader in Europe in the development and deployment of Pay TV services. This division specializes in aggregating content for video on demand and Pay-Per-View platforms, and provides marketing, promotional and production services to cable operators and telecommunications providers throughout Europe.

As an example, we source, acquire, package, and market Virgin Media's video on demand services by providing access to content from local and Hollywood studio providers in multiple formats including music, television programs and feature length movies. Through ODG, we have a content rights management system and a content preparation center for incorporating video content for VOD services from the major content suppliers around the world.

Revenue from the Media Services segment is generated from customer contracts depending on the services rendered.

**Key Products and Services**

**SeaChange Video On Demand System**

We have developed and are deploying a video on demand system to cable television companies and telecommunications companies. Our video on demand system consists of:

- MediaCluster video servers that reside at various points in a broadband network system and are used to ingest, store and play or stream videos as requested;
- SeaChange Axiom® On Demand video software to manage and control the system and to support integration with third-party systems and applications;
- Spot Advertising Systems hardware and software and AdPulse On Demand Advertising System;
- Interactive middleware that enables operators to run multiple services, including video on demand and personal video recorders on multiple platforms;
- Record System, a time-shifting television application that enables broadcasted programming to be automatically encoded by broadband operators, with complete trick-mode functionality (fast-forward, pause and rewind); and
- Interfaces to digital headend modulators, control systems and subscriber management systems.

Our video on demand system allows our customers to offer interactive services such as the following to their subscribers:

- *Video on demand*. This interactive service allows residential users and commercial users (e.g., hotel guests) to review lists of available movies and/or programming content, order individual movies and/or programs and view them in real-time. Users have full control over the video stream.
- *Subscription Video on demand*. This service provides premium channel offerings, such as those offered by HBO, Showtime or Starz, in an on-demand manner, as well as on a scheduled basis. Similar to our video on demand service, our subscription video on demand service allows subscribers to review lists of available premium channel content, order individual programs and watch them at home with full video player control.



- *Networked Digital Video Recording.* This service provides users with interactive control over broadcasted television programming, enabling viewers to watch sports, news, and other program types with full video cassette recorder and personal video recorder-like (e.g., TiVo® recorders) control over the video stream. We enable the provision of this service through our servers and software located in broadband local transmission sites known as headends. We believe this service also has the potential to accommodate new advertising techniques, such as ad replacement or limited fast-forward functionality.
- *Targeted and Interactive Advertising.* This service supports interactive advertising or advertising where the subscriber controls the path and delivery of an advertisement, in a video on demand service and in other forms of programming that result in a dedicated communications link between the subscribers set top box and the video on demand system itself. This service allows purchases over the television, such as one might do with a web browser over the internet.
- *DVD Now on Demand Service.* This interactive service brings DVD functionality to video on demand applications and provides a common standard for distributing and presenting video content. Our software tools and applications provide the capability to transform DVDs, including their menus and content chapter and options, into video on demand applications.
- *Game Now Lite System*. This interactive management and distribution system enables TV operators to provide games to subscribers. Game Now Lite allows operators to create a games business based on

pay-per-play, pay-per-day, subscription, and/or ad-supported models.

**SeaChange Axiom® On Demand** video software is the end-to-end business solution for video on demand (VOD) services. Software modules act in unison to manage and automate every aspect of operations  streams, subscribers, billing, network load and more. The product is built on an open architecture, meaning it can be deployed by any service provider regardless of streaming, storage or network architectures. SeaChange Axiom On Demand video software is comprised of three components:

- **On Demand Services** manage and deliver rich media content to a variety of consumer devices.
- **Personalized Applications Platform** enables operators to provide subscribers with innovative services such as games and movies on demand.
- **Advanced Management Tools** give operators the ability to reduce their costs and garner operational efficiencies through sophisticated system management tools.

**SeaChange Axiom On Demand Services** consist of the essential functions that manage core on demand network resources such as servers, bandwidth and storage. Modules administer network bandwidth through session and resource management to ensure efficient content delivery. Content propagation optimizes both network usage and storage by continually monitoring demand for content, and moving content to locations where it is needed most. The Connection Manager Service software mediates client requests, establishing the shortest path between the client and the requested content. Asset Management is responsible for managing the life cycle of content stored on the system. The Asset Manager provides full visibility into the location and state of the content in the system through a browser-based graphical user interface (GUI). Additional Axiom On Demand Services include the Recording System that captures broadcast programs and publishes them as VOD content and the Axiom Content Dynamics module that automates dynamic insertion of advertisement and other content into VOD streams.

**SeaChange Axiom Personalized Applications** software provides a broad range of on-demand applications to enhance the viewer experience.

**SeaChange Axiom Advance Management Tools** provide engineering and operations personnel with tools that aid in the control of the system. Problem identification and resolution, data warehouse management, subscriber management and a configuration suite all help in reducing operational costs while improving overall system efficiencies.

**Advertising Products**

Our family of Spot Systems automates the complex process of advertisement and other video insertion across multiple channels and geographic zones for cable system operators and telecommunications companies primarily in the Broadband segment. Through our embedded proprietary software, our Spot System allows cable system and telecom operators to insert local and regional advertisements and other videos into a specific time allocated by television networks such as CNN, MTV, ESPN, BET, Discovery Channel and Nickelodeon. The Spot System is capable of inserting advertising into digital and analog channels including HD and delivering targeted advertising, as well as advertising with interactive links to content on video on demand systems, as well as to other interactive advertising systems.



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The Spot System is an integrated solution comprised of hardware platforms, software applications, data networks and easy to use graphical interfaces. Our Spot System is designed to be installed at local transmission sites, known as headends, and advertising sales business offices. Our video insertion process consists of six steps:

- *Encoding.* The process begins with our encoding software, which in real time transforms and compresses analog to digital short- and long-form video.

- *Storage.* Our Spot System organizes, manages and stores these video streams in a disk-based video library capable of storing thousands of advertisements.

- *Scheduling.* Our advertising management software coordinates with the traffic and billing application to determine the designated time slot, channel and geographic zone for each video stream.

- *Distribution.* Our strategic digital video software then copies the video files from the master video library and distributes them over the operators data network to appropriate headends, where they are stored in video servers for future play.

- *Insertion.* Following a network cue, our video switch module automatically inserts the video stream into the network feed (initiating the analog conversion, if necessary), where they are then seen by television viewers.

- *Verification.* After the video streams run, our proprietary software and hardware verifies the content, accuracy, timing and placement of these video streams to facilitate proper customer billing.

**SeaChange AdPulse On Demand Advertising System**

The SeaChange AdPulse System consists of an advertising and inventory management system called the SeaChange AdPulse On Demand Ad Manager and a package of enhancements for the core VOD system called SeaChange Axiom® Content Dynamics software that provide functions tailored to the special needs of managing, propagating, playing out and tracking of ads.

Key features of the AdPulse On Demand Ad Manager include:

- Inventory Managementthe ability to define advertising avails (slots) in on demand content. The inventory is managed by creating an inventory definition that specifies a content group (by program, provider, or content category) to which the inventory definition will apply, then specifying the number and placement of ad breaks and the number of spots per break for programs in that content group.

- Order Entrythe ability to specify the rules by which different ad copy will be inserted into on demand content by assigning advertising copy to defined inventory.

- Dynamic Ad Placement Decisionsthe ability to modify a playlist at run-time to add, delete, or change ads played with assets based on defined ad placement rules.

- Interior Ad Breaks  ad insertion and /or replacement at ad breaks within an on demand content stream if interior ad breaks are marked with SCTE-35 descriptors.

- Operational Reportingthe ability to view and track aspects of the overall operation of the SeaChange AdPulse Manager, such as whether advertising copy required to execute an order has been received and propagated.

- Business Reportingthe ability to view and track specific business aspects of the SeaChange AdPulse Manager, such as which inventory has been sold and which is unsold, a summary of orders from a specific client, etc.

- Verification Reportingthe ability to track and view data about execution of orders, views of ad copy, and user action during the ad views.

This system allows operators to generate new advertising revenue inserting ads, dynamically, in on demand content while it provides detailed tracking and reporting on views and usage of inserted ads. 2007 saw the first commercial deployment of our SeaChange AdPulse On Demand advertising software platform. Since then we have had successful trials and deployments with several operators including: Virgin Media and Sunflower Broadband.

**SeaChange Middleware Software Products**

Middleware provides seamless, access across devices made by different manufacturers to content across wired and/or wireless devices. We offer two middleware software products to operators and content developers: VODlink software and TV Navigator software.

**SeaChange VODlink** software is comprised of three software modules that work together to enhance the user experience. The three components: VODlink Platform Suite, VODlink Portal and VODlink Games help operators jump-start their VOD offerings with a collection of games, a pop-up portal to ease navigation and provide marketing of content, and a suite of tools that allow easy development and integration of custom applications.



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**SeaChange TV Navigator** software is a platform serving customers outside of North America that incorporates an optional Electronic Program Guide (EPG  the user interface) that is completely customizable, communications applications such as TV-mail, chat, ticker display and messaging, and audience measurement tools that collect and report on usage statistics.

**SeaChange Servers and Storage**

Designed for enterprise-wide video system deployments the patented SeaChange MediaCluster architecture delivers massive, independently scalable, storage, streaming and ingest capabilities. MediaCluster dramatically reduces the cost of storing and delivering video assets. We offer several configurations of the MediaCluster to meet the demands of different video delivery applications.

**SeaChange Flash MediaServers**

Our flash memory-based servers provide 100% non-volatile, diskless edge streaming, stream expansion and time-shifted TV. These servers allow operators to deploy diskless streamers at the edge locations and locate centralized storage and storage management at the head-end locations in their networks. The Flash MediaServers also reduce operational costs. Compared to traditional spinning hard disk drives, flash memory has no moving parts, therefore it is more reliable and consumes less power.

**SeaChange MDS MediaServers**

Combining the advantages of standards-based hardware with the SeaChange patented MediaCluster technology the MDS products provide high density streaming, clustered memory ingest and scalable storage. The MDS complements our widely deployed disk-based video servers while providing independent scalable streaming, storage and memory and can be deployed as a standalone system or a streaming booster for existing systems.

**Broadcast and Specialty Servers**

Additionally, we supply special function servers based on our MediaCluster technology for the broadcast industry. Our Broadcast MediaCluster System is composed of multiple individual video servers arranged in a cluster acting as one system. This system is designed to provide high-quality digital video storage and playback for use with automation systems in broadcast television stations. This product is intended to replace on-air tape decks used to store and play back advertising, movies and other programming from video tape cart systems and, in some cases, to replace the cart systems themselves. Our Broadcast MediaCluster System is designed for customers both in larger broadcast television markets, which use station automation systems, and in smaller markets, which use control software included in the system.

As with the video on demand system, our Broadcast MediaCluster System is designed to simultaneously record, encode, store to a disk and play video content using compression and decompression hardware. These products seamlessly integrate into television broadcasters current tape-based operations and meet the high performance requirements of television broadcasters. Our Broadcast MediaCluster System has features that enable the television broadcaster to have end-to-end functionality and reliability, including the capability to schedule programming for a week of television content.

**Media Services**

The Media Services segment encompasses the business activities of the On Demand Group (ODG), a U.K. based wholly-owned subsidiary of SeaChange. ODG group focuses on the acquisition, licensing, preparation, management and marketing of content as well as custom consulting services. The group was established though the acquisition of ODG in November 2005 and Mobix Interactive Ltd. in November 2008. Virgin Media in the U.K. is ODGs largest customer. In calendar year 2008, ODG also added the Hellenic Telecommunication Organisation (OTE), Telekom Austria, and TTNet  Turkeys largest ISP, as customers.

ODG also has established joint ventures to provide specialized content and services. In 2005, ODG launched FilmFlex in the U.K., a joint venture with Walt Disney and Sony Pictures to provide an on demand movie service to Virgin Media. In December of 2007, ODG sold its interest in the FilmFlex joint venture to the other investors for approximately $18 million.

In Germany, ODG entered into a joint venture with the TeleMunchen Gruppe, a German media company whose activities include the production and acquisition of German-language feature films, television productions and classical music programs. This joint venture has launched a pay-per-view service for Kabel Deutschland Gruppe (KDG). KDG has approximately nine million subscribers and has just begun to deploy digital services. We expect to transition the pay-per-view service to a full-fledged VOD service as the digital rollout occurs. In addition to providing pay-per-view services to KDG, the joint venture also provides pay-per-view services to Unity Media and Telekom Austria.



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In November 2008, through ODG we acquired Mobix Interactive Limited in the U.K. Mobix complements ODGs television VOD services business by offering mobile VOD services to wireless network operators. Today, Mobix supports mobile subscribers for its customers, o2 and 3 in the U.K. and Vodacom in South Africa.

**Service and Support**

We install, maintain and support our hardware and software products worldwide. We offer basic and advanced on-site training for customer employees. We currently provide installation, maintenance and technical support to all our customers. We offer maintenance and technical support to customers, agents and distributors of our hardware, software and systems on a 24-hour, seven-day a week basis. Generally, our systems sales include at least one year of free maintenance.

A separate professional services group provides network design and architecture as well as systems integration services.

Customer support centers worldwide provide 24/7 coverage. We have support centers in the U.S., Philippines, China, Japan, U.K., France, Turkey and Ireland.

**Strategy**

Our strategy is to be the leading provider of video solutions in the television industry. We develop, manufacture and market digital video systems and services that include the management, aggregation, licensing, storage, and distribution of video, television, gaming and advertising content. The key elements of our strategy are to:

- *Develop, Maintain and Extend Long-term Customer Relationships*. We focus our product development, marketing and direct sales efforts on maintaining and extending long-term customer relationships with cable system operators, telecommunications companies and television broadcasters across the world. We have formed important relationships with customers that have grown from advertisement and other short-form video insertion to video on demand systems and other interactive television services, storage systems and streaming systems. We believe that the fundamental shift from broadcast to on demand applications and the growing emphasis on interactive technologies will continue to present opportunities for us to develop, market and support solutions to our existing customers as well as to new additional markets.

- *Offer Integrated Solutions*. Our customers operate complex networks that require the delivery and management of video programming across multiple channels and target zones. We believe that our integrated solutions can provide advantages in cost and implementation for digital video applications while interoperating with existing and emerging third-party equipment and software. To continue to address these needs, we intend to provide and further develop, internally and with our partners, integrated applications and support services for our customers. We believe that providing complete integrated solutions has been a significant factor in our success in the advertising and video on demand markets to date.

- *Establish and Maintain Technological Leadership*. We believe our competitive position is dependent in large part on the features and performance of our systems. As a result, we focus our research and development efforts on introducing systems with improved hardware and software capabilities. We have been granted patents and have patents pending for our various technologies. We have received several awards for technological excellence, including Emmy Awards for our patented MediaCluster ® technology and for our role in the growth of video on demand. As of January 31, 2009, 40% of our employees were focused on research and product development efforts.

- *Provide Superior Customer Service and Support*. Our products operate in customer environments where continuous operation is critical. As a result, we believe that providing a high level of service and support gives us a competitive advantage and is a differentiating factor in developing and maintaining key customer relationships. Our in-depth industry and application knowledge allows us to better understand the service needs of our customers. As of January 31, 2009, 39% of our employees were dedicated to customer service and support, including project design and implementation, maintenance, installation and training. Customers have access to service personnel via 24/7 telephone support. In addition, we believe that the acquisitions and investments that we have made in media services and in system integration and customization services have positioned us as an integral partner with our customers to ensure optimal performance of their systems.

**Customers**

We currently sell our products primarily to cable system operators, broadcast and telecommunications companies.

Our customer base is highly concentrated among a limited number of large customers, primarily due to the fact that the cable, movie, broadcast, and telecommunications industries in the United States are dominated by a limited number of large companies. A significant portion of our revenues in any given fiscal period have been derived from substantial orders placed by these large organizations. For the year ended January 31, 2009, Comcast and Virgin Media comprised 31% and 12%, respectively, of our total sales. We expect that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues in future periods. As a result of this customer concentration, our business, financial condition and results of operations could be materially adversely affected by the failure of anticipated orders to materialize and by deferrals or cancellations of orders as a result of changes in customer requirements or new product announcements or introductions. In addition, the concentration of customers may cause variations in revenue, expenses and operating results on a quarterly basis due to seasonality of orders or the timing and relative size of orders received and shipped during a fiscal quarter.



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We do not believe that our backlog at any particular time is meaningful as an indicator of our future level of sales for any particular period. Because of the nature of our products and our use of standard components, substantially the entire backlog at the end of a quarter can be manufactured and shipped to the customer before the end of the following quarter. However, because of the requirements of particular customers these orders may not be shipped or, if shipped, the related revenues may not be recognized in the ensuing quarter. Therefore, there is no direct correlation between the backlog at the end of any quarter and our total sales for the following quarter or other periods.

**Selling and Marketing**

We sell and market our products in the United States primarily through a direct sales organization and internationally through direct sales and independent agents and distributors, complemented by a coordinated marketing effort of our product marketing personnel. Direct sales activities in the United States are conducted from our Massachusetts headquarters and through sales representatives deployed across the country. We also market certain of our products to systems integrators and value-added resellers.

In light of the complexity of our digital video products, we primarily employ a consultative direct sales process. Working closely with customers to understand and define their needs enables us to obtain better information regarding market requirements, enhance our expertise in our customers' industries, and more effectively and precisely convey to customers how our solutions address the customer's specific needs. In addition to the direct sales process, customer references and visits by potential customers to sites where our products are in place are often critical in the sales process.

We use several marketing programs focused on our targeted markets to support the sale and distribution of our products. We use exhibitions at a limited number of prominent industry trade shows and conferences and presentations at technology seminars to promote awareness of us and our products. We also publish articles in trade and technical journals and we produce promotional product literature.

**Research and Product Development**

Our management believes that our success will depend to a substantial degree upon our ability to develop and introduce in a timely fashion new integrated solutions and enhancements to our existing products that meet changing customer requirements in our current and new markets. We have made, and intend to continue to make, substantial investments in product and technological development. Our direct sales and marketing groups closely monitor changes in customer needs, changes in the marketplace and emerging industry standards, and are therefore better able to focus our research and development efforts to address these evolving industry requirements.

We believe that the experience of our product development personnel is an important factor in our success. We perform our research and product development activities at our headquarters and in offices in New Hampshire, Pennsylvania, California, Philippines, and China.

**Manufacturing**

Our manufacturing operation is located at our facility in Acton, Massachusetts. This manufacturing operation consists primarily of component and subassembly procurement, systems integration and final assembly, testing and quality control of the complete systems. We rely on independent contractors to manufacture components and subassemblies to our specifications. Each of our products undergoes testing and quality inspection at the final assembly stage.

**Competition**

The markets in which we compete are characterized by intense competition, with a large number of suppliers providing different types of products to different segments of the markets. In new markets for our products, we compete principally based on price. In markets in which we have an established presence, we compete principally on the basis of the breadth of our products' features and benefits, including the flexibility, scalability, professional quality, ease of use, reliability and cost effectiveness of our products, and our reputation and the depth of our expertise, customer service and support. While we believe that we currently compete favorably overall with respect to these factors and that our ability to provide integrated solutions to manage, store and distribute digital video differentiates us from our competitors, in the future we may not be able to continue to compete successfully with respect to these factors. In the market for long-form video products including video on demand, we compete with various companies offering video server platforms such as Concurrent Computer Corp., Arris Group Inc. (through its 2007 acquisition of C-Cor Corporation), Cisco Systems, Inc. (through its 2006 acquisition of Arroyo Video Solutions, Inc.), Motorola, Inc. (through its 2006 acquisition of Broadbus Technologies, Inc.) and Ericsson (through its 2007 acquisition of Tandberg Television). In the television broadcast market, we compete against Thomson, Omneon Video Networks, Sony Corporation and Harris Incorporated. In the digital advertisement insertion market, we generally compete with Ericsson and Arris Group Inc. We expect the competition in each of these markets to intensify in the future as existing and new competitors with significant market presence and financial resources, including computer hardware and software companies and television equipment manufacturers, enter these rapidly evolving markets.



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Many of our current and prospective competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources. As a result, these competitors may be able to devote greater resources to the development, promotion, sale and support of their products. Moreover, these companies may introduce additional products that are competitive with ours or enter into strategic relationships to offer complete solutions, and in the future our products may not be able to compete effectively with these products.

**Proprietary Rights**

Our success and our ability to compete are dependent, in part, upon our proprietary rights. We have been granted sixteen U.S. patents and have filed foreign patent applications related thereto for various technologies developed and used in our products. In addition, we rely on a combination of contractual rights, trademark laws, trade secrets and copyright laws to establish and protect our proprietary rights in our products. It is possible that in the future not all of these patent applications will be issued or that, if issued, the validity of these patents would not be upheld. It is also possible that the steps taken by us to protect our intellectual property will be inadequate to prevent misappropriation of our technology or that our competitors will independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries in which our products are or may be distributed do not protect our proprietary rights to the same extent as do the laws of the United States. We have been involved in significant intellectual property litigation, and we may be a party to litigation in the future to enforce our intellectual property rights or as a result of an allegation that we infringe others’ intellectual property.

**Employees**

As of January 31, 2009, we employed 1,046 persons, including 412 in research and development, 406 in customer service and support, 81 in selling and marketing, 36 in manufacturing and 111 in general and administration functions. We believe that our relations with our employees are good. None of our employees are represented by a collective bargaining agreement.

**Geographic Information**

Geographic information is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements.

**Available Information**

SeaChange is subject to the informational requirements pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). SeaChange files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Financial and other information about SeaChange, including SeaChange’s Code of Ethics and Business Conduct and charters for SeaChange’s Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, is available on our website (*www.schange.com*). We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our web site is not incorporated by reference into this document and should not be considered a part of this Annual Report.

Our web site address is included in this document as an inactive textual reference only.

**ITEM 1A. Risk Factors**

Any statements contained in this Form 10-K that do not describe historical facts may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance and are identified by words such as “may,” “will,” “could,” “should,” “expect,” “plan,” “intend,” “seek,” “anticipate,” “believe,” “estimate,” “potential,” or “continu comparable terms or the negative of those terms. Forward-looking statements in this Form 10-K include certain statements regarding the effect of certain accounting standards on our financial position and results of operations, the effect of certain legal claims against us, projected changes in our revenues, earnings and expenses, exchange rate sensitivity, interest rate sensitivity, liquidity, product introductions, industry changes and general market conditions. Our actual future results may differ significantly from those stated in any forward-looking statements. Any such forward-looking statements contained herein are based on current expectations, but are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. Factors that may cause such differences include, but are not limited to, the factors discussed below. Each of these factors, and others, are discussed from time to time in our filings with the SEC.



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**Our future success is dependent on the continued development of the video-on-demand market and if video-on-demand does not gain broad market acceptance, our business may not continue to grow.**

An increasing portion of our revenue in the last year has come from sales and services related to our video-on-demand products. However, the video-on-demand market continues to develop as a commercial market and may not gain broad market acceptance. The potential size of the video-on-demand market and the timing of its development are uncertain. The success of this market requires that broadband system operators, particularly the seven largest domestic cable system operators, continue to upgrade their cable networks to support digital two-way transmission service and successfully market video-on-demand and similar services to their cable television subscribers. Some cable system operators are still in the early stages of commercial deployment of video-on-demand service to major residential cable markets and, accordingly, to date our digital video systems have been commercially available only to a limited number of subscribers. Also, the telecommunications companies have also begun to adapt their networks to support digital two-way transmission and begun marketing video-on-demand services. If cable system operators and telecommunications companies fail to make the capital expenditures necessary to upgrade their networks or determine that broad deployment of video-on-demand services is not viable as a business proposition or if our digital video systems cannot support a substantial number of subscribers while maintaining a high level of performance, our revenues will not grow as we have planned.

In addition, a number of well-funded companies have been discussing broadband internet VOD services for home television viewing. If these products are developed, they may be more cost effective than our VOD solutions, which could result in cable system operators and telecommunications companies discontinuing purchases of our on-demand products.

**Current economic and market conditions make forecasting difficult.**

The global economy and financial markets have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken historic actions intended to address extreme market conditions that include severely restricted credit. There may be a further deterioration in financial markets and confidence in major economies. We are unable to predict the likely duration and severity of the current disruptions in financial markets, credit availability, and adverse economic conditions throughout the world. These economic developments affect businesses such as ours and those of our customers and vendors in a number of ways that could result in unfavorable consequences to us.

Current economic and market conditions together with the inherent inconsistent and unpredictable ordering patterns of our customers have limited our ability to forecast the volume and product mix of our sales, making it difficult to provide estimates of revenue and operating results. We continue to have limited visibility into the capital spending plans of our current and prospective customers. Fluctuations in our revenue can lead to even greater fluctuations in our operating results. Our planned expense levels depend in part on our expectations of future revenue. Our planned expenses include significant investments, particularly within the research and development organization, which we believe are necessary to continue to provide innovative optical networking and multiservice access solutions to meet our current and prospective customers needs. As a result, it is difficult to forecast revenue and operating results. If our revenue and operating results are below the expectations of our investors and market analysts, it could cause a decline in the price of our common stock.

**Because our customer base is highly concentrated among a limited number of large customers, the loss of or reduced demand of these customers could have a material adverse effect on our business, financial condition and results of operations.**

Our customer base is highly concentrated among a limited number of large customers, and, therefore, a limited number of customers account for a significant percentage of our revenues in any year. We generally do not have written agreements that require customers to purchase fixed minimum quantities of our products. Our sales to specific customers tend to vary significantly from year to year depending upon these customers budgets for capital expenditures and our new product introductions. We believe that a significant amount of our revenues will continue to be derived from a limited number of large customers in the future. The loss of, or reduced demand for products or related services from, any of our major customers could have a material adverse effect on our business, financial condition and results of operations.

In addition, the industry has experienced consolidation among our customers which may cause delays or reductions in capital expenditure plans and/or increased competitive pricing pressures as the number of available customers decline and their relative purchasing power increases in relation to suppliers. Any of these factors could adversely affect our business.



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**Cancellation or deferral of purchases of our products could cause our operating results to be below the expectations of the public market stock analysts who cover our stock, resulting in a decrease in the market price of our common stock.**

We derive a substantial portion of our revenues from purchase orders that exceed $1.0 million in value. Therefore, any significant cancellation or deferral of purchases of our products could have a material adverse effect on our business, financial condition and results of operations in any particular quarter due to the resulting decrease in revenue and gross margin and our relatively fixed costs. In addition, to the extent significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected because our operating costs and expenses are based, in part, on our expectations of future revenues, and we may be unable to adjust spending in a timely manner to compensate for any revenue shortfall. Because of these factors, in some future quarter our operating results may be below the expectations of public market analysts and investors which may adversely affect the market price of our common stock.

**Timing of significant customer orders may cause our quarterly operating results to fluctuate, making period-to-period comparisons of our operating results less meaningful.**

We have experienced significant variations in the revenue, expenses and operating results from quarter to quarter and these variations are likely to continue. We believe that fluctuations in the number of orders being placed from quarter to quarter are principally attributable to the buying patterns and budgeting cycles of broadband system operators, including telecommunications companies, and broadcast companies, the primary buyers of the digital video-on-demand, advertising and broadcast systems, respectively. We expect that there will continue to be fluctuations in the number and value of orders received. As a result, our results of operations have in the past and likely will, at least in the near future, fluctuate in accordance with this purchasing activity making period-to-period comparisons of our operating results less meaningful. In addition, because these factors are difficult for us to forecast, our business, financial condition and results of operations for one quarter or a series of quarters may be adversely affected and below the expectations of public market analysts and investors, resulting in a decrease in the market price of our common stock.

**Due to the lengthy sales cycle involved in the sale of our products, our quarterly results may vary and should not be relied on as an indication of future performance.**

Digital video-on-demand, advertising, movie and broadcast products are relatively complex and their purchase generally involve a significant commitment of capital, with attendant delays frequently associated with large capital expenditures and implementation procedures within an organization. Moreover, the purchase of these products typically requires coordination and agreement among a potential customer's corporate headquarters and its regional and local operations. For these and other reasons, the sales cycle associated with the purchase of our digital video-on-demand, advertising, movie and broadcast products is typically lengthy and subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews, over which we have little or no control. Based upon all of the foregoing, we believe that our quarterly revenues and operating results are likely to vary significantly in the future, that period-to-period comparisons of our results of operations are not necessarily meaningful and that these comparisons should not be relied upon as indications of future performance.

**If there were a decline in demand or average selling prices for our broadband products, including our Video-On-Demand Systems and Advertising Systems, our revenues and operating results would be materially affected.**

We expect our broadband products to continue to account for a significant portion of our revenues. Accordingly, a decline in demand or average selling prices for our broadband products, whether as a result of new product introductions by others, price competition, technological change, inability to enhance the products in a timely fashion, or otherwise, could have a material adverse effect on our business, financial condition and results of operations.

**If we are unable to manage our growth and the related expansion in our operations effectively, our business may be harmed through a diminished ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees.**

Our ability to successfully offer new products and services and implement our business plan in a rapidly evolving market requires effective planning and management. We are also continuing to transition towards greater reliance on our video-on-demand products and services for an increased portion of our total revenue. In light of the growing complexities in managing our expanding portfolio of products and services, our anticipated future operations will continue to strain our operational and administrative resources. To manage future growth effectively, we must continue to improve our management, our operational controls and internal controls over financial reporting, and to integrate the businesses we have acquired and our new personnel and to manage our expanding international operations. A failure to manage our growth may harm our business through a decreased ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees upon which our business is dependent.



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**Because our business is susceptible to risks associated with international operations, we may not be able to maintain or increase international sales of our products.**

Our international operations are expected to continue to account for a significant portion of our business in the future. However, in the future we may be unable to maintain or increase international sales of our products and services. International sales are subject to a variety of risks, including:

- difficulties in establishing and managing international distribution channels;
- difficulties in selling, servicing and supporting overseas products and in translating products into foreign languages;
- the uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;

- multiple and possibly overlapping tax structures;
- negative tax consequences such as withholding taxes and employer payroll taxes; and
- economic or political changes in international markets.

**We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.**

To date, most of our revenues have been denominated in U.S. dollars, while a significant portion of our international expenses are incurred in the local currencies of countries in which we operate. Because a portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we often sell in dollars, and a weakened dollar could increase local currency operating costs.

**Currency exchange rate fluctuations could reduce our overall profits.**

With the exception of On Demand Group, and its wholly-owned subsidiaries, the United States dollar is the functional currency for our international subsidiaries; therefore, all foreign translation currency gains and losses are included in our Consolidated Statements of Operations. In preparing our consolidated financial statements, certain financial information is required to be translated from foreign currencies to the United States dollar using either the spot rate or the weighted-average exchange rate. If the United States dollar changes relative to applicable local currencies, there is a risk our reported sales, operating expenses, and net income could significantly fluctuate. We are not able to predict the degree of exchange rate fluctuations, nor can we estimate the effect any future fluctuations may have upon our future operations. To date, we have not entered into any hedging contracts or participated in any hedging or derivative activities.

**Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights from third-party challenges.**

Our success and ability to compete depends upon our ability to protect our proprietary technology that is incorporated into our broadband and broadcast products. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Although we have issued patents, we cannot assure that any additional patents will be issued or that the issued patents will not be invalidated. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise misappropriate and use our products or technology without authorization, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We may need to resort to litigation in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. If competitors are able to use our technology, our ability to compete effectively could be harmed.

**We have been and in the future could become subject to litigation regarding intellectual property rights, which could seriously harm our business and require us to incur significant legal costs to defend our intellectual property rights.**

The industry in which we operate is characterized by vigorous protection and pursuit of intellectual property rights or positions, which on occasion, have resulted in significant and often protracted litigation. We have from time to time received, and may in the future receive, communications from third parties asserting infringements on patent or other intellectual property rights covering our products or processes. We have been involved in significant intellectual property litigation, and we may be a party to litigation in the future to enforce our intellectual property rights or as a result of an allegation that we infringe others intellectual property. Any parties asserting that our products infringe upon their proprietary rights would force us to defend ourselves and possibly our customers or manufacturers against the alleged infringement, as many of our commercial agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights. This possibility of multiple damages serves to increase the incentive for plaintiffs to bring such litigation. In addition, these lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention away from our operations.



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Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. In addition, any potential intellectual property litigation also could force us to stop selling, incorporating or using the products that use the infringed intellectual property or obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, although this license may not be available on reasonable terms, or at all, or redesign those products that use the infringed intellectual property. If we are forced to take any of the foregoing actions, our business may be seriously harmed.

**If content providers, such as movie studios, limit the scope of content licensed for use in the digital video-on-demand market, our business, financial condition and results of operations could be negatively affected because the potential market for our products would be more limited than we currently believe and have communicated to the financial markets.**

The success of the video-on-demand market is contingent on content providers, such as movie studios, permitting their content to be licensed for use in this market. Content providers may, due to concerns regarding either or both marketing and illegal duplication of the content, limit the extent to which they provide content to the video-on-demand market. A limitation of content for the video-on-demand market would indirectly limit the market for our video-on-demand system which is used in connection with that market.

**If we are unable to successfully introduce new products or enhancements to existing products, our financial condition and operating results may be adversely affected by a decrease in sales of our products.**

Because our business plan is based on technological development of new products and enhancements to our existing products, our future success is dependent on our successful introduction of these new products and enhancements. In the future we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these and other new products and enhancements, or find that our new products and enhancements do not adequately meet the requirements of the marketplace or achieve market acceptance. Announcements of currently planned or other new product offerings may cause customers to defer purchasing our existing products. Moreover, despite testing by us and by current and potential customers, errors or failures may be found in our products, and, even if discovered, may not be successfully corrected in a timely manner. These errors or failures could cause delays in product introductions and shipments, or require design modifications that could adversely affect our competitive position. Our inability to develop new products or enhancements on a timely basis or the failure of these new products or enhancements to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

**Because we purchase certain material components used in manufacturing our products from sole suppliers and we use a limited number of third party manufacturers to manufacture our products, our business, financial condition and results of operations could be materially adversely affected by a failure of these suppliers or manufacturers.**

Certain key components of our products are currently purchased from a sole supplier, including computer chassis, switching gear, an interface controller video transmission board, encoder and decoder hardware, and operating system and applications software. We have in the past experienced quality control problems, where products did not meet specifications or were damaged in shipping, and delays in the receipt of these components. These problems were generally of short duration and did not have a material adverse effect on our business and results of operations. However, we may in the future experience similar types of problems which could be more severe or more prolonged. While we believe that there are alternative suppliers available for these components, we believe that the procurement of these components from alternative suppliers could take up to a year. In addition, these alternative components may not be functionally equivalent or may be unavailable on a timely basis or on similar terms. The inability to obtain sufficient key components as required, or to develop alternative sources if and as required in the future, could result in delays or reductions in product shipments which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

In addition, we rely on a limited number of third parties who manufacture certain components used in our products. While to date there has been suitable third party manufacturing capacity readily available at acceptable quality levels, in the future there may not be manufacturers that are able to meet our future volume or quality requirements at a price that is favorable to us. Any financial, operational, production or quality assurance difficulties experienced by these third party manufacturers that result in a reduction or interruption in supply to us could have a material adverse effect on our business, financial condition and results of operations.

**If we are not able to obtain necessary licenses or distribution rights for third-party technology at acceptable prices, or at all, our products could become obsolete or we may not be able to deliver certain product offerings.**

We have incorporated third-party licensed technology into our current products and our product lines. From time to time, we may be required to license additional technology from third parties to develop new products or product enhancements or to provide specific solutions. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The inability to maintain or re-license any third-party licenses required in our current products or to obtain any new third-party licenses necessary to develop new products and product enhancements or provide specific solutions could require us to obtain substitute technology of lower quality or performance standards or at greater cost. Such inabilities could delay or prevent us from making these products or enhancements or providing specific solutions, which could seriously harm the competitiveness of our products.



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**If we are unable to successfully compete in our marketplace, our financial condition and operating results may be adversely affected.**

We currently compete against both computer companies offering video server platforms and more traditional analog video playback systems. In the digital advertisement insertion market, we compete against suppliers of both analog tape-based and digital systems.

Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources, including computer hardware and software companies and television equipment manufacturers, may enter those markets, thereby further intensifying competition. Increased competition could result in price reductions and loss of market share which would adversely affect our business, financial condition and results of operations. Many of our current and potential competitors have greater financial, selling and marketing, technical and other resources than we do. Moreover, our competitors may also foresee the course of market developments more accurately than we. Although we believe that we have certain technological and other advantages over our competitors, realizing and maintaining these advantages will require a continued high level of investment by us in research and product development, marketing and customer service and support. In the future we may not have sufficient resources to continue to make these investments or to make the technological advances necessary to compete successfully with our existing competitors or with new competitors.

If we are unable to compete effectively, our business, prospects, financial condition and operating results would be materially adversely affected because of the difference in our operating results from the assumptions on which our business model is based.

**If we fail to respond to rapidly changing technologies related to digital video, our business, financial condition and results of operations would be materially adversely affected because the competitive advantage of our products relative to those of our competitors would decrease.**

The markets for our products are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions and enhancements. Future technological advances in the television and video industries may result in the availability of new products or services that could compete with the solutions provided by us or reduce the cost of existing products or services, any of which could enable our existing or potential customers to fulfill their video needs better and more cost efficiently than with our products. Our future success will depend on our ability to enhance our existing digital video products, including the development of new applications for our technology, and to develop and introduce new products to meet and adapt to changing customer requirements and emerging technologies. In the future, we may not be successful in enhancing our digital video products or developing, manufacturing and marketing new products which satisfy customer needs or achieve market acceptance. In addition, there may be services, products or technologies developed by others that render our products or technologies uncompetitive, unmarketable or obsolete, or announcements of currently planned or other new product offerings either by us or our competitors that cause customers to defer or fail to purchase our existing solutions.

**Our financial condition and results of operations could be materially adversely affected by the performance of the companies in which we have made and may in the future make equity investments.**

We have made non-controlling equity investments in complementary companies, including On Demand Deutschland GmbH & Co. KG, Casa Systems, Inc., Minerva Networks, Inc. and InSite One, Inc., and we may in the future make additional investments in these and/or other companies. These investments may require additional capital and may not generate the expected rate of return that we believed possible at the time of making the investment. This may adversely affect our financial condition or results of operations. Also, investments in development-stage companies may generate other than temporary declines in fair value of our investment that would result in impairment charges.

**Future acquisitions may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.**

As part of our business strategy, we have acquired and may in the future seek to acquire or invest in new businesses, products or technologies that we believe could complement or expand our business, augment our market coverage, enhance our technical capabilities or otherwise offer growth opportunities. Acquisitions could create risks for us, including:

- difficulties in assimilation of acquired personnel, operations, technologies or products which may affect our ability to develop new products and services and compete in our rapidly changing marketplace due to a resulting decrease in the quality of work and innovation of our employees upon which our business is dependent; and



- adverse effects on our existing business relationships with suppliers and customers, which may be of particular importance to our business because we sell our products to a limited number of large customers, we purchase certain components used in manufacturing our products from sole suppliers and we use a limited number of third party manufacturers to manufacture our product.

In addition, if we consummate acquisitions through an exchange of our securities, our existing stockholders could suffer significant dilution. Any future acquisitions, even if successfully completed, may not generate any additional revenue or provide any benefit to our business.

**We may make future acquisitions or enter into joint ventures that are not successful, which could seriously harm our business.**

Historically, we have acquired technology or businesses to supplement and expand our product offerings. In the future, we could acquire additional products, technologies or businesses, or enter into joint venture arrangements, for the purpose of complementing or expanding our business as occurred with Mobix Interactive Ltd. in fiscal 2009 and On Demand Deutschland GMBH in fiscal 2007. Negotiation of potential acquisitions or joint ventures and our integration of acquired products, technologies or businesses could divert management's time and resources. Future acquisitions could cause us to issue equity securities that would dilute existing stockholders, incur contingent liabilities, amortize intangible assets, or write off in-process research and development and other acquisition-related expenses that could have a material adverse affect on our business, results of operations, cash flow and financial condition. We may not be able to properly integrate acquired products, technologies or businesses with our existing products and operations, train, retain and motivate personnel from the acquired businesses, or combine potentially different corporate cultures. Failure to do so could deprive us of the intended benefits of those acquisitions. In addition, we may be required to write-off acquired research and development if further development of purchased technology becomes unfeasible, which may adversely affect our business, results of operations, cash flow and financial condition.

**If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.**

Under accounting principles generally accepted in the United States, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or other intangible assets may not be recoverable include; declines in our stock price and market capitalization, or future cash flows projections. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on projections of future operating performance. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. We may be required to record a significant non cash charge to earnings in our financial statements during the period in which any impairment of our goodwill or other intangible assets is determined.

**We may experience risks in our investments due to changes in the market, which could adversely affect the value or liquidity of our investments.**

We maintain a portfolio of cash equivalents and short-term and long-term investments in a variety of securities which may include commercial paper, certificates of deposit, money market funds and government debt securities. These available-for-sale investments are subject to interest rate risk and may decline in value if market interest rates increase. These investments are subject to general credit, liquidity, market and interest rate risks. As a result, we may experience a reduction in value or loss of liquidity of our investments. In addition, should any investment cease paying or reduce the amount of interest paid to us, our interest income would suffer. These market risks associated with our investment portfolio may have a negative adverse effect on our results of operations, liquidity and financial condition.

**The success of our business model could be influenced by changes in the regulatory environment, such as changes that either would limit capital expenditures by television, cable or telecommunications operators or reverse the trend towards deregulation in the industries in which we compete.**

The telecommunications and television industries are subject to extensive regulation which may limit the growth of our business, both in the United States and other countries. The growth of our business internationally is dependent in part on deregulation of the telecommunications industry abroad similar to that which has occurred in the United States and the timing and magnitude of which is uncertain. Broadband system operators are subject to extensive government regulation by the Federal Communications Commission and other federal and state regulatory agencies. These regulations could have the effect of limiting capital expenditures by broadband system operators and thus could have a material adverse effect on our business, financial condition and results of operations. The enactment by federal, state or international governments of new laws or regulations, changes in the interpretation of existing regulations or a reversal of the trend toward deregulation in these industries could adversely affect our customers, and thereby materially adversely affect our business, financial condition and results of operations.



**We may not be able to hire and retain highly skilled employees, particularly which could affect our ability to compete effectively because our business is technology-based.**

Our success depends to a significant degree upon the continued contributions of our key personnel, many of whom would be difficult to replace. We believe that our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, customer service, selling and marketing, finance, administrative and manufacturing personnel, as our business is technology-based. Because competition for these personnel is intense, we may not be able to attract and retain qualified personnel in the future. The loss of the services of any of the key personnel, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel, particularly software engineers and sales personnel could have a material adverse effect on our business, financial condition and results of operations because our business is technology-based.

**Any weaknesses identified in our system of internal controls by us and our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on our business**.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and report on their systems of internal control over financial reporting. In addition, our independent registered public accounting firm must report on its evaluation of those controls. In future periods, we may identify deficiencies, including as a result of the loss of the services of one or more of our key personnel, in our system of internal controls over financial reporting that may require remediation. There can be no assurances that any such future deficiencies identified may not be significant deficiencies or material weaknesses that would be required to be reported in future periods.

**We may have additional tax liabilities.**

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our income tax provision, net income, or cash flows in the period or periods for which that determination is made.

In 2006, we received an audit notification from the Internal Revenue Service (IRS) requesting materials relating to our 2004 through 2007 federal tax return. As of January 31, 2009, we continue to provide information relating to the audit and have not received or agreed upon any final adjustment from the IRS.

In addition, we are subject to sales, use and similar taxes in many countries, jurisdictions and provinces, including those states in the United States where we maintain a physical presence or have a substantial nexus. These taxing regimes are complex. For example, in the United States, each state and local taxing authority has its own interpretation of what constitutes a sufficient physical presence or nexus to require the collection and remittance of these taxes. Similarly, each state and local taxing authority has its own rules regarding the applicability of sales tax by customer or product type.

**System errors, failures, or interruptions could cause delays in shipments, require design modifications or replacements which may have a negative impact on our business and damage our reputation and customer relationships.**

System errors or failures may adversely affect our business, financial condition and results of operations. Despite our testing and testing by current and potential customers, not all errors or failures may be found in our products or, if discovered, successfully corrected in a timely manner. These errors or failures could cause delays in product introductions and shipments or require design modifications that could adversely affect our competitive position. Further, some errors may not be detected until the systems are deployed. In such a case, we may have to undertake major replacement programs to correct the problem. Our reputation may also suffer if our customers view our products as unreliable, whether based on actual or perceived errors or failures in our products.

Further, a defect, error or performance problem with our on-demand systems could cause our customers VOD offerings to fail for a period of time or be degraded. Any such failure would cause customer service and public relations problems for our customers. As a result, any failure of our customers systems caused by our technology, including the failure of third party technology incorporated therein or therewith, could result in delayed or lost revenue due to adverse customer reaction, negative publicity regarding us and our products and services and claims for substantial damages against us, regardless of our responsibility for such failure. Any claim could be expensive and require us to spend a significant amount of resources. In circumstances where third party technology incorporated with or in our systems includes a defect, error or performance problem or fails for any reason, we may have to replace such third party technology at our expense and be responsible to our customers for their corresponding claims. Such replacements or claims could be expensive and could require us to spend a significant amount of resources.



**Our stock price may be volatile.**

Historically, the market for technology stocks has been extremely volatile. Our common stock has experienced, and may continue to experience, substantial price volatility. The occurrence of any one or more of the factors noted above could cause the market price of our common stock to fluctuate. In addition, the stock market in general, and the NASDAQ Stock Market and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. These broad market and industry factors may materially adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of a companys securities, securities class action litigation has often been instituted against such companies.

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

| Location | Lease/ Own | Principal Use | Segment | Square Feet |
|---|---|---|---|---|
| Acton, Massachusetts | Own | Corporate Headquarters, video software engineering and manufacturing | Software, Servers and Storage | 120,000 |
| Greenville, New Hampshire | Own | Video Storage engineering, logistics and services | Servers and Storage | 24,000 |
| Greenville, New Hampshire | Lease | Video Server and broadcast product engineering | Servers and Storage | 13,000 |
| Fort Washington, Pennsylvania | Lease | Software Development, digital video and interactive television | Software | 14,000 |
| London, United Kingdom | Own | ODG head corporate offices | Media Services | 9,000 |

In addition, we also lease research and development and/or sales and support offices in Illinois, Nevada, California, France, Ireland, Singapore, Germany, Japan, India, Turkey, Philippines, UK, and China. We believe that existing facilities are adequate to meet our foreseeable requirements.

**ITEM 3. Legal Proceedings**

**Litigation**

None.

**Other Matters**

SeaChange provides indemnification, to the extent permitted by law, to its officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee, or agent is or was serving at SeaChange's request in such capacity. With respect to acquisitions, SeaChange provides indemnification to or assumes indemnification obligations for the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies' bylaws and charter. As a matter of practice, SeaChange has maintained directors and officers' liability insurance including coverage for directors and officers of acquired companies.

SeaChange enters into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require SeaChange to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to SeaChange's products. From time to time, SeaChange also indemnifies customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of SeaChange's products and services or resulting from the acts or omissions of SeaChange, its employees, authorized agents or subcontractors. For example, SeaChange has received requests from several of its customers for indemnification of patent litigation claims asserted by Acacia Media Technologies, USA Video Technology Corporation and VTran Media Technologies. Management performed an analysis of all requests under Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* ("SFAS 5") as interpreted by FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others* ("FIN45").

SeaChange warrants that its products, including software products, will substantially perform in accordance with its standard published specifications in effect at the time of delivery. Most warranties have at least a one year duration that generally commence upon installation. In addition, SeaChange provides maintenance support to all customers and therefore allocates a portion of the product purchase price to the initial warranty period and recognizes revenue on a straight line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. When SeaChange receives revenue for extended warranties beyond the standard duration, it is deferred and recognized on a straight line basis over the contract period. Related costs are expensed as incurred.

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In the ordinary course of business, SeaChange provides minimum purchase guarantees to certain of its vendors to ensure continuity of supply against the market demand. Although some of these guarantees provide penalties for cancellations and/or modifications to the purchase commitments as the market demand decreases, most of the guarantees do not. Therefore, as the market demand decreases, SeaChange re-evaluates the accounting implications of guarantees and determines what charges, if any, should be recorded.

With respect to its agreements covering product, business or entity divestitures and acquisitions, SeaChange provides certain representations and warranties and agrees to indemnify and hold such purchasers harmless against breaches of such representations, warranties and covenants. With respect to its acquisitions, SeaChange may, from time to time, assume the liability for certain events or occurrences that took place prior to the date of acquisition.

SeaChange provides such guarantees and indemnification obligations after considering the economics of the transaction and other factors including but not limited to the liquidity and credit risk of the other party in the transaction. SeaChange believes that the likelihood is remote that any such arrangement could have a material adverse effect on its financial position, results of operation or liquidity. SeaChange records liabilities, as disclosed above, for such guarantees based on the Companys best estimate of probable losses which considers amounts recoverable under any recourse provisions.

### ITEM 4. Submission of Matters to a Vote of Securities Holders

No matters were submitted during the fourth quarter of the fiscal year ended January 31, 2009 to a vote of security holders of the Company through the solicitation of proxies or otherwise.



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## PART II

### ITEM 5. Market for Registrants Common Equity and Related Stockholder Matters

#### Market Information

Our common stock (symbol, SEAC) began trading on NASDAQ on November 5, 1996 and currently trades on the Nasdaq Global Select Market.

On April 9, 2009, the last reported sale price of our common stock on NASDAQ was $6.21 per share and there were approximately 160 holders of record of our common stock. We believe that the number of beneficial holders of our common stock exceeds 6,200.

The following table sets forth the quarterly high and low closing sales prices per share reported on NASDAQ for our last two fiscal years ended January 31, 2009 and 2008.

| | Fiscal Year 2009 | | Fiscal Year 2008 | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| Three Month Period Ended: | | | | |
| First Quarter | $ 7.48 | $ 5.50 | 10.83 | 7.85 |
| Second Quarter | 8.32 | 6.60 | 9.19 | 6.98 |
| Third Quarter | 9.70 | 6.46 | 7.94 | 6.06 |
| Fourth Quarter | 8.17 | 5.92 | 8.11 | 5.10 |

#### Dividend Policy

We have never declared or paid any cash dividends on our common stock, since inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings for use in operations and to finance the expansion of our business.

#### Equity Compensation Plan Information

The following table provides information about the common stock that may be issued upon the exercise of options, warrants and rights under all of SeaChanges existing equity compensation plans as of January 31, 2009, including the Amended and Restated 2005 Equity Compensation Incentive Plan, the Amended and Restated 1995 Stock Option Plan, the 1996 Non-Employee Director Stock Option Plan and the Third Amended and Restated 1996 Employee Stock Purchase Plan.

| | | |
|---|---|---|
| | **Weighted-** | **Number of securities remaining available for future issuance** |

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | average exercise price of outstanding options, warrants and rights | under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders(1) | 4,228,437(2) | $ 15.43 | 2,480,483(3) |
| Equity compensation not approved by security holders(4) | 160,134 | $ 14.71 | - |
| Total | 4,388,571 | $ 15.41(5) | 2,480,483 |

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(1) Consists of the Amended and Restated 2005 Equity Compensation Incentive Plan, the Amended and Restated 1995 Stock Option Plan, the 1996 Non-Employee Director Stock Option Plan and the Third Amended and Restated 1996 Employee Stock Purchase Plan.

(2) Excludes the shares to be issued for the period ended May 31, 2009 under the Third Amended and Restated 1996 Employee Stock Purchase Plan, because the number of shares to be issued upon exercise of currently outstanding options thereunder cannot be determined, as it will be determined on May 31, 2009, the last day of the payment period, and will be for a maximum of 1,125 shares per eligible participant.

(3) As of January 31, 2009, 2,480,483 shares remained available for issuance under the Amended and Restated 2005 Equity Compensation Incentive Plan and no shares remained available for grant under the Third Amended and Restated 1996 Employee Stock Purchase Plan.



(4) Pursuant to the Video-on-Demand Purchase Agreement, dated as of December 1, 2000, by and between SeaChange and Comcast Cable Communications of Pennsylvania, Inc., Comcast has been issued warrants exercisable for 450,000 shares of common stock. As disclosed in SeaChange's Current Report on Form 8-K filed October 6, 2004, Comcast exercised certain of these warrants and there remains outstanding today one warrant exercisable for 160,134 shares of common stock with a per share exercise price of $14.71 and which is nonforfeitable and freely exercisable.

(5) Excludes the weighted average exercise price for shares to be issued under the Third Amended and Restated 1996 Employee Stock Purchase Plan, as amended, because the weighted average exercise price of currently outstanding options thereunder cannot be determined, as it will be equal to 85% of the lower of the average market price of the common stock on December 1, 2008 and May 29, 2009, the first and last business day of the applicable payment period.

**Repurchase of our Equity Securities**

On February 13, 2008, SeaChange International's Board of Directors authorized the repurchase of up to $20.0 million of its common stock, par value $.01 per share, through a share repurchase program. As authorized by the program, 833,597 shares were purchased in the open market. This stock repurchase program expired on December 31, 2008. All repurchases were funded from the Company's current cash and investments balances. The Company did not repurchase any shares from its management team or other insiders.

On March 13, 2009, SeaChange International's Board of Directors authorized the repurchase of up to $20.0 million of its common stock, par value $.01 per share, through a share repurchase program. As authorized by the program, shares may be purchased in the open market or through privately negotiated transactions, in a manner consistent with applicable securities laws and regulations. This stock repurchase program does not obligate the Company to acquire any specific number of shares and may be suspended or discontinued at any time. This stock repurchase program expires on January 31, 2010. All repurchases are expected to be funded from the Company’s current cash and investments balances. The Company does not intend to repurchase any shares from its management team or other insiders.



**STOCK PERFORMANCE GRAPH**

The following graph compares the change in the cumulative total stockholder return on SeaChange’s common stock during the period from the close of trading on January 31, 2004 through January 31, 2009, with the cumulative total return on the Center for Research in Securities Prices (“CRSP”) Index for the Nasdaq Stock Market (U.S. Companies) and a SIC Code Index based on the SeaChange’s SIC Code. The comparison assumes $100 was invested on January 31, 2004 in SeaChange’s common stock at the $20.18 closing price on January 30, 2004 and in each of the foregoing indices and assumes reinvestment of dividends, if any.

The following graph is not “soliciting material,” is not deemed filed with the SEC and is not to be incorporated by reference in any filing of SeaChange under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing. The stock price performance shown on the following graph is not necessarily indicative of future price performance. Information used on the graph was obtained from a third party provider, a source believed to be reliable, but SeaChange is not responsible for any errors or omissions in such information.

Notes:

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.

B. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

C. The Index level for all series was set to 100 on January 31, 2004.



**ITEM 6. Selected Financial Data**

The following consolidated selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The selected financial data for the years ended January 31, 2008, 2007, 2006 and 2005 have been recast to reflect the reclassification of foreign currency gain (loss) from operating expenses to other income (expense), net below operating income.

| | Year ended January 31, | | | | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2006** | **2** |
| | (in thousands, except per share data) | | | | |
| Consolidated Statement of Operations Data: | | | | | |
| Revenues: | | | | | |
| Products | $ 117,372 | $ 105,769 | $ 95,000 | $ 73,516 | $ 11 |
| Services | 84,464 | 74,124 | 66,334 | 52,748 | 4 |
| | 201,836 | 179,893 | 161,334 | 126,264 | 15 |
| Costs of revenues: | | | | | |
| Products | 46,533 | 52,464 | 48,334 | 45,555 | 6 |
| Services | 52,007 | 46,465 | 37,189 | 28,315 | 2 |
| | 98,540 | 98,929 | 85,523 | 73,870 | 8 |
| Gross profit | 103,296 | 80,964 | 75,811 | 52,394 | 7 |

| | | | | | |
|---|---|---|---|---|---|
| Operating expenses: | | | | | |
| Research and development | 43,042 | 42,699 | 40,917 | 34,475 | 2 |
| Selling and marketing | 27,506 | 23,073 | 22,383 | 18,681 | 1 |
| General and administrative | 20,979 | 20,240 | 18,873 | 13,915 | 1 |
| Amortization of intangibles | 1,575 | 2,952 | 5,664 | 2,201 | |
| | 93,102 | 88,964 | 87,837 | 69,272 | 5 |
| Income (loss) from operations | 10,194 | (8,000) | (12,026) | (16,878) | 1 |
| Interest income, net | 2,050 | 1,927 | 1,355 | 2,038 | |
| Other (expense) income, net | (925) | (43) | (320) | (339) | |
| Impairment on investment in affiliate | - | - | (150) | - | |
| Gain on sale of investment in affiliate | - | 10,031 | - | - | |
| Income (loss) before income taxes and equity income (loss) in earnings of affiliates | 11,319 | 3,915 | (11,141) | (15,179) | 1 |
| Income tax (expense) benefit | (575) | (2,156) | 1,632 | 2,941 | ( |
| Equity (loss) income in earnings of affiliate, net of tax | (770) | 1,143 | 1,272 | 39 | |
| Net income (loss) | $ 9,974 | $ 2,902 | $ (8,237) | $ (12,199) | $ |
| Earnings (loss) per share: | | | | | |
| Basic | $ 0.32 | $ 0.10 | $ (0.29) | $ (0.43) | $ |
| Diluted | $ 0.32 | $ 0.10 | $ (0.29) | $ (0.43) | $ |
| Consolidated Balance Sheet Data (as of January 31): | | | | | |
| Working capital | $ 89,549 | $ 88,344 | $ 57,820 | $ 45,759 | $ 12 |
| Total assets | 233,983 | 217,896 | 199,296 | 207,797 | 21 |
| Deferred revenue | 26,237 | 19,103 | 21,806 | 20,045 | 2 |
| Long-term liabilities | 3,745 | 3,391 | 1,121 | 1,353 | |
| Total liabilities | 61,747 | 52,494 | 42,876 | 54,053 | 4 |
| Total stockholders’ equity | 172,236 | 165,402 | 156,420 | 153,744 | 16 |



**ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis together with our consolidated financial statements, related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to a number of factors including risks discussed in Item 1A. “Risk Factors,” and elsewhere in this Annual Report on Form 10-K. These risks could cause our actual results to differ materially from any future performance suggested below.*

**Overview**

We are a leading developer, manufacturer and marketer of digital video systems and services including, the aggregation, licensing, storage, management and distribution of video, television programming, and advertising content to cable system operators, telecommunications companies and broadcast television companies.

Until the end of fiscal 2008, the Company was managed and operated as three segments, Broadcast, Broadband and Services. In its first quarter of fiscal 2009, the Company realigned its previously reported segments into three new reporting segments: Software, Servers and Storage, and Media Services as segments defined by SFAS No. 131*, Disclosure about Segments of an Enterprise and Related Information*. The Company believes this reorganization better reflects the increasing importance and magnitude of its software products and services as well as the scale of its ODG subsidiary. A description of the three new reporting segments is as follows:

- Software segment includes product revenues from the Company’s Advertising, VOD, Middleware and Broadcast software, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products, and operating expenses relating to the Software segment such as research and development, selling and marketing and amortization of intangibles.

- Servers and Storage segment includes product revenues from VOD and Broadcast server product lines and related services such as professional services, installation, training, project management, product maintenance, and technical support for those products and operating expenses relating to the Servers and Storage segment, such as research and development and selling and marketing.
- Media Services segment includes the operations of ODG including content acquisition, and preparation services for television and wireless network service providers and related operating expenses.

Under this revised reporting structure, the Company determined there are significant functions, and therefore costs, that are considered corporate expenses and are not allocated to the reportable segments for the purposes of assessing performance and making operating decisions. These unallocated costs include general and administrative expenses, other than general and administrative expenses related to ODG, interest, taxes and equity earnings in affiliates, which are managed separately at the corporate level.

The segment data for the fiscal year ended January 31, 2008 and 2007, respectively, has been recast to reflect the realignment of the new segments. Prior to fiscal 2009, services revenues, which included ODG revenues, were reported in the Services segment and the Company did not separately track these service revenues and costs by these new segments, except for ODG. Accordingly, management has made certain assumptions to determine the amount of service revenues and service costs attributed to the Software and Servers and Storage reporting segments for the fiscal years ended January 31, 2008 and 2007, respectively. The basis of the assumptions for all such revenues, costs and expenses includes significant judgments and estimations. There are no inter-segment revenues for the periods. The Company does not separately track all assets by operating segments nor are the segments evaluated under this criterion.

We have experienced fluctuations in our product revenues from quarter to quarter due to the timing of the receipt of customer orders and the shipment of those orders. The factors that impact the timing of the receipt of customer orders include among other factors:

- the customer's receipt of authorized signatures on their purchase orders;
- the budgetary approvals within the customer's company for capital purchases; and
- the ability to process the purchase order within the customer's organization in a timely manner.

Factors that may impact the shipment of customer orders include:

- the availability of material to produce the product;
- the time required to produce and test the product before delivery; and
- the customer's required delivery date.



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The delay in the timing of receipt and shipment of any one customer order can result in significant fluctuations in our revenue reported on a quarterly basis.

Our operating results are significantly influenced by a number of factors, including the mix of products sold and services provided, pricing, costs of materials used in our products and the expansion of our operations during the fiscal year. We price our products and services based upon our costs and consideration of the prices of competitive products and services in the marketplace. The costs of our products primarily consist of the costs of components and subassemblies that have generally declined from product introduction to product maturity. As a result of the growth of our business, our operating expenses have historically increased in the areas of research and development, selling and marketing and administration. In the current state of the economy, we currently expect that customers may still have limited capital spending budgets as we believe they are dependent on advertising revenues to fund their capital equipment purchases. Accordingly, we expect our financial results to vary from quarter to quarter and our historical financial results are not necessarily indicative of future performance. In light of the higher proportion of our international business, we expect movements in foreign exchange rates to have a greater impact on our operating results and the equity section of our balance sheet in the future.

Our ability to continue to generate revenues within the markets that our products are sold and to generate cash from operations and net income is dependent on several factors which include:

- market acceptance of the products and services offered by our customers and increased subscriber usage and demand for these products and services;
- selection by our customers of our products and services versus the products and services being offered by our competitors;
- our ability to introduce new products to the market in a timely manner and to meet the demands of the market for new products and product enhancements;
- our ability to maintain gross margins from the sale of our products and services at a level that will provide us with cash to fund our operations given the pricing pressures within the market and the costs of materials to manufacture our products; and
- our ability to control operating costs given the fluctuations that we have experienced with revenues from quarter to quarter.

**Summary of Critical Accounting Policies; Significant Judgments and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These items are regularly monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve significant judgments and estimates used in the preparation of our consolidated financial statements. An accounting policy is deemed to be critical if it requires a judgment or accounting estimate to be made based on assumptions about matters that are highly uncertain, and if different estimates that could have been used, or if changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed below, are also critical to understanding our consolidated financial statements. The notes to our consolidated financial statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

*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* ("FIN 46R"), as revised under FIN 46R should be applied in the financial statements. FIN 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. The Company has concluded that it is not the primary beneficiary for any variable interest entities as of January 31, 2009.



The Companys 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, SeaChanges 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.

We periodically review indicators of the fair value of our investments in affiliates in order to assess whether available facts or circumstances, both internally and externally, may suggest an other than temporary decline in the value of the investment. The carrying value of an investment in an affiliate may be affected by the affiliates ability to obtain adequate funding and execute its business plans, general market conditions, industry considerations specific to the affiliates business, and other factors. The inability of an affiliate to obtain future funding or successfully execute its business plan could adversely affect our equity earnings of the affiliate in the periods affected by those events. Future adverse changes in market conditions or poor operating results of the affiliates could result in equity losses or an inability to recover the carrying value of the investments in affiliates that may not be reflected in an investments current carrying value, thereby possibly requiring an impairment charge in the future. We record an impairment charge when we believe an investment has experienced a decline in value that is other-than-temporary.

*Revenue Recognition and Allowance for Doubtful Accounts.* The accounting related to revenue recognition is complex and affected by interpretations of the rules and an understanding of industry practices. As a result, revenue recognition accounting rules require us to make significant judgments. 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, the Company 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. Our share of inter-company profits associated with sales and services provided to affiliated companies is eliminated in consolidation in proportion to our equity ownership.

Our 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 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 equipments 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.

We recognize 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, the Company may require 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. The Company bases its allowances for doubtful accounts on historical collections and write-off experience, current trends, credit assessments, and other analysis of specific customer situations. While such credit losses have historically been within our expectations and the allowances established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. If the financial condition of our customers were to change, additional allowances may be required or established allowances may be considered unnecessary. Judgment is required in making these determinations and our failure to accurately estimate the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition and results of operations.



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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.

*Inventories and Reserves.* Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist primarily of components and subassemblies and finished products held for sale. All of SeaChange s hardware components are purchased from outside vendors. The value of inventories are reviewed quarterly to determine that the carrying value is stated at the lower of cost or net realizable value. SeaChange records charges to reduce inventory to its net realizable value when impairment is identified through the quarterly review process. For inventory that has been written down to its net realizable value, the reserve is released upon sale or disposal of this inventory. The obsolescence evaluation is based upon assumptions and estimates about future demand and possible alternative uses and involves significant judgments. For the years ended January 31, 2009, 2008, and 2007, we recorded inventory write-downs of $1.0 million, $2.1 million, and $1.1 million.

*Goodwill and Long-Lived Assets.* The Company accounts for business acquisitions in accordance with SFAS No. 141, *Business Combinations*, which requires that the purchase method of accounting be used for all business combinations. The Company determines and records the fair values of assets acquired and liabilities assumed as of the dates of acquisition. The Company recognizes the excess of the purchase price over the fair value of the net assets acquired as goodwill. At the time of acquisition, goodwill is assigned to the operating segment as the applicable reporting unit for the goodwill impairment review. Goodwill is not amortized, but is evaluated for impairment, at the reporting unit level, annually in the third fiscal quarter. Goodwill of a reporting unit also is tested for impairment on an interim basis in addition to the annual evaluation if an event occurs or circumstances change such as declines in sales, earnings or cash flows, decline in our stock price, or material adverse changes in the business climate, which would more likely than not reduce the fair value of a reporting unit below its carrying amount. The process of evaluating goodwill for impairment requires several judgments and assumptions to be made to determine the fair value of the reporting units, including the method used to determine fair value, discount rates, expected levels of cash flows, revenues and earnings, and the selection of comparable companies used to develop market based assumptions.

In the third quarter of fiscal 2009, the Company changed the timing of its annual goodwill impairment testing for its Media Services reporting unit from October 31, 2008 to August 1, 2008. This change did not delay, accelerate or avoid an impairment charge. SeaChange completed the annual impairment tests of goodwill associated with the Software, Servers and Storage and Media Services segments and determined that as of August 1, 2008 no adjustment was required to the carrying value of goodwill based on the analyses performed. However, there can be no assurance that goodwill will not become impaired in future periods.

SeaChange also evaluates property and equipment, intangible assets and other long-lived assets on a regular basis for the existence of facts or circumstances, both internal and external that may suggest an asset is not recoverable. If such circumstances exist, SeaChange evaluates the carrying value of long-lived assets to determine if impairment exists based upon estimated undiscounted future cash flows over the remaining useful life of the assets and compares that value to the carrying value of the assets. SeaChange□s cash flow estimates contain management□s best estimates, using appropriate and customary assumptions and projections at the time.

Intangible assets consist of customer contracts, completed technology, patents and trademarks and are respectively assigned to the operating segments. The intangible assets are amortized to cost of sales and operating expenses, as appropriate, on a straight-line or accelerated basis in order to reflect the period that the assets will be consumed.

SeaChange develops software for resale in markets that are subject to rapid technological change, new product development and changing customer needs. The time period during which software development costs can be capitalized from the point of reaching technological feasibility until the time of general product release is very short, and consequently, the amounts that could be capitalized are not material to the Company□s financial position or results of operations. Software development costs relating to sales of software requiring significant modification or customization are charged to costs of product revenues.

During fiscal 2008, the Company determined that purchased capitalized software licenses that were classified as Other assets on the Company□s Condensed Consolidated Balance Sheets were impaired as of July 31, 2007, resulting in a reduction to Other assets of $4.1 million and a corresponding increase to Cost of revenues on the Company□s Consolidated Statement of Operations for the year ended January 31, 2008. The Company concluded that three separate capitalized software licenses that were purchased for eventual use in current and future products of the Company were impaired based on its determination that triggering events had occurred during fiscal 2008 that warranted consideration of an impairment of long-lived assets. The Company abandoned plans to use the capitalized software licenses in any new or existing Company products during fiscal 2008. With no identified future cash flows to substantiate further capitalization of these software licenses, the Company determined these assets to be impaired during the fiscal year ended January 31, 2008.



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Amortization expense is recorded over the period of economic consumption or the life of the agreement, whichever results in the higher expense, starting with the first shipment of the product to a customer. Amortization expense was $100,000, $4.8 million, and $346,000 for the fiscal years ended January 31, 2009, 2008, and 2007, respectively. Of the $4.8 million fiscal year 2008 amortization, $4.1 million includes accelerated amortization taken in the second quarter to align the recognition of amortization expense with the remaining economic life of the purchased software.

*Accounting for Income Taxes*. As part of the process of preparing our financial statements, we are required to estimate our provision for income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. We evaluate the weight of all available evidence to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. We will record a valuation allowance if the likelihood of realization of the deferred tax assets in the future is reduced based on an evaluation of objective verifiable evidence. Significant management judgment is required in determining our income tax expense (benefit), our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. We have established a valuation allowance against our deferred tax assets due to indications that they may not be fully realized. The amount of the deferred tax asset considered realizable is subject to change based on future events, including generating sufficient pre-tax income in future periods. In the event that actual results differ from these estimates, our provision for income taxes could be materially impacted. SeaChange does not provide for U.S. federal and state income taxes on the undistributed earnings of its non-U.S. subsidiaries that are considered indefinitely reinvested in the operations outside the U.S.

*Income Tax Contingencies.* In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 supersedes SFAS No. 5, *Accounting for Contingencies*, as it relates to income tax liabilities and lowers the minimum threshold a tax position is required to meet before being recognized in the financial statements from "probable" to "more likely than not" (i.e., a likelihood of occurrence greater than fifty percent). Under FIN 48, the recognition threshold is met when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by the relevant taxing authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. Derecognition of a tax position that was previously recognized occurs when an entity subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained. FIN 48 was adopted by the Company on February 1, 2007.

*Share-based Compensation.* We account for all employee and non-employee director stock-based compensation awards using the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). We have continued to use the Black-Scholes pricing model as the most appropriate method for determining the estimated fair value of all applicable awards. Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. Management estimated the volatility based on the historical volatility of our stock. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if circumstances change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what we have recorded in the current period. The estimated fair value of SeaChange's stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the restricted stock units and Employee Stock Purchase Plan stock units are amortized on a straight line basis.

*Foreign Currency Translation.* We have determined that the functional currency of all of our foreign subsidiaries, other than ODG and its wholly-owned subsidiaries, is the U.S. dollar. Where the U.S. dollar is designated as the functional currency of an entity, we translate that entity's monetary assets and liabilities denominated in local currencies into U.S. dollars (the functional and reporting currency) at current exchange rates, as of each balance sheet date. Nonmonetary assets (e.g., inventories, property, plant, and equipment and intangible assets) and related income statement accounts (e.g., cost of sales, depreciation, amortization of intangible assets) are translated at historical exchange rates between the functional currency (the U.S. dollar) and the local currency. Revenue and other expense items are translated using average exchange rates during the fiscal period. Translation adjustments and transactions gains and losses on foreign currency transactions, and any unrealized gains and losses on short-term inter-company transactions are included in other income or expense, net.

For the ODG group where the local currency is designated as the functional currency, we translate its assets and liabilities into U.S. dollars (the reporting currency) at current exchange rates as of each balance sheet date. Revenue and expense items are translated using average exchange rates during the period. Cumulative translation adjustments are presented as a separate component of stockholders' equity. Exchange gains and losses on foreign currency transactions and unrealized gains and losses on short-term inter-company transactions are included in other income or expense, net.

The aggregate foreign exchange transaction losses included as other (expense) income, net on the Consolidated Statement of Operations were $951,000, $43,000 and $320,000 for the years ended January 31, 2009, 2008 and 2007, respectively.



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**Fiscal Year Ended January 31, 2009 Compared to the Fiscal Year Ended January 31, 2008**

The following table sets forth summarized consolidated financial information for each of the two fiscal years ended January 31, 2009 and 2008.

| | Year Ended January 31, 2009 | 2008 |
|---|---|---|
| | (in thousands) | |
| Revenues: | | |
| Products | $ 117,372 | $ 105,769 |
| Services | 84,464 | 74,124 |
| | 201,836 | 179,893 |
| Costs and expenses: | | |
| Cost of product revenues | 46,533 | 52,464 |
| Cost of service revenues | 52,007 | 46,465 |
| Research and development | 43,042 | 42,699 |
| Selling and marketing | 27,506 | 23,073 |
| General and administrative | 20,979 | 20,240 |
| Amortization of intangibles | 1,575 | 2,952 |
| Income (loss) from operations | 10,194 | (8,000) |
| Interest income, net | 2,050 | 1,927 |
| Other (expense) income, net | (925) | (43) |
| Gain on sale of investment in affiliate | - | 10,031 |
| Income before income taxes and equity income in earnings of affiliates | 11,319 | 3,915 |
| Income tax expense | (575) | (2,156) |
| Equity (loss) income in earnings of affiliates, net of tax | (770) | 1,143 |
| Net income (loss) | $ 9,974 | $ 2,902 |

**Revenues**

The following table summarizes information about the Company's reportable segments for each of the two fiscal years ended January 31, 2009 and 2008. Segment data for fiscal 2008 is presented on a basis consistent with the fiscal 2009 data and the changed reporting data segment structure.



| | Fiscal Year Ended January 31, 2009 | 2008 | % |
|---|---|---|---|
| | (in thousands, except for percentage data) | | |
| Software revenues: | | | |
| Products | $ 78,397 | $ 69,762 | 12% |
| Services | 53,840 | 43,507 | 24% |
| Total Software revenues | $ 132,237 | $ 113,269 | 17% |
| Servers and Storage revenues: | | | |
| Products | $ 38,975 | $ 36,007 | 8% |
| Services | 14,665 | 12,990 | 13% |
| Total Servers and Storage revenues | $ 53,640 | $ 48,997 | 9% |
| Media Services Revenue: | | | |
| Services | $ 15,959 | $ 17,627 | -9% |

| | | | |
|---|---|---|---|
| Total consolidated revenue: | | | |
| Products | $ 117,372 | $ 105,769 | 11% |
| Services | 84,464 | 74,124 | 14% |
| Total consolidated revenues | $ 201,836 | $ 179,893 | 12% |

*Product Revenue.* Product revenue increased 11% to $117.4 million in the fiscal year ended January 31, 2009 from $105.8 million in the fiscal year ended January 31, 2008. Product revenues from the Software segment accounted for 67% and 66% of the total product revenues in the years ended January 31, 2009 and 2008, respectively. The Servers and Storage segment accounted for 33% and 34% of total product revenues in the fiscal years ended January 31, 2009 and 2008, respectively.

*Service Revenue.* Service revenues increased 14% to $84.5 million in the fiscal year ended January 31, 2009 from $74.1 million in the fiscal year ended January 31, 2008. Services revenue for the Software segment accounted for 64% and 59% of the total services revenue in the fiscal years ended January 31, 2009 and 2008, respectively. Servers and Storage services revenue accounted for 17% and 18% of total services revenue in the fiscal year ended January 31, 2009 and 2008, respectively, while Media Services revenue accounted for 19% and 23% of total services revenue for the fiscal years ended January 31, 2009 and 2008, respectively.

For the fiscal year ended January 31, 2009, two customers each accounted for more than 10% and collectively accounted for 43% of our total revenues and these same two customers each accounted for more than 10% and collectively accounted for 45% of our total revenues for the year ended January 31, 2008. Revenues from these customers were primarily in the Software and Servers and Storage segment. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers.

International products and services revenues accounted for approximately 36% or $72.7 million and 38% or $ 68.4 million of total revenues in the fiscal years ended January 31, 2009 and 2008, respectively. We expect that international products and services revenues will remain a significant portion of our business in the future. A majority of our international sales are made in United States dollars (USD), and for the fiscal years 2009 and 2008, approximately 78% and & 74%, of international revenues were transacted in USD.

Media Services has designated the Great Britain Pound (GBP) as its functional currency. For the fiscal years 2009 and 2008, approximately 76% and 85%, respectively of the Media Services revenues were sales in GBP and 24% and 11%, respectively were made in Euros. During the third and fourth quarter of fiscal 2009, Media Services financial results were translated to USD for reporting purposes, and the depreciation of the GBP compared to the USD has impacted the amount of revenue recorded by our Media Services during fiscal 2009. We will continue to have exposure to fluctuations in the USD/GBP and Euro exchange rates on our revenue each quarter for the Media Services segment.

*Software Revenue.* Revenues from our software segment increased 17% to $132.2 million in the fiscal year ended January 31, 2009 from $113.3 million in the fiscal year ended January 31, 2008. The year over year growth was primarily due to increased software licensing revenue from shipments of Advertising Insertion, Axiom, VODlink, Media Client and our VOD hospitality software products which were partially offset by $7.9 million of lower software subscription revenues from Comcast. The 24% increase in service revenue for the Software segment was primarily due to higher Advertising and VOD product maintenance revenues from a growing installed base of products and installation revenue from the completion of several large projects during fiscal 2009.



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*Servers and Storage Revenue.* Revenues from the Server and Storage segment increased 9% to $53.6 million for the fiscal year ended January 31, 2009 from $49.0 for the fiscal year ended January 31, 2008. The increase in product revenues of 8% compared to the previous year was due primarily to higher VOD server revenue from increased shipments of our new flash servers during our fourth quarter of fiscal 2009. The 13% year over year increase in services revenue in the Servers and Storage segment is due to increased installation revenue from VOD and broadcast servers products year over year.

*Media Services Revenue.* Revenues from Media Services decreased 9% to $16.0 million in the year ended January 31, 2009 compared to the year ended January 31, 2008. The decrease in revenue was due primarily to the impact of the weakening of GBP compared to the USD during fiscal 2009 compared to the previous year. Valued at a constant USD/GBP exchange rate, ODG increased revenue year over year by 5% with two additional customers in Europe.

*Product Gross Profit.* Costs of product revenues consist primarily of the cost of purchased material components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses, and labor and overhead costs related to software development contracts. The gross profit percentage for products increased from 50% in the fiscal year ended January 31, 2008 to 60% in the fiscal year ended January 31, 2009. The increase in product gross profit percentages between years were primarily due to higher sales volume-related margin from our Advertising Insertion, Axiom, VODlink and our VOD hospitality software products. In addition, the Company recorded a charge of $4.1 million in connection with asset impairments taken during fiscal 2008 which significantly lowered our fiscal 2008 product gross margin.

*Services Gross Profit.* Cost of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support, software development, project management and costs associated with providing media services. Costs of services revenues increased from $46.5 million in the fiscal year ended January 31, 2008 to $52.0 million in the fiscal year ended January 31, 2009 while our service gross profit percentage was relatively flat year over year. The increase in the cost of service of $5.5 million was due to increased headcount-related costs to service our increased installed base of systems.

*Software Gross Profit.* Software segment gross margin was 58% and 51% in the years ended January 31, 2009 and 2008, respectively. The increase in product gross profit percentages between years is due mainly to a favorable product mix of higher margin Advertising Insertion and VOD software product revenue in the fiscal year ended January 31, 2009 compared to the fiscal year ended January 31, 2008, as well as the asset impairments taken in fiscal year 2008.

*Servers and Storage Gross Profit.* Servers and Storage segment gross margin of 46% in the years ended January 31, 2009 was six points higher than in the year ended January 31, 2008 because of increased shipment of higher margin VOD flash servers and lower manufacturing costs due to headcount and other cost reductions taken in fiscal year 2008.

*Media Services Gross Profit.* Media Services segment gross margin of 15% in the year ended January 31, 2009 was two points lower than in the year ended January 31, 2008 due principally to higher year over year higher headcount related expenses to support additional revenue.

*Research and Development.* Research and development expenses consist primarily of the compensation of development personnel, depreciation of development and test equipment and an allocation of related facilities expenses. Research and development expenses were 21% and 24% of total revenues for fiscal year ended January 31, 2009 and 2008, respectively, and increased $300,000 year over year. The increase is primarily due to higher software-related headcount and related expenses of $900,000 offset by lower contract labor of $500,000. We expect that research and development expenses will continue to increase in the fiscal year ended January 31, 2010 as we continue our development of our new products and enhancements.

*Selling and Marketing.* Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses increased 19% from $23.1 million or 13% of total revenues in the fiscal year ended January 31, 2008 to $27.5 million, or 14% of total revenues, in the fiscal year ended January 31, 2009. This increase in total expenses is primarily due to $1.9 million in increased salaries and benefits attributable to the hiring of additional sales and marketing employees, increased commissions of approximately $1.7 million due to higher revenues and distributor commissions of $900,000 offset by lower trade show expenses.

*General and Administrative.* General and administrative expenses consist primarily of the compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. In the fiscal year ended January 31, 2009, general and administrative expenses of $21.0 million, or 10% of total revenues, increased 4% from $20.2 million, or 11% of total revenues, in the fiscal year ended January 31, 2008. General and administrative expenses increased approximately $800,000 due to higher general and administrative expenses at ODG of $600,000 primarily due to higher headcount, higher bad debt expense of $400,000, offset by lower accounting fees.



*Amortization of Intangibles.* Amortization expense consists of the amortization of acquired intangible assets which are operating expenses and not considered costs of revenues. Amortization of intangible assets decreased from $3.0 million in the fiscal year ended January 31, 2008 to $1.6 million in the fiscal year ended January 31, 2009 due primarily to the sale of the Company's equity investment in FilmFlex and the related intangible assets in fiscal 2008. Amortization is also based on the future economic value of the related intangible assets which is generally higher in earlier years of the assets' lives. The table below classifies the amortization expense by its source category, sales and marketing or general and administrative expense.

| | **Year Ended January 31,** | |
|---|---|---|
| | **2009** | **2008** |
| | **(in thousands)** | |
| Sales and marketing expense | $ 1,491 | $ 2,842 |
| General and administrative expense | 84 | 110 |
| Amortization expense | $ 1,575 | $ 2,952 |

An additional $350,000 and $490,000 of amortization expense related to acquired technology was charged to cost of sales for the years ended January 31, 2009 and 2008, respectively.

*Interest Income, net*. Interest income, net was $2.1 million in the fiscal year ended January 31, 2009 and $2.0 million in the fiscal year ended January 31, 2008. The increase in interest income is primarily due to the increase in average cash balance in fiscal 2009 compared to fiscal 2008.

*Other Expense Income, net.* With the exception of ODG, and its wholly-owned subsidiaries, the U.S. Dollar is the functional currency for our international subsidiaries, therefore all foreign currency translation gains and losses are included in Consolidated Statements of Operations. The increase in foreign exchange losses was a result of the increased strength of the USD against the foreign currencies held by our subsidiaries in the second half of fiscal 2009 compared to fiscal 2008. In light of the high proportion of our international businesses, we expect the risk of any adverse movements in foreign currency exchange rates could have an impact on our translated results within the Consolidated Statements of Operations.

*Gain on Sale of Investment in Affiliate.* The gain of $10 million was the result the sale of our equity investment in FilmFlex during the fourth quarter of fiscal 2008.

*Equity Income in Earnings of Affiliates.* Equity loss in earnings of affiliates was $800,000 in the fiscal year ended January 31, 2009 compared with $1.1 million in income for fiscal year-ended January 31, 2008. The equity income (loss) in earnings of affiliates consists of our proportionate ownership share of the net income (loss) under the equity method of accounting. For fiscal year 2009, the losses consisted of our 50% ownership share in our German joint venture, On Demand Deutschland GmbH & Co. KG. For fiscal 2008 (until December 2007, when we sold FilmFlex), the equity income in earnings of affiliates consisted of our proportionate ownership share of the earnings of FilmFlex and the losses of On Demand Deutschland GmbH & Co. KG.

*Income Tax (Provision)/Benefit.* Our effective tax rate and income tax provision for fiscal 2009 was 5% and $600,000 respectively compared to an effective tax rate of 55% and $2.2 million respectively for the fiscal year ended January 31, 2008. The decrease in the effective tax rate was due to the reduction of our valuation allowance from the utilization in fiscal 2009 of a $1.4 million foreign tax credit attributable to the taxable gain from the sale of our equity investment in FilmFlex during fiscal 2008. In addition, the fiscal 2009 tax rate was also reduced for the entitlement and claim of the benefit for a refundable research and development credit of $300,000 as a result of the tax stimulus package passed by the U.S. Congress in 2008. For the fiscal year 2008, the income tax provision was primarily attributable to the taxable gains recorded for ODG's transfer of assets to and the reimbursement of previously paid costs from On Demand Deutschland GmbH & Co. KG and to the sale of our equity investment in FilmFlex.

At January 31, 2009 and 2008, we provided a valuation allowance for the full amount of net deferred tax assets due to the uncertainty of realization of those assets. We will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. If we determine that we can realize some portion or all of the net deferred tax assets, the valuation allowance would be reversed and a corresponding increase in net income would be recognized during the period.

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**Fiscal Year Ended January 31, 2008 Compared to the Fiscal Year Ended January 31, 2007**

The following table sets forth summarized consolidated financial information for each of the two fiscal years ended January 31, 2008 and 2007.

| | January 31, 2008 (in thousands) | January 31, 2007 (in thousands) |
|---|---|---|
| Revenues: | | |
| Products | $ 105,769 | $ 95,000 |
| Services | 74,124 | 66,334 |
| | 179,893 | 161,334 |
| Costs and expenses: | | |
| Cost of product revenues | 52,464 | 48,334 |
| Cost of service revenues | 46,465 | 37,189 |
| Research and development | 42,699 | 40,917 |
| Selling and marketing | 23,073 | 22,383 |
| General and administrative | 20,240 | 18,873 |
| Amortization of intangibles | 2,952 | 5,664 |
| Income (loss) from operations | (8,000) | (12,026) |
| Interest income, net | 1,927 | 1,355 |
| Other (expense) income, net | (43) | (320) |
| Impariment on investment in affiliate | - | (150) |
| Gain on sale of investment in affiliate | 10,031 | - |
| Income before income taxes and equity income in earnings of affiliates | 3,915 | (11,141) |
| Income tax expense | (2,156) | 1,632 |
| Equity (loss) income in earnings of affiliates, net of tax | 1,143 | 1,272 |
| Net income (loss) | $ 2,902 | $ (8,237) |

**Revenues**

The following table summarizes information about the Company's reportable segments for each of the two fiscal years ended January 31, 2008 and 2007. Segment data for fiscal 2008 and 2007 are presented on a basis consistent with the fiscal 2009 data and the changed reporting data segment structure.

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| | Fiscal Year Ended January 31, 2008 | Fiscal Year Ended January 31, 2007 | % |
|---|---|---|---|
| | (in thousands, except percentage data) | | |
| Software revenues: | | | |
| Products | $ 69,762 | $ 58,672 | 19% |

| | | | | | |
|---|---|---|---|---|---|
| Services | | 43,507 | | 41,714 | 4% |
| Total Software revenues | $ | 113,269 | $ | 100,386 | 13% |
| | | | | | |
| Servers and Storage revenues: | | | | | |
| Products | $ | 36,007 | $ | 36,328 | -1% |
| Services | | 12,990 | | 11,752 | 11% |
| Total Servers and Storage revenues | $ | 48,997 | $ | 48,080 | 2% |
| | | | | | |
| Media Services revenue: | | | | | |
| Services | $ | 17,627 | $ | 12,868 | 37% |
| | | | | | |
| Total consolidated revenue: | | | | | |
| Products | $ | 105,769 | $ | 95,000 | 11% |
| Services | | 74,124 | | 66,334 | 12% |
| Total consolidated revenues | $ | 179,893 | $ | 161,334 | 12% |

*Product Revenues.* Product revenues increased 11% to $105.8 million for the fiscal year ended January 31, 2008. Product revenues from the Software segment accounted for 66% and 62% of the total product revenues for fiscal year ended January 31, 2008 and 2007, respectively while the Servers and Storage segment accounted for 34% and 38% of total product revenues for fiscal year ended January 31, 2008 and 2007, respectively.

*Service Revenues.* Our Services revenues increased 12% to $74.1 million for the fiscal year ended January 31, 2008. Services revenues for the Software segment accounted for 59% and 63% of the total Services revenue for fiscal year ended January 31, 2008 and 2007, respectively. Servers and Storage services revenue accounted for 18% of total services revenues for both fiscal years ended January 31, 2008 and 2007, respectively, while Media Services revenue accounted for 24% and 19% of total services revenues for the fiscal year ended January 31, 2008 and 2007, respectively.

For the fiscal year ended January 31, 2008, two customers each accounted for more than 10% and collectively accounted for 45% of our total revenues and these same two customers each accounted for more than 10% and collectively accounted for 53% of our total revenues for the year ended January 31, 2007.

International revenues accounted for approximately 38% and 33% of total revenues in the fiscal years ended January 31, 2008 and 2007, respectively. These orders were made primarily in United States dollars except for ODG which are primarily in GBP.

*Software Revenues*. Revenues from our Software segment increased $12.9 million or 13% from the previous fiscal year. Of the $12.9 million increase year over year in software revenues, $11.1 million was due to increased products revenues and $1.8 million of services revenue. The year over year product revenue growth of $11.1 million was to due to increased advertising license revenues of $4.7 million, higher software development revenue of $4.7 million, and increased broadcast software revenue of $4.2 million offset by lower VOD software revenues. Increased Advertising product revenues of $4.7 million was driven primarily by the increased high definition advertising insertion requirements for North American-based cable, telephone and satellite customers. The increase in software development revenues of $4.7 million was derived primarily from our Comcast VOD Purchase Agreement and our Virgin Media middleware contract. The year over year increase of $4.2 million of Broadcast software revenues related primarily to significant orders from European and Asia-Pacific customers. The 4% increase in services revenue for the Software segment was primarily attributable to the year over year increase of product revenues and the related fees for training, installation, project management, product maintenance and technical support.

*Servers and Storage Revenues.* Revenues from the Servers and Storage segment for the fiscal year ended January 31, 2008 increased $900,000 or 2% compared the previous fiscal year. The year over year increase was due the higher services revenues of $1.2 million due to a larger installed base of our VOD and broadcast server products offset partially by a $300,000 decrease in server product revenue. The decrease in server product revenue was $200,000 of VOD servers and $100,000 broadcast servers compared to the previous year.

*Media Services.* Revenues from Media Services increased by 37% or $4.8 million year over year from higher content processing revenue from Virgin Media along with increased professional services revenue from new customers in Europe and Latin America.

*Product Gross Profit.* Costs of product revenues increased to $52.5 million compared to $48.3 million in the fiscal year ended January 31, 2007 resulting in product gross profit of 50% of related revenues in fiscal year 2008 compared to 49% in fiscal 2007. The increase in product gross profit percentages between years is due mainly to a significant increase in Broadcast product gross profit percentage due to increased revenue and a favorable customer mix partially offset by significant expenses incurred in the second quarter of fiscal 2008 related to impaired assets and headcount reductions.

*Services Gross Profit.* Costs of services revenues increased from $37.2 million in the fiscal year ended January 31, 2007 to $46.5 million in the fiscal year ended January 31, 2008. The decrease in service gross profit percentage to 37% from 44% was primarily due to headcount-related costs to service our increased installed base of systems, and additional headcount-related costs at ODG as it expanded its operations to Latin America and Europe.

*Software Gross Profit.* Software segment gross margin of 51% was four points lower compared to the year ended January 31, 2007. The decrease in gross margins is due mainly to costs incurred during the second quarter of fiscal 2008 related to impaired assets and headcount reductions offset partially by increases in Broadcast software margins.

*Servers and Storage Gross Profit.* Servers and Storage segment gross margin of 40% in the year ended January 31, 2008 was seven points higher than fiscal 2007 due to improvements of the margins for broadcast server revenue during fiscal year 2008 from a favorable customer mix.

*Media Services Gross Profit.* Media Services segment gross margin of 17% in the year ended January 31, 2008 was 18 points lower than fiscal year 2007 due to increased headcount-related costs as ODG expanded its operations to Latin America and Europe.

*Research and Development.* Research and development expenses increased from $40.9 million, or 25% of total revenues, in the fiscal year ended January 31, 2007 to $42.7 million, or 24% of total revenues, in the fiscal year ended January 31, 2008. The increase is primarily due to an increase in salaries and benefits of $3.5 million which includes employee severance expenses of $763,000 related to headcount reductions occurring in the second quarter of fiscal year ended January 31, 2008, higher performance based compensation, and lower absorption of engineering expenses for customer software development. The increase was offset by decreases in research and development materials cost of $827,000, a decrease in sabbatical expense of $400,000, and contract labor of $440,000.

*Selling and Marketing.* Selling and marketing expenses increased 3% from $22.4 million or 14% of total revenues in the fiscal year ended January 31, 2007 to $23.1 million, or 13% of total revenues, in the fiscal year ended January 31, 2008. Selling and marketing expenses as a percentage of revenues are relatively flat year over year. This increase in total expenses is primarily due to $940,000 in increased salaries and benefits attributable to the hiring of additional sales and marketing employees, increased commissions of approximately $1.0 million due to higher revenues offset by lower distributor commissions of $400,000 and lower tradeshow expenses of $450,000.

*General and Administrative.* In the fiscal year ended January 31, 2008, general and administrative expenses of $20.2 million, or 11% of total revenues, increased from $18.9 million, or 12% of total revenues, in the fiscal year ended January 31, 2007. General and administrative expenses as a percentage of revenues are relatively flat year over year. General and administrative expenses increased due primarily to increased headcount related expenses of $1.8 million and $1.0 million of performance-based compensation offset by lower general and administrative expenses at ODG.

*Amortization of Intangibles.* Amortization of intangible assets was $3.0 million in the fiscal year ended January 31, 2008 and $5.7 million in the fiscal year ended January 31, 2007. Amortization is based on the future economic value of the related intangible assets which is generally higher in earlier years of the assets lives. The sale of the Company s equity investment in FilmFlex and the related intangible assets also contributed to the decrease in amortization expense from the fiscal year ended January 31, 2008 compared to the year ended January 31, 2007. The table below classifies the amortization expense by its source category, sales and marketing or general and administrative expense.

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| | Year Ended January 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (in thousands) | |
| Sales and marketing expense | $ 2,842 | $ 5,446 |
| General and administrative expense | 110 | 218 |
| Amortization expense | $ 2,952 | $ 5,664 |

An additional $490,000 and $643,000 of amortization expense related to acquired technology was charged to cost of sales for the years ended January 31, 2008 and 2007, respectively.

*Interest Income, net.* Interest income was $2.0 million in the fiscal year ended January 31, 2008 and $1.4 million in the fiscal year ended January 31, 2007. The increase in interest income in comparison to the year ended January 31, 2007 is primarily due to higher prevailing interest rates on our marketable securities invested and the increase of our cash and marketable securities as a result of the sale of the Company s equity investment in FilmFlex during the fiscal year ended January 31, 2008.

*Impairment on Investment in Affiliate.* Impairment on investment in affiliate was $150,000 in the fiscal year ended January 31, 2007 due to the impairment of a small investment in an affiliate company.

*Equity Income in Earnings of Affiliates.* Equity income in earnings of affiliates was $1.1 million in the fiscal year ended January 31, 2008 compared with $1.3 million in the fiscal year-ended January 31, 2007. The equity income in earnings of affiliates consists of our proportionate ownership share of the net income (loss) under the equity method of accounting. For fiscal 2008 (until December 2007, when we sold our equity investment), the equity income in earnings of affiliates consisted of our proportionate ownership share of the earnings of FilmFlex and equity losses recognized from On Demand Deutschland GmbH & Co. KG, the German joint venture formed in February 2007 with Tele-Munchen Fernseh GmbH & Co. Produktionsgesellschaft.

*Income Tax (Provision)/Benefit.* Our effective tax rate and income tax provision for fiscal 2008 was 55% and $2.2 million respectively compared to an income tax benefit of 15% and $1.6 million respectively for the fiscal year ended January 31, 2007. For the fiscal year 2008, the income tax provision was primarily attributable to the taxable gains recorded in the first quarter of fiscal 2008 for ODG s transfer of assets to and the reimbursement of previously paid costs from On Demand Deutschland GmbH & Co. KG and to the sale of our equity investment in FilmFlex.

**Liquidity and Capital Resources**

Historically, we have financed our operations and capital expenditures primarily with the proceeds from sales of our common stock and cash flows generated from operations. During fiscal 2009, cash and marketable securities decreased by $3.6 million from $87.9 million at January 31, 2008 to $84.3 million at January 31, 2009, largely due to cash used for repurchasing our common stock, purchase of a facility in the U.K., and the acquisition of Mobix Interactive offset by cash provided by operations. Working capital increased $1.2 million to $89.5 million at January 31, 2009 from $88.3 million at January 31, 2008. We believe that existing funds combined with available borrowings under our revolving line of credit and cash provided by future operating activities are adequate to satisfy our working capital, potential acquisitions, capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 24 months.

Our operating activities provided net cash of $21.7 million. Cash provided by operating activities was the result of the net income of $10.0 million and non-cash charges of $15.8 million which was primarily from depreciation and amortization, stock-based based compensation, charges for inventory valuation and accounts receivable allowance. These amounts were offset by increases to inventory, accounts receivable deferred revenues and lower accounts payable. The increase in accounts receivable and deferred revenue was related to our annual maintenance renewals that occurred on January 1, 2009.

Our investing activities used $15.0 million primarily due to cash payments aggregating $3.2 million, net of cash acquired, for our November 19, 2008 acquisition of Mobix Interactive and related $1.5 million deposited in escrow, the purchase of our facility in the U.K. and related equipment and improvements for the new facility of $8.6 million, and other capital expenditures of $4.3 million. These amounts were offset by $2.7 million of net sales and maturities of marketable securities during the fiscal year.

Our financing activities used $3.2 million primarily due to the purchase of common stock under the share repurchase program which was partially offset by proceeds from the issuance of common stock for the exercise of employee stock options and the employee stock purchase plan.



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**Debt Instruments and Related Covenants**

On October 31, 2008, RBS Citizens (a subsidiary of the Royal Bank of Scotland Group plc) extended our $15.0 million revolving line of credit from October 31, 2008 through October 31, 2010. Loans made under this revolving line of credit bear interest at a rate per annum equal to the bank's prime rate. Borrowings under this line of credit are collateralized by substantially all of our assets. The loan agreement requires that we provide RBS Citizens with certain periodic financial reports and comply with certain financial ratios including a minimum level of earnings before interest, taxes and depreciation and amortization on a trailing twelve month basis. As of January 31, 2009, we were in compliance with the financial covenants and there were no amounts outstanding under the revolving line of credit.

**Off-Balance Sheet Arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

**Contractual Obligations**

The following table reflects our current and contingent contractual obligations to make potential future payments as of January 31, 2009 (in thousands):

| | | Payment due by period | | | |
|---|---|---|---|---|---|
| | Total | Less than one year | One to three years | Three to five years | More than five years |
| | | | (in thousands) | | |
| Purchase obligations | $ 7,814 | $ 7,814 | $ - | $ - | $ - |
| Non-cancelable lease obligations | 6,166 | 2,575 | 2,654 | 624 | 313 |
| Total | $ 13,980 | $ 10,389 | $ 2,654 | $ 624 | $ 313 |

The purchase obligations include open, non-cancelable purchase commitments from our suppliers.

The Company has excluded from the table above uncertain tax liabilities as defined in FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) due to the uncertainty of the amount and period of payment. As of January 31, 2009, the Company has gross unrecognized tax benefits of $6.3 million.

On February 27, 2007, ODG, a wholly-owned subsidiary of SeaChange, entered into an agreement with Tele-Munchen Fernseh GmbH & Co. Produktionsgesellschaft (TMG) to create a joint venture named On Demand Deutschland GmbH & Co. KG. The related Shareholders Agreement requires ODG to provide cash contributions up to $4.2 million (USD equivalent) upon the request of the joint ventures management and approval by the shareholders of the joint venture.

On June 3, 2008 ODG purchased a 9,000 square foot facility in London, UK to be used as office space for ODG personnel as well as housing content preparation activities. The Company is in the process of building out the facility and estimates it will incur costs of approximately GBP 1.6 million ($2.3 million equivalent) to complete this build out.

On November 19, 2008, ODG entered into a Share Purchase Agreement (the Share Purchase Agreement) providing for the purchase by ODG of all the outstanding capital stock (the Mobix Shares) of Mobix Interactive Limited (Mobix). Mobix is a London, England based company that provides software and content services related to the deployment of mobile video services for wireless network operators. At the closing, ODG paid the shareholders of Mobix approximately £2 million (approximately $3 million USD) in cash for the Mobix Shares, with an additional £1 million (approximately $1.5 million USD) deposited in escrow to be released on the later of May 19, 2009 and the date certain performance goals have been satisfied, with the amount of the escrow being subject to reduction should there have been a breach of the representations, warranties, covenants and agreements contained in the Share Purchase Agreement. Subsequent to fiscal 2009, on March 16, 2009 ODG released £500,000 (approximately $700,000 USD) cash from restricted to the shareholders of Mobix upon meeting its first performance goal.

In addition, under the earnout provisions in the Share Purchase Agreement, if Mobix meets certain performance goals, over the next three year period ending November 19, 2011 primarily related to the financial performance of Mobix, SeaChange will be obligated to make additional cash payments aggregating £8.3 million (approximately $12.4 million USD). The contingent consideration will be reduced or increased based upon Mobixs actual performance relative to the performance goals. Any payout of contingent consideration will be recorded as additional goodwill.



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We are occasionally required to post letters of credit, issued by a financial institution, to secure certain sales contracts. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as we have satisfied the commitment secured by the letter of credit. We are obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. We believe that it is unlikely we will be required to fund a claim under our outstanding letters of credit. As of January 31, 2009, the full amount of the letters of credit of $833,000 was supported by our credit facility.

On March 11, 2009, SeaChange Internationals Board of Directors authorized through January 31, 2010, the repurchase of up to $20.0 million of its common stock, par value $.01 per share, through a share repurchase program. As authorized by the program, shares may be purchased in the open market or through privately negotiated transactions, in a manner consistent with applicable securities laws and regulations, including pursuant to a Rule 10b5-1 plan maintained by the Company. This stock repurchase program does not obligate the Company to acquire any specific number of shares and may be suspended or discontinued at any time. All repurchases are expected to be funded from the Companys current cash and investments balances. The timing and amount of the shares to be repurchased will be based on market conditions and other factors, including price, corporate and regulatory requirements and alternative investment opportunities.

**Effects of Inflation**

Our management believes that financial results have not been significantly impacted by inflation and price changes.

**New Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (R) *Business Combinations* (“SFAS 141R”). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of the Company’s fiscal year beginning after December 15, 2008. SFAS No. 141R is effective for the Company beginning February 1, 2009. SFAS 141R will have an impact on accounting for business combinations once adopted but the effect is dependant upon acquisitions at that time.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of the Company’s fiscal year beginning after December 15, 2008. SFAS 160 is effective for the Company beginning February 1, 2009. The Company does not expect the adoption of SFAS 160 to have a material impact on its results of operations and financial position.

In March 2008, the FASB issued FASB Statement No. 161 (“SFAS 161”), *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not currently have any derivative instruments or hedging activities. The Company does not expect the adoption of SFAS 161 to have a material impact on its results of operations and financial position.

On December 12, 2007, the FASB ratified Emerging Issues Task Force (“EITF”) Issue No. 07-01, *Accounting for Collaborative Arrangements* (“EITF 07-01”). EITF 07-01 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-01 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-01 is effective for fiscal years beginning after December 15, 2008 (February 1, 2009, for the Company). Companies are required to apply EITF 07-01 using a modified version of retrospective transition for those arrangements in place at the effective date. In addition, companies are required to report the effects of the application of EITF 07-01 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date, unless it is impracticable to apply the effects of the change retrospectively. The Company is currently assessing the impact that EITF 07-01 may have on its results of operations and financial position.



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On April 25, 2008, the FASB issued FASB Staff Position (“FSP”) FAS 142-3, *Determination of the Useful Life of Intangible Assets* , which revises the factors that an entity should consider to develop renewal or extension assumptions used in determining the useful life of a recognized intangible asset. The FSP amends paragraph 11(d) of SFAS 142. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 (February 1, 2009, for the Company) and for interim periods within those fiscal years. Early adoption is prohibited. Entities should apply the FSP’s guidance in determining the useful life of an intangible asset prospectively to recognized intangible assets acquired after the FSP’s effective date. However, once effective, the FSP’s disclosure requirements apply prospectively to all recognized intangible assets, including those acquired before the FSP’s effective date. The Company is currently assessing the impact that FAS 142-3 may have on its results of operations and financial position.

**Impact of Recently Adopted Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurement* (“SFAS 157”). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. The provisions of SFAS 157, as issued, are effective for the fiscal years beginning after November 15, 2007. However, in February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2) that amended SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope. The Company adopted the required provisions of SFAS as of February 1, 2008 and had no material impact upon the Companys results of operations and financial position.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset in a Market That Is Not Active (FSP 157-3), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) managements internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP 157-3 was effective during the Companys third fiscal quarter, and had no material impact upon the Companys results of operations and financial position upon adoption.

In December 2008, the FASB issued FASB Staff Position No. FAS 140-4 and FIN46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (FSP FAS 140-4 and FIN 46(R)-8). FSP FAS 140-4 and FIN 46(R)-8 amends both FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125, and FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51, to require public entities to provide additional disclosures about transfers of financial assets and about their involvement with variable interest entities. The Company does not anticipate that the adoption of this statement in fiscal 2010 will have a material impact on its consolidated financial statement footnote disclosures. This FSP was effective for financial statements issued after December 15, 2008. Adoption of FSP 140-4 and FIN 46(R)-8 affects disclosures only and therefore, had no impact on our consolidated financial statements.

**ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk**

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Our foreign currency exchange exposure is primarily associated with product sales arrangements, European and Asian repatriation or settlement of intercompany payables and receivables among subsidiaries and its parent company, and/or investment/equity contingency considerations denominated in the local currency where the functional currency of the foreign subsidiary is the U.S. dollar. Substantially all of our international product sales are payable in United States Dollars (USD) or in the case of our ODG, and its wholly-owned subsidiaries, have operations service sales, payable in GBP, and provide a natural hedge for receipts and local payments. In light of the high proportion of our international businesses, we expect the risk of any adverse movements in foreign currency exchange rates could have an impact on our translated results within the Combined Statements of Financial Position and Operations. For the fiscal year ended January 31, 2009, the Companys ODG operations in the United Kingdom generated a foreign currency translation loss of $12.0 million which was recorded as accumulated other comprehensive loss reducing the Companys equity section of the balance sheet over the prior period.

The carrying amounts reflected in the consolidated balance sheet of cash and cash equivalents, short-term marketable securities, trade receivables and trade payables approximate fair value at January 31, 2009 due to the short maturities of these instruments. We maintain investment portfolio holdings of various issuers, types, and maturities. Our cash and marketable securities include cash equivalents, which we consider to be investments purchased with original maturities of three months or less. Given the short maturities and investment grade quality of the portfolio holdings at January 31, 2009, a sharp rise in interest rates should not have a material adverse impact on the fair value of our investment portfolio. Additionally, our long term marketable investments, have fixed interest rates, and therefore are not subject to any interest rate exposure.

**ITEM 8. Financial Statements and Supplementary Data**

See the consolidated financial statements fields as part of this Annual Report on Form 10-K as listed under Item 15 below.

**ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**ITEM 9A. Controls and Procedures**

**(A) Evaluation of Disclosure Controls and Procedures**

We evaluated the effectiveness of our disclosure controls and procedures, as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”) Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 10-K. William C. Styslinger, III, our Chief Executive Officer, and Kevin M. Bisson, our Chief Financial Officer, participated in this evaluation. Based upon that evaluation, Messrs. Styslinger and Bisson concluded that our disclosure controls and procedures were effective as of the end of the period covered by the report.

**(B) Report of Management on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of January 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment, management concluded that, as of January 31, 2009, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of January 31, 2009 has been audited by Grant Thornton LLP, our independent registered public accounting firm, as stated in their report which is included under Item 9A(D) of this Annual Report.

**(C) Changes in Internal Control over Financial Reporting**

As a result of the evaluation completed by management, and in which Messrs. Styslinger and Bisson participated, we have concluded that there were no changes during the fiscal quarter ended January 31, 2009 in our internal control over financial reporting, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**(D) Audit Report of the Registered Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of SeaChange International, Inc.

We have audited SeaChange International, Inc.s (a Delaware Corporation) internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal ControlIntegrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SeaChange International, Inc.s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Managements Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on SeaChange International, Inc.s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A companys internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A companys internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the companys assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, SeaChange International, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal ControlIntegrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of SeaChange International, Inc. as of January 31, 2009 and 2008, and the related consolidated statement of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the three years in the period ended January 31, 2009 and our report dated April 14, 2009 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Boston, Massachusetts
April 14, 2009

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**ITEM 9B. Other Information**

None.

**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance**

Information concerning the directors of SeaChange is hereby incorporated by reference from the information contained under the heading "Election of Directors" in SeaChange's definitive proxy statement related to SeaChange's Annual Meeting of Stockholders to be held on or about July 15, 2009 which will be filed with the Commission within 120 days after the close of the fiscal year (the "Definitive Proxy Statement").

Certain information concerning directors and executive officers of SeaChange is hereby incorporated by reference to the information contained under the headings "Information Concerning Executive Officers", and "Section 16(a) Beneficial Ownership Reporting Compliance", "Availability of Corporate Governance Documents" and "Audit Committee" in our Definitive Proxy Statement.

**ITEM 11. Executive Compensation**

Information concerning executive compensation is hereby incorporated by reference to the information contained under the headings "Compensation Discussion and Analysis" and "Compensation of Directors" in the Definitive Proxy Statement.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information concerning security ownership of certain beneficial owners and management is hereby incorporated by reference to the information contained under the headings "Securities Ownership of Certain Beneficial Owners and Management" and "Compensation Discussion and Analysis" in the Definitive Proxy Statement.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

Information concerning certain relationships and related transactions is hereby incorporated by reference to the information contained under the heading "Certain Relationships and Related Transactions" and "Determination of Director Independence" in the Definitive Proxy Statement.

**ITEM 14. Principal Accountant Fees and Services**

Information concerning Principal accountant fees and services is hereby incorporated by reference to the information contained under the heading "Ratification of Appointment of Independent Registered Public Accounting Firm" in the Definitive Proxy Statement.

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**PART IV**

**ITEM 15. Exhibits and Financial Statement Schedules.**

**(a)(1) INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The following Consolidated Financial Statements of the Registrant are filed as part of this Annual Report on Form 10-K:



**(a)(2) INDEX TO FINANCIAL STATEMENT SCHEDULE**

The following Financial Statement Schedule of the Registrant is filed as part of this report:



Schedules not listed above have been omitted because the information requested to be set forth therein is not applicable or is shown in the accompanying consolidated financial statements or notes thereto.

**(a)(3) INDEX TO EXHIBITS**

See attached Exhibit Index of this Annual Report on Form 10-K.

**(b) EXHIBITS**

The Company hereby files as part of this Form 10-K the Exhibits listed in Item 15 (a) (3) above. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission (the “Commission”), 450 Fifth Street, Room 1024, N.W., Washington, D.C. 20549. Copies of such material can also be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

**(c) FINANCIAL STATEMENT SCHEDULES**

The Company hereby files as part of this Form 10-K the consolidated financial statements schedule listed in Item 15 (a) (2) above, which is attached hereto.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, SeaChange International, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 14, 2009

**SEACHANGE INTERNATIONAL, INC.**

By: /s/ WILLIAM C. STYSLINGER, III
**William C. Styslinger, III**
**Chief Executive Officer,**
**Chairman of the Board and Director**

## POWER OF ATTORNEY AND SIGNATURES

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William C. Styslinger, III and Kevin M. Bisson, jointly and severally, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title(s) | Date |
|---|---|---|
| /s/ WILLIAM C. STYSLINGER, III<br>**William C. Styslinger, III** | Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer) | April 14, 2009 |
| /s/ KEVIN M. BISSON<br>**Kevin M. Bisson** | Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary (Principal Financial and Accounting Officer) | April 14, 2009 |
| /s/ MARY PALERMO COTTON<br>**Mary Palermo Cotton** | Director | April 14, 2009 |
| /s/ THOMAS F. OLSON<br>**Thomas F. Olson** | Director | April 14, 2009 |
| /s/ CARLO SALVATORI<br>**Carlo Salvatori** | Director | April 14, 2009 |
| /s/ CARMINE VONA<br>**Carmine Vona** | Director | April 14, 2009 |



## EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 2.1 | Share Purchase Agreement relating to the sale and purchase of the whole issued and to be issued share capital of Mobix Interactive Capital, dated as of November 14, 2008, by and among On Demand Group Limited and the other parties set forth on the signature pages thereto (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K previously filed November 25, 2008 with the Commission (File No. 000-21393) and incorporated herein by reference). |

| | |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.3 to the Company’s Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference). |
| 3.2 | Certificate of Amendment, filed May 25, 2000 with the Secretary of State in the State of Delaware, to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 4.1 to the Company’s Quarterly Report on 10-Q previously filed on December 15, 2000 with the Commission (Filed No. 000-21393) and incorporated herein by reference). |
| 3.3 | Amended and Restated By-laws of the Company (filed as Exhibit 3.5 to the Company’s Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference). |
| 4.1 | Specimen certificate representing the Common Stock (filed as Exhibit 4.1 to the Company’s Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference). |
| 4.2 | Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.3 to the Company’s Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference). |
| 4.3 | Certificate of Amendment, filed May 25, 2000 with the Secretary of State in the State of Delaware, to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 4.2 to the Company’s registration statement on Form S-3 previously filed on December 6, 2000 with the Commission (Filed No. 333-51386) and incorporated herein by reference). |
| 10.1 | Amended and Restated 2005 Equity Compensation and Incentive Plan (filed as Appendix A to the Company’s Proxy Statement on Schedule 14A previously filed May 25, 2007 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.2 | Form of Restricted Stock Unit Agreement pursuant to the Company’s 2005 Equity Compensation and Incentive Plan (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K previously filed December 14, 2005 with the Commission (File No. 000-21393) and incorporated herein by reference). |

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| Exhibit No. | Description |
|---|---|
| 10.3 | Form of Incentive Stock Option Agreement pursuant to the Company’s 2005 Equity Compensation and Incentive Plan (filed as Exhibit 10.3 to the Company’s Annual Report on Form 10-K previously filed on April 17, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.4 | Form of Non-Qualified Stock Option Agreement pursuant to the Company’s 2005 Equity Compensation and Incentive Plan (filed as Exhibit 10.4 to the Company’s Annual Report on Form 10-K previously filed on April 17, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.5 | Amended and Restated 1995 Stock Option Plan (filed as Annex B to the Company’s Proxy Statement on Form 14a previously filed on May 31, 2001 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.6 | Form of Incentive Stock Option Agreement pursuant to SeaChange’s Amended and Restated 1995 Stock Option Plan (filed as Exhibit 99.1 to the Company’s Current Report on Form 8-K filed on October 6, 2004 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.7 | Form of Non-Qualified Stock Option Agreement pursuant to SeaChange’s Amended and Restated 1995 Stock Option Plan (filed as Exhibit 99.2 to the Company’s Current Report on Form 8-K filed on October 6, 2004 with the Commission (File No. 000-21393) and incorporated herein by reference). |

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|---|---|
| 10.8 | Form of Lockup Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed February 1, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.9 | 1996 Non-Employee Director Stock Option Plan (filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference). |
| 10.10 | Third Amended and Restated 1996 Employee Stock Purchase Plan of the Company (filed as Appendix A to the Company's Definitive Proxy Statement filed on Schedule 14A previously filed on May 24, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.11 | Loan and Security Agreement, dated as of October 22, 2001, by and between Citizens Bank of Massachusetts and the Company (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed on December 13, 2001 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.12 | Amendment No. 1, dated as of June 14, 2002, by and between the Company and Citizen's Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and Citizen's Bank of Massachusetts (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed on September 13, 2002 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.13 | Amendment No. 2, dated as of April 21, 2003, between the Company and Citizen's Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001 by and between the Company and Citizen's Bank of Massachusetts (filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K previously filed on May 1, 2003 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.14 | Amendment No. 3, dated as of December 1, 2003, between the Company and Citizens Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001 by and between the Company and Citizens Bank of Massachusetts (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on December 15, 2003 with the Commission (File No. 000-21393) and incorporated herein by reference). |



| Exhibit No. | Description |
|---|---|
| 10.15 | Amendment No. 8, dated as of April 14, 2006, between the Company and Citizens Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and Citizens Bank of Massachusetts (filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K previously filed on April 17, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.16 | Amendment No. 12, dated as of August 17, 2007, between the Company and Citizens Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and Citizens Bank of Massachusetts (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed on April 17, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.17 | Amendment No. 14, dated as of October 31, 2008, between the Company and RBS Citizens, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and RBS Citizens (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed December 8, 2008 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.18 | License Agreement dated May 30, 1996 between Summit Software Systems, Inc. and the Company (filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and |

| | |
|---|---|
| | incorporated herein by reference). |
| 10.19 | Change-in-Control Severance Agreement, dated as of July 30, 2004, by and between the Company and Ira Goldfarb (filed as Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q filed on September 9, 2004 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.20 | Change-in-Control Severance Agreement, dated as of July 30, 2004, by and between the Company and Bruce Mann (filed as Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q filed on September 9, 2004 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.21 | Change-in-Control Severance Agreement, dated as of July 30, 2004, by and between the Company and William C. Styslinger, III (filed as Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q filed on September 9, 2004 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.22 | Change-in-Control Severance Agreement, dated as of March 13, 2006, by and between the Company and Kevin Bisson (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K previously filed March 9, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.23 | Change-In-Control Agreement, dated as of May 31, 2006, by and between the Company and Randy Banton (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K previously filed June 19, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.24 | Change-in-Control Severance Agreement, dated as of December 11, 2006, by and between SeaChange and Yvette Kanouff (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K previously filed December 14, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.25 | Change-in-Control Severance Agreement, dated as of December 11, 2006, by and between SeaChange and Steven M. Davi (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K previously filed December 14, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.26 | Amendment, dated as of December 18, 2008, to Change-in-Control Severance Agreements by and between SeaChange International, Inc. and each of Messrs. Goldfarb, Mann and Styslinger (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K previously filed December 23, 2008 with the Commission (File No. 000-1) and incorporated herein by reference). |
| 10.27 | Amendment, dated as of December 18, 2008, to Change-in-Control Severance Agreements by and between SeaChange International, Inc. and each of Messrs. Bisson and Davi and Ms. Kanouff (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K previously filed December 23, 2008 with the Commission (File No. 000-1) and incorporated herein by reference). |



| **Exhibit No.** | **Description** |
|---|---|
| 10.28 | Executive Services Agreement, dated as of September 23, 2005, by and between On Demand Management Limited and Andrew Birchall (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K previously filed September 29, 2005 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.29 | Executive Services Agreement, dated as of September 23, 2005, by and between On Demand Management Limited and Anthony Kelly (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K previously filed September 29, 2005 with the Commission (File No. 000-21393) and incorporated herein by reference). |

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|---|---|
| 10.30 | Agreement for the Purchase of Shares in FilmFlex Movies Limited, dated as of December 21, 2007, by and among On Demand Group Limited, FilmFlex Movies Limited, The Walt Disney Company Limited and Columbia Pictures Corporation Limited (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed December 31, 2007 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.31 | Share Purchase Agreement for the Sale and Purchase of 190,000 Ordinary Shares in the Share Capital of FilmFlex Movies Limited, dated as of December 21, 2007, by and between On Demand Group Limited and FilmFlex Movies Limited (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K previously filed December 31, 2007 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 21.1* | List of Subsidiaries of the Registrant. |
| 23.1* | Consent of Grant Thornton LLP. |
| 24.1 | Power of Attorney (included on signature page). |
| 31.1* | Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Provided herewith.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of SeaChange International, Inc.

We have audited the accompanying consolidated balance sheets of SeaChange International, Inc. and subsidiaries (a Delaware corporation) (collectively the "Company") as of January 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended January 31, 2009. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15 (a) (2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of SeaChange International, Inc. and subsidiaries as of January 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), SeaChange International, Inc.’s internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 14, 2009 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP
Boston, Massachusetts
April 14, 2009



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**SEACHANGE INTERNATIONAL, INC.**
**CONSOLIDATED BALANCE SHEET**
**(in thousands, except share data)**

| | January 31, 2009 | January 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 62,458 | $ 63,359 |
| Restricted cash | 1,431 | — |
| Marketable securities | 9,447 | 19,266 |
| Accounts receivable, net of allowance for doubtful accounts of $853 and $663, respectively | 41,513 | 28,376 |
| Income taxes receivable | 771 | 44 |
| Unbilled receivables | 4,595 | 7,367 |
| Inventories, net | 17,251 | 14,315 |
| Prepaid expenses and other current assets | 3,348 | 2,612 |
| Total current assets | 140,814 | 135,339 |
| Property and equipment, net | 35,217 | 28,066 |
| Marketable securities, long-term | 12,415 | 5,272 |
| Investments in affiliates | 13,043 | 12,668 |
| Intangible assets, net | 4,621 | 6,809 |
| Goodwill | 27,422 | 29,471 |
| Other assets | 451 | 271 |
| Total assets | $ 233,983 | $ 217,896 |
| **Liabilities and Stockholders’ Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 11,951 | $ 9,636 |
| Income taxes payable | 519 | 1,625 |
| Other accrued expenses | 10,592 | 17,480 |
| Customer deposits | 1,966 | 1,259 |
| Deferred revenues | 26,237 | 16,995 |
| Total current liabilities | 51,265 | 46,995 |
| Deferred revenue, long-term | 6,737 | 2,108 |
| Distribution and losses in excess of investment | 1,745 | 1,458 |
| Deferred tax liabilities and taxes payable, long-term | 2,000 | 1,933 |
| Total liabilities | 61,747 | 52,494 |
| Commitments and contingencies (Note 10) | | |
| 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; 31,822,838 and 29,944,095 shares issued; 30,949,457 and 29,904,311 shares outstanding, respectively | 318 | 299 |
| Additional paid-in capital | 206,411 | 191,627 |

| | | | | |
|---|---|---|---|---|
| Treasury stock, at cost 873,381 and 39,784 common shares , respectively | | (5,989) | | |
| Accumulated deficit | | (18,773) | | (28,747) |
| Accumulated other comprehensive (loss) income | | (9,731) | | 2,223 |
| Total stockholders equity | | 172,236 | | 165,402 |
| Total liabilities and stockholders equity | $ | 233,983 | $ | 217,896 |

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



**SEACHANGE INTERNATIONAL, INC.**
**CONSOLIDATED STATEMENT OF OPERATIONS**
**(in thousands, except per share data)**

| | Fiscal Year ended January 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Revenues: | | | |
| Products | $ 117,372 | $ 105,769 | 95,000 |
| Services | 84,464 | 74,124 | 66,334 |
| | 201,836 | 179,893 | 161,334 |
| Cost of revenues: | | | |
| Products | 46,533 | 52,464 | 48,334 |
| Services | 52,007 | 46,465 | 37,189 |
| | 98,540 | 98,929 | 85,523 |
| Gross profit | 103,296 | 80,964 | 75,811 |
| Operating expenses: | | | |
| Research and development | 43,042 | 42,699 | 40,917 |
| Selling and marketing | 27,506 | 23,073 | 22,383 |
| General and administrative | 20,979 | 20,240 | 18,873 |
| Amortization of intangibles | 1,575 | 2,952 | 5,664 |
| | 93,102 | 88,964 | 87,837 |
| Income (loss) from operations | 10,194 | (8,000) | (12,026) |
| Interest income | 2,107 | 1,981 | 1,451 |
| Interest expense | (57) | (54) | (96) |
| Other (expense) income, net | (925) | (43) | (320) |
| Impairment on investment in affiliate | - | - | (150) |
| Gain on sale of investment in affiliate | - | 10,031 | - |
| Income (loss) before income taxes and equity (loss) income in earnings of affiliates | 11,319 | 3,915 | (11,141) |
| Income tax (expense) benefit | (575) | (2,156) | 1,632 |
| Equity (loss) income in earnings of affiliates, net of tax | (770) | 1,143 | 1,272 |
| Net income (loss) | $ 9,974 | $ 2,902 | $ (8,237) |
| Earnings (loss) per Share: | | | |
| Basic income (loss) per share | $ 0.32 | $ 0.10 | $ (0.29) |
| Diluted income (loss) per share | $ 0.32 | $ 0.10 | $ (0.29) |
| Weighted average common shares outstanding: | | | |
| Basic | 30,724 | 29,634 | 28,857 |
| Diluted | 31,192 | 30,000 | 28,857 |

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

**SEACHANGE INTERNATIONAL, INC.**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY AND COMPREHENSIVE INCOME (LOSS)**
**(in thousands, except share data)**

| | Common Stock | | | | | | Treasury Stock | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Par value | Additional paid-in capital | Accumulated deficit | Deferred stock-based compensation | Accumulated other comprehensive income (loss) | Number of shares | Amount | Total Stockholders’ Equity | Compreh inco (los |
| Balance at January 31, 2006 | 28,491,714 | $ 285 | $ 177,013 | $ (22,187) | $ (775) | $ (592) | (39,784) | $ - | $ 153,744 | |
| Issuance of common stock pursuant to exercise of stock options | 266,074 | 2 | 1,587 | - | - | - | - | - | 1,589 | |
| Issuance of common stock in connection with the employee stock purchase plan | 250,082 | 2 | 1,354 | - | - | - | - | - | 1,356 | |
| Issuance of common stock pursuant to vesting of restricted stock units | 35,657 | - | - | - | - | - | - | - | - | |
| Issuance of common stock pursuant to second earnout for ODG acquisition (Note 8) | 341,360 | 4 | 2,283 | - | - | - | - | - | 2,287 | |
| Stock-based compensation expense | - | - | 3,514 | - | - | - | - | - | 3,514 | |
| Change in fair value on marketable securities, net of tax | - | - | - | - | - | 254 | - | - | 254 | $ |
| Translation adjustment | - | - | - | - | - | 1,913 | - | - | 1,913 | 1, |
| Net loss | - | - | - | (8,237) | - | - | - | - | (8,237) | (8, |
| Reversal of unearned compensation upon adoption of SFAS 123R | - | - | (775) | - | 775 | - | - | - | - | |
| Cumulative effect of adjustment based on the adoption of EITF 06-02 | - | - | - | (769) | - | - | - | - | (769) | |
| Cumulative effect of adjustment based on the adoption of FIN 48 | - | - | - | (456) | - | - | - | - | (456) | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Comprehensive loss | | | | | | | | | | $ (6, |
| Balance January 31, 2007 | 29,384,887 | 293 | 184,976 | (31,649) | - | 1,575 | (39,784) | - | 155,195 | |
| Issuance of common stock pursuant to exercise of stock options | 189,623 | 2 | 1,120 | - | - | - | - | - | 1,122 | |
| Issuance of common stock in connection with the employee stock purchase plan | 245,535 | 3 | 1,554 | - | - | - | - | - | 1,557 | |
| Issuance of common stock pursuant to vesting of restricted stock units | 124,050 | 1 | (1) | - | - | - | - | - | - | |
| Stock-based compensation expense | - | - | 3,978 | - | - | - | - | - | 3,978 | |
| Change in fair value on marketable securities, net of tax | - | - | - | - | - | 449 | - | - | 449 | $ |
| Translation adjustment | - | - | - | - | - | 199 | - | - | 199 | |
| Net income | - | - | - | 2,902 | - | - | - | - | 2,902 | 2, |
| Comprehensive income | | | | | | | | | | $ 3, |
| Balance at January 31, 2008 | 29,944,095 | 299 | 191,627 | (28,747) | - | 2,223 | (39,784) | - | 165,402 | |
| Issuance of common stock pursuant to exercise of stock options | 223,006 | 2 | 1,176 | - | - | - | - | - | 1,178 | |
| Issuance of common stock in connection with the employee stock purchase plan | 236,707 | 3 | 1,560 | - | - | - | - | - | 1,563 | |
| Issuance of common stock pursuant to vesting of restricted stock units | 287,642 | 3 | - | - | - | - | - | - | 3 | |
| Issuance of common stock pursuant to third earnout for ODG acquisition | 1,131,388 | 11 | 8,094 | - | - | - | - | - | 8,105 | |
| Stock-based compensation expense | - | - | 3,954 | - | - | - | - | - | 3,954 | |
| Purchase of treasury shares | | | | | | | (833,597) | (5,989) | (5,989) | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Change in fair value on marketable securities, net of tax | - | - | - | - | - | 23 | - | - | 23 | $ |
| Translation adjustment | - | - | - | - | - | (11,977) | - | - | (11,977) | (11, |
| Net income | - | - | - | 9,974 | - | - | - | - | 9,974 | 9, |
| Comprehensive loss | | | | | | | | | | $ (1, |
| Balance at January 31, 2009 | 31,822,838 | $ 318 | $ 206,411 | $ (18,773) | $ - | $ (9,731) | (873,381) | $ (5,989) | $ 172,236 | |

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

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**SEACHANGE INTERNATIONAL, INC.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**(in thousands)**

| | Year ended January 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| **Cash flows from operating activities:** | | | |
| Net income (loss) | $ 9,974 | $ 2,902 | $ (8,237) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 7,216 | 7,892 | 7,799 |
| Amortization of intangibles and capitalized software | 2,025 | 4,205 | 6,655 |
| Impairment of capitalized software | - | 4,056 | - |
| Inventory valuation charge | 1,085 | 2,130 | 1,057 |
| Provision for doubtful accounts receivable | 761 | 486 | 403 |
| Discounts earned and amortization of premiums on marketable securities | 22 | (14) | (1) |
| Equity loss (income) in earnings of affiliates | 770 | (1,143) | (1,273) |
| Gain on sale of investment in affiliate | - | (10,031) | - |
| Impairment on investment in affiliates | - | - | 150 |
| Stock-based compensation expense | 3,954 | 3,978 | 3,514 |
| Deferred income taxes | (124) | (1,021) | (493) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (15,524) | 54 | 1,056 |
| Unbilled receivables | 2,772 | (1,805) | (1,199) |
| Inventories | (7,509) | 2,981 | (4,652) |
| Income taxes receivable | (727) | 365 | 2,372 |
| Prepaid expenses and other assets | (781) | 182 | 1,293 |
| Accounts payable | 2,672 | (355) | (67) |
| Income taxes payable | (661) | 2,517 | (1,950) |
| Accrued expenses | 992 | 2,051 | 243 |
| Accrued litigation reserve | - | - | (7,986) |
| Customer deposits | 707 | (757) | (154) |
| Deferred revenues | 13,946 | (2,705) | 1,623 |
| Other | 92 | 104 | 335 |
| Net cash provided by operating activities | 21,662 | 16,072 | 488 |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (12,948) | (5,768) | (7,079) |
| Proceeds from sale of property and equipment | - | 468 | - |
| Purchases of marketable securities | (57,063) | (32,109) | (32,267) |
| Proceeds from sale and maturity of marketable securities | 59,740 | 32,150 | 47,692 |
| Acquisition of businesses and payment of contingent consideration, net of cash acquired | (3,204) | (154) | (3,045) |
| Capital distribution from investment in affiliate | - | 880 | - |

| | | | |
|---|---|---|---|
| Proceeds from sale of investment in affiliate | - | 18,187 | - |
| (Deposit) release of restricted cash | (1,500) | - | 500 |
| Investments in affiliates | (43) | - | - |
| Net cash (used in) provided by investing activities | (15,018) | 13,654 | 5,801 |
| **Cash flows from financing activities:** | | | |
| Purchase of treasury stock | (5,989) | - | - |
| Proceeds from issuance of common stock relating to the stock plans | 2,743 | 2,679 | 2,947 |
| Net cash (used in) provided by financing activities | (3,246) | 2,679 | 2,947 |
| Effect of exchange rates on cash | (4,299) | (225) | 349 |
| Net (decrease) increase in cash and cash equivalents | (901) | 32,180 | 9,585 |
| Cash and cash equivalents, beginning of period | 63,359 | 31,179 | 21,594 |
| Cash and cash equivalents, end of period | $ 62,458 | $ 63,359 | $ 31,179 |
| Supplemental disclosure of cash flow information: | | | |
| Income taxes paid | $ 1,267 | $ 709 | $ 1,846 |
| Interest paid | 38 | 43 | 96 |
| Supplemental disclosure of non-cash activities: | | | |
| Transfer of items originally classified as inventories to equipment | 3,488 | 1,589 | 4,167 |
| Issuance of equity for ODG contingent consideration | 8,105 | - | 2,287 |
| Conversion of accounts receivable to equity related to investment in affiliate | 332 | - | 407 |

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



**SEACHANGE INTERNATIONAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### 1. Nature of Business

SeaChange International, Inc. (SeaChange or the Company), headquartered in Acton, Massachusetts, is a leading developer, manufacturer and marketer of digital video systems and services including the aggregation, licensing, storage, management and distribution of video, television programming, and advertising content to cable system operators, telecommunications companies and broadcast television companies.

### 2. Summary of Significant Accounting Policies

Significant accounting policies followed in the preparation of the accompanying consolidated financial statements are as follows:

*Use of Estimates*

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates and judgments, including those related to revenue recognition, valuation of inventory and accounts receivable, valuation of investments and income taxes, stock-based compensation, goodwill, intangible assets and related amortization. The Company bases these estimates on historical and anticipated results and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from managements estimates.

*Principles of Consolidation*

The Company consolidates the financial statements of its wholly-owned subsidiaries and all intercompany 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* (FIN 46R), as revised under FIN 46R should be applied in the financial statements. FIN 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. The Company has concluded that it is not the primary beneficiary for any variable interest entities during the fiscal year ended January 31, 2009.

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 in earnings of affiliates in equity income (loss) in earnings of affiliates in the consolidated statement of operations.

The Company periodically review indicators of the fair value of our investments in affiliates in order to assess whether available facts or circumstances, both internally and externally, may suggest an other than temporary decline in the value of the investment. The carrying value of an investment in an affiliate may be affected by the affiliate's ability to obtain adequate funding and execute its business plans, general market conditions, industry considerations specific to the affiliate's business, and other factors. The inability of an affiliate to obtain future funding or successfully execute its business plan could adversely affect our equity earnings of the affiliate in the periods affected by those events. Future adverse changes in market conditions or poor operating results of the affiliates could result in equity losses or an inability to recover the carrying value of the investments in affiliates that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future. We record an impairment charge when we believe an investment has experienced a decline in value that is other-than-temporary.



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*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.

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 equipments 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.

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 Companys 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.

While such credit losses have historically been within our expectations and the allowances established, the Company cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. If the financial condition of our customers were to change, additional allowances may be required or established allowances may be considered unnecessary. Judgment is required in making these determinations and our failure to accurately estimate the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition and results of operations.

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.

*Concentration of Credit Risk*

Financial instruments which potentially expose SeaChange to concentrations of credit risk include cash equivalents, investments in treasury bills, certificates of deposits and commercial paper, auction rate securities, trade accounts receivable, accounts payable and accrued liabilities. The Company restricts its cash equivalents and investments in marketable securities to repurchase agreements with major banks and U.S. government and corporate securities which are subject to minimal credit and market risk. For trade accounts receivable, SeaChange evaluates customers financial condition, requires advance payments from certain of its customers and maintains reserves for potential credit losses. At January 31, 2009 and 2008, SeaChange had an allowance for doubtful accounts of $853,000 and $663,000, respectively, to provide for potential credit losses. Such losses have not exceeded managements expectations to date.



The following table summarizes revenues by significant customer where such revenue exceeded 10% of total revenues of the fiscal year.

| | **Year ended January 31,** | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Customer A | 31% | 32% | 37% |
| Customer B | 12% | 13% | 16% |

At January 31, 2009, two separate customers accounted for 27% and 14%, respectively, of SeaChange’s gross accounts receivable balance. At January 31, 2008, the same two separate customers accounted for 23% and 18%, respectively, of SeaChange’s gross accounts receivable balance.

*Cash Equivalents and Marketable Securities*

SeaChange accounts for investments in accordance with SFAS, No. 115, *Accounting for Certain Investment in Debt and Equity Securities* (“SFAS 115”). The Company determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. SeaChange’s investment portfolio consists of money market funds, corporate debt investments, asset-backed securities, government-sponsored enterprises, and state and municipal obligations. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. All cash equivalents are carried at cost, which approximates fair value. SeaChange’s marketable securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, reported in stockholders’ equity as a component of accumulated other comprehensive income or loss. The amortization of premiums and accretions of discounts to maturity are computed under the effective interest method and is included in interest income. Interest on securities is recorded as earned and is also included in interest income. Any realized gains or losses would be shown in the accompanying consolidated statements of operations in other income or expense.

The Company evaluates its investments on a regular basis to determine whether an other-than-temporary decline in fair value has occurred. This evaluation consists of a review of several factors, including, but not limited to: the length of time and extent that an investment has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; and the Company’s intent and ability to hold an investment for a period of time sufficient to allow for any anticipated recovery in fair value. Declines in value below cost for investments where it is considered probable that all contractual terms of the investment will be satisfied, is due primarily to changes in interest rates, and where the company has the intent and ability to hold the investment for a period of time sufficient to allow a market recovery, and are not assumed to be other-than-temporary. Any other-than-temporary declines in fair value are recorded in earnings and a new cost basis for the investment is established.

*Inventories and Reserves for Obsolescence*

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist primarily of components and subassemblies and finished products held for sale. All of SeaChange’s hardware components are purchased from outside vendors. The value of inventories are reviewed quarterly to determine that the carrying value is stated at the lower of cost or net realizable value. SeaChange records charges to reduce inventory to its net realizable value when impairment is identified through the quarterly review process. For inventory that has been written down to its net realizable value, the reserve is released upon sale or disposal of this inventory. The obsolescence evaluation is based upon assumptions and estimates about future demand and possible alternative uses and involves significant judgments. For the years ended January 31, 2009, 2008, and 2007, we recorded inventory write-downs of $1.0 million, $2.1 million, and $1.1 million.

*Property and Equipment*

Property and equipment consists of land and buildings, office and computer equipment, leasehold improvements, demonstration equipment, deployed assets and spare components and assemblies used to service SeaChange’s installed base.

Demonstration equipment consists of systems manufactured by SeaChange for use in marketing and selling activities. Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the respective leases using the straight-line method. Deployed assets consist of movie systems owned and manufactured by SeaChange that are installed in a hotel environment. Deployed assets are depreciated over the life of the related service agreements. Capitalized service and spare components are depreciated over the estimated useful lives using the straight-line method. Maintenance and repair costs are expensed as incurred. Significant improvements are capitalized and depreciated. Upon retirement or sale, the cost of the assets disposed of, and the related accumulated depreciation, are removed from the accounts, and any resulting gain or loss is included in the determination of net income.



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*Goodwill and Long-Lived Assets*

The Company accounts for business acquisitions in accordance with SFAS No. 141, *Business Combinations*, which requires that the purchase method of accounting be used for all business combinations. The Company determines and records the fair values of assets acquired and liabilities assumed as of the dates of acquisition. The Company recognizes the excess of the purchase price over the fair value of the net assets acquired as goodwill. At the time of acquisition, goodwill is assigned to the operating segment as the applicable reporting unit for the goodwill impairment review. Goodwill is not amortized, but is evaluated for impairment, at the reporting unit level, annually in the third fiscal quarter. Goodwill of a reporting unit also is tested for impairment on an interim basis in addition to the annual evaluation if an event occurs or circumstances change such as declines in sales, earnings or cash flows, decline in our stock price, or material adverse changes in the business climate, which would more likely than not reduce the fair value of a reporting unit below its carrying amount. The process of evaluating goodwill for impairment requires several judgments and assumptions to be made to determine the fair value of the reporting units, including the method used to determine fair value, discount rates, expected levels of cash flows, revenues and earnings, and the selection of comparable companies used to develop market based assumptions.

In the third quarter of fiscal 2009, the Company changed the timing of its annual goodwill impairment testing for its Media Services reporting unit from October 31, 2008 to August 1, 2008. This change did not delay, accelerate or avoid an impairment charge. SeaChange completed the annual impairment tests of goodwill associated with the Software, Servers and Storage and Media Services segments and determined that as of August 1, 2008 no adjustment was required to the carrying value of goodwill based on the analyses performed. However, there can be no assurance that goodwill will not become impaired in future periods.

SeaChange also evaluates property and equipment, intangible assets and other long-lived assets on a regular basis for the existence of facts or circumstances, both internal and external that may suggest an asset is not recoverable. If such circumstances exist, SeaChange evaluates the carrying value of long-lived assets to determine if impairment exists based upon estimated undiscounted future cash flows over the remaining useful life of the assets and compares that value to the carrying value of the assets. SeaChange's cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time.

Intangible assets consist of customer contracts, completed technology, patents and trademarks and are respectively assigned to the operating segments. The intangible assets are amortized to cost of sales and operating expenses, as appropriate, on a straight-line or accelerated basis in order to reflect the period that the assets will be consumed.

SeaChange develops software for resale in markets that are subject to rapid technological change, new product development and changing customer needs. The time period during which software development costs can be capitalized from the point of reaching technological feasibility until the time of general product release is very short, and consequently, the amounts that could be capitalized are not material to the Company's financial position or results of operations. Software development costs relating to sales of software requiring significant modification or customization are charged to costs of product revenues.

During fiscal 2008, the Company determined that purchased capitalized software licenses that were classified as Other assets on the Company's Condensed Consolidated Balance Sheets were impaired as of July 31, 2007, resulting in a reduction to Other assets of $4.1 million and a corresponding increase to Cost of revenues on the Company's Consolidated Statement of Operations for the year ended January 31, 2008. The Company concluded that three separate capitalized software licenses that were purchased for eventual use in current and future products of the Company were impaired based on its determination that triggering events had occurred during fiscal 2008 that warranted consideration of an impairment of long-lived assets. The Company abandoned plans to use the capitalized software licenses in any new or existing Company products during fiscal 2008. With no identified future cash flows to substantiate further capitalization of these software licenses, the Company determined these assets to be impaired during the fiscal year ended January 31, 2008.

Amortization expense is recorded over the period of economic consumption or the life of the agreement, whichever results in the higher expense, starting with the first shipment of the product to a customer. Amortization expense was $100,000, $4.8 million, and $346,000 for the fiscal years ended January 31, 2009, 2008, and 2007, respectively. Of the $4.8 million fiscal year 2008 amortization, $4.1 million includes accelerated amortization taken in the second quarter to align the recognition of amortization expense with the remaining economic life of the purchased software.



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*Income Taxes*

*Accounting for Income Taxes*. As part of the process of preparing our financial statements, we are required to estimate our provision for income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. The Company evaluates the weight of all available evidence to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The Company will record a valuation allowance if the likelihood of realization of the deferred tax assets in the future is reduced based on an evaluation of objective verifiable evidence. Significant management judgment is required in determining our income tax expense (benefit), our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. The Company has established a valuation allowance against our deferred tax assets due to indications that they may not be fully realized. The amount of the deferred tax asset considered realizable is subject to change based on future events, including generating sufficient pre-tax income in future periods. In the event that actual results differ from these estimates, our provision for income taxes could be materially impacted. SeaChange does not provide for U.S. federal and state income taxes on the undistributed earnings of its non-U.S. subsidiaries that are considered indefinitely reinvested in the operations outside the U.S.

*Income Tax Contingencies.*

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 supersedes SFAS No. 5, *Accounting for Contingencies*, as it relates to income tax liabilities and lowers the minimum threshold a tax position is required to meet before being recognized in the financial statements from “probable” to “more likely than not” (i.e., a likelihood of occurrence greater than fifty percent). Under FIN 48, the recognition threshold is met when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by the relevant taxing authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. Derecognition of a tax position that was previously recognized occurs when an entity subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained. FIN 48 was adopted by the Company on February 1, 2007.

*Share-based Compensation.*

We account for all employee and non-employee director stock-based compensation awards using the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123R”). We have continued to use the Black-Scholes pricing model as the most appropriate method for determining the estimated fair value of all applicable awards. Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. Management estimated the volatility based on the historical volatility of our stock. The assumptions used in calculating the fair value of share-based payment awards represent management’s best estimates, but these estimates involve inherent uncertainties and the application of management’s judgment. As a result, if circumstances change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what we have recorded in the current period. The estimated fair value of SeaChange's stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the restricted stock units and Employee Stock Purchase Plan stock units are amortized on a straight line basis.

*Foreign Currency Translation*

SeaChange has determined that the functional currency of all its foreign subsidiaries, other than On Demand Group Limited ("ODG") and its wholly-owned subsidiaries, is the U.S. dollar. Where the U.S. dollar is designated as the functional currency of an entity, SeaChange translates that entity's monetary assets and liabilities denominated in local currencies into U.S. dollars (the functional and reporting currency) at current exchange rates, as of each balance sheet date. Nonmonetary assets (e.g., inventories, property, plant, and equipment and intangible assets) and related income statement accounts (e.g., cost of sales, depreciation, amortization of intangible assets) are translated at historical exchange rates between the functional currency (the U.S. dollar) and the local currency. Revenue and other expense items are translated using average exchange rates during the fiscal period. Translation adjustments and transaction gains and losses on foreign currency transactions, and any unrealized gains and losses on short-term inter-company transactions are included in the accompanying consolidated statements of operations in other income or expense.



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For the ODG group where the local currency is designated as the functional currency, the Company translates its assets and liabilities into U.S. dollars (the reporting currency) at current exchange rates as of each balance sheet date. Revenue and expense items are translated using average exchange rates during the period. Cumulative translation adjustments are presented as a separate component of stockholders' equity. Exchange gains and losses on foreign currency transactions and unrealized gains and losses on short-term inter-company transactions are included in the accompanying consolidated statements of operations in other income or expense, net.

The aggregate foreign exchange transaction losses included as other (expense) income, net on the Consolidated Statement of Operations were $951,000, $43,000 and $320,000 for the years ended January 31, 2009, 2008 and 2007, respectively.

*Comprehensive Income (Loss)*

SeaChange presents accumulated other comprehensive income (loss) and total comprehensive income (loss) in the Statement of Stockholders' Equity. Total comprehensive income (loss) consists primarily of net income (loss), cumulative translation adjustments and unrealized gains and losses on marketable securities, net of income tax.

*Advertising Costs*

Advertising costs are charged to expense as incurred. Advertising costs were $340,000, $300,000 and $313,000 for the years ended January 31, 2009, 2008 and 2007, respectively.

*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 potential common stock, such as stock options, employee stock purchase plan, and restricted stock, calculated using the treasury stock method.

For the fiscal year ended January 31, 2009 and 2008 respectively, 3,699,228 and 4,673,372 of common shares issuable upon the exercise of stock options are anti-dilutive and have been excluded from the diluted earnings per share computation as the exercise prices of these common shares were above the market price of the common stock for the periods indicated. For the fiscal year ended January 31, 2007, 6,177,411 of common shares issuable upon the exercise of stock options were anti-dilutive because SeaChange recorded a net loss for the period and, therefore, have been excluded from the diluted loss per share computation.

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

| | Year ended January 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Weighted average shares used in calculating earnings (loss) per shareBasic | 30,724,301 | 29,633,660 | 28,857,381 |
| Dilutive common stock equivalents | 468,174 | 365,955 | - |
| Weighted average shares used in calculating earnings (loss) per shareDiluted | 31,192,475 | 29,999,615 | 28,857,381 |

*New Accounting Pronouncements*

In December 2007, the FASB issued SFAS No. 141 (R) *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of the Companys fiscal year beginning after December 15, 2008. SFAS No. 141R is effective for the Company beginning February 1, 2009. SFAS 141R will have an impact on accounting for business combinations once adopted but the effect is dependant upon acquisitions at that time.



In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statementsan amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of the Companys fiscal year beginning after December 15, 2008. SFAS 160 is effective for the Company beginning February 1, 2009. The Company does not expect the adoption of SFAS 160 to have a material impact on its results of operations and financial position.

In March 2008, the FASB issued FASB Statement No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entitys financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not currently have any derivative instruments or hedging activities. The Company does not expect the adoption of SFAS 161 to have a material impact on its results of operations and financial position.

On December 12, 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-01, *Accounting for Collaborative Arrangements* (EITF 07-01). EITF 07-01 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-01 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-01 is effective for fiscal years beginning after December 15, 2008 (February 1, 2009, for the Company). Companies are required to apply EITF 07-01 using a modified version of retrospective transition for those arrangements in place at the effective date. In addition, companies are required to report the effects of the application of EITF 07-01 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date, unless it is impracticable to apply the effects of the change retrospectively. The Company is currently assessing the impact that EITF 07-01 may have on its results of operations and financial position.

On April 25, 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which revises the factors that an entity should consider to develop renewal or extension assumptions used in determining the useful life of a recognized intangible asset. The FSP amends paragraph 11(d) of SFAS 142. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 (February 1, 2009, for the Company) and for interim periods within those fiscal years. Early adoption is prohibited. Entities should apply the FSPs guidance in determining the useful life of an intangible asset prospectively to recognized intangible assets acquired after the FSPs effective date. However, once effective, the FSPs disclosure requirements apply prospectively to all recognized intangible assets, including those acquired before the FSPs effective date. The Company is currently assessing the impact that FAS 142-3 may have on its results of operations and financial position.

*Impact of Recently Adopted Accounting Pronouncements*

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. The provisions of SFAS 157, as issued, are effective for the fiscal years beginning after November 15, 2007. However, in February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2) that amended SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope. The Company adopted the required provisions of SFAS as of February 1, 2008 and had no material impact upon the Companys results of operations and financial position.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset in a Market That Is Not Active (FSP 157-3), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) managements internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP 157-3 was effective during the Companys third fiscal quarter, and had no material impact upon the Companys results of operations and financial position upon adoption.



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In December 2008, the FASB issued FASB Staff Position No. FAS 140-4 and FIN46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (FSP FAS 140-4 and FIN 46(R)-8). FSP FAS 140-4 and FIN 46(R)-8 amends both FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125, and FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51, to require public entities to provide additional disclosures about transfers of financial assets and about their involvement with variable interest entities. The Company does not anticipate that the adoption of this statement in fiscal 2010 will have a material impact on its consolidated financial statement footnote disclosures. This FSP was effective for financial statements issued after December 15, 2008. Adoption of FSP 140-4 and FIN 46(R)-8 affects disclosures only and therefore, had no impact on our consolidated financial statements.

**3. Cash Equivalents and Investments**

The following is a summary of available-for-sale securities, including the cost basis, aggregate fair value and gross unrealized gains and losses, for cash equivalents, short-and long-term marketable securities portfolio as of

January 31, 2009 and 2008:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| **January 31, 2009:** | | | | |
| Cash | $ 56,953 | $ - | $ - | $ 56,953 |
| Cash equivalents | 5,505 | - | - | 5,505 |
| Cash and cash equivalents | 62,458 | - | - | 62,458 |
| US government agency issues | 9,280 | 163 | - | 9,443 |
| Corporate debt securities | 4 | - | - | 4 |
| State and municipal obligations | - | - | - | - |
| Marketable securitiesshort-term | 9,284 | 163 | - | 9,447 |
| US government agency issues | 10,117 | 275 | - | 10,392 |
| Corporate debt securities | 1,003 | 20 | - | 1,023 |
| State and municipal obligations | 1,000 | - | - | 1,000 |
| Marketable securitieslong-term | 12,120 | 295 | - | 12,415 |
| Total cash equivalents and marketable securities | $ 83,862 | $ 458 | $ - | $ 84,320 |
| **January 31, 2008:** | | | | |
| Cash | $ 61,547 | $ - | $ - | $ 61,547 |
| Cash equivalents | 1,812 | - | - | 1,812 |
| Cash and cash equivalents | 63,359 | - | - | 63,359 |
| US government agency issues | 16,004 | 233 | - | 16,237 |
| Corporate debt securities | 1,953 | 65 | - | 2,018 |
| Asset-Backed Securites | 11 | - | - | 11 |
| State and municipal obligations | 1,000 | - | - | 1,000 |
| Marketable securitiesshort-term | 18,968 | 298 | - | 19,266 |
| US government agency issues | 4,632 | 127 | - | 4,759 |
| Asset Backed Securities | 503 | 10 | - | 513 |
| Marketable securitieslong-term | 5,135 | 137 | - | 5,272 |
| Total cash equivalents and marketable securities | $ 87,462 | $ 435 | $ - | $ 87,897 |



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During the years ended January 31, 2009, 2008, and 2007, available-for-sale securities were sold for total proceeds of $8.0 million, $0, and $16.8 million, respectively. The gross realized gains on those sales during fiscal years 2009, 2008, and 2007 were $26,000, $0, and $0, respectively. The gross realized losses on those sales during fiscal years 2009, 2008, and 2007 were $0, $0, and $196,000, respectively. For purposes of determining gross realized gains and losses, the cost of securities sold is based on specific identification.

Contractual maturities of available-for-sale debt securities at January 31, 2009 are as follows (in thousands):

| | Estimated Fair Value |
|---|---|
| Maturity of one year or less | $ 9,447 |
| Maturity between one and five years | 11,415 |
| Maturity greater than five years | 1,000 |
| Total | $ 21,862 |

The Company concluded that there were no declines in investments recorded as of January 31, 2009, 2008 and 2007 and the Company does not have any investments in a gross unrealized loss position as of January 31, 2009 and 2008. The unrealized holding gains, net of tax, on available-for-sale securities in the amount of $23,000, $449,000, and $254,000 for the years ended January 31, 2009, 2008, and 2007, respectively, have been included in stockholders equity as a component of accumulated other comprehensive income or loss.

**4. Fair Value Measurements**

The Company adopted the provisions of Statement of Financial Account Standard No. 157 and FASB Staff Position FAS 157-2, *Fair Value Measurements* (SFAS 157 and FSP FAS 157-2) on February 1, 2008. The adoption of these pronouncements did not have a material effect on the Companys financial position or results of operations. Accordingly, the Company is continuing to apply Statement of Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115) for its available for sale securities with offsetting unrealized gains and losses reported in other comprehensive income or loss. Per SFAS 157, the Company is providing fair value measurement disclosures of its available for sale securities in accordance with one of three levels of fair value measurement.

SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 enables the reader of the financial statements to assess the inputs used to develop fair value measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. FSP FAS 157-2 defers the effective date of SFAS 157 until January 2009 for non-financial assets and non-financial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis. SFAS 157 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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The Companys financial assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2009 are as follows:

| | January 31, 2009 | Fair Value Measurements Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | (in thousands) | | | |
| Financial assets: | | | | |
| Available for sale marketable securities: | | | | |
| Current marketable securities | $ 9,447 | $ 9,447 | $ - | $ - |
| Non-current marketable securities | 12,415 | 11,415 | - | 1,000 |
| Total | $ 21,862 | $ 20,862 | $ - | $ 1,000 |

The Company relies on mark to market valuations to record the fair value of the Companys available for sale security assets which are measured under a Level 1 input. These assets are publicly traded equity securities for which market prices are readily observable and recorded under the guidelines of SFAS 115. At January 31, 2009, we had $9.4 million in short-term marketable securities and $12.4 million in long-term marketable securities. Of the $21.9 million in available-for-sale securities at January 31, 2009, the Company holds $1.0 million in auction rate securities ("ARS") that were intended to provide liquidity via an auction process that resets the applicable interest rate in the event there is no new investment in these securities. Due to recent uncertainty in the credit markets, this $1.0 million ARS holding in our investment portfolio has failed to settle on its respective settlement date resulting in illiquidity in this investment. Consequently, we have not been able to access these funds and do not expect to do so until a future auction of these investments is successful or a buyer is found outside the auction process. Although the maturity date of the underlying security of our ARS investment is twenty-three years, we currently have sufficient cash and cash equivalents, cash from operations and access to unused credit facilities to meet our short term liquidity requirements and do not anticipate that we will need to access our ARS investment. Accordingly, the Company has classified this investment at par value which approximates fair value.

**5. Consolidated Balance Sheet Detail**

Inventories consist of the following:

| | Year ended January 31, 2009 | 2008 |
|---|---|---|
| | (in thousands) | |
| Components and assemblies | $ 8,501 | $ 9,979 |
| Finished products | 8,750 | 4,336 |
| Total inventories, net | $ 17,251 | $ 14,315 |

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Property and equipment, net consist of the following:

| | Estimated useful life (years) | Year ended January 31, 2009 | 2008 |
|---|---|---|---|
| | | (in thousands) | |
| Land | | $ 4,165 | $ 3,063 |
| Buildings | 20 | 15,940 | 12,870 |
| Office furniture and equipment | 5 | 2,887 | 2,582 |
| Computer equipment, software and demonstration equipment | 3 | 49,688 | 45,394 |
| Deployed assets | 2-7 | 3,280 | 3,280 |
| Service and spare components | 5 | 8,296 | 7,252 |
| Leasehold improvements | 1-7 | 1,993 | 1,712 |
| Automobiles and trucks | 5 | 592 | 592 |
| Construction in progress | | 3,413 | 13 |
| | | 90,254 | 76,758 |
| Less - Accumulated depreciation and amortization | | (55,037) | (48,692) |
| Total property and equipment, net | | $ 35,217 | $ 28,066 |

Depreciation and amortization expense of fixed assets was $7.2 million, $7.9 million and $7.8 million for the years ended January 31, 2009, 2008 and 2007, respectively.

Other accrued expenses consist of the following:

| | Year ended January 31, 2009 | 2008 |
|---|---|---|
| | (in thousands) | |
| Accrued consideration payable to former shareholders in ODG | $ - | $ 8,105 |
| Accrued compensation and commissions | 5,107 | 5,149 |
| Employee benefits | 1,935 | 1,780 |
| Accrued other | 3,413 | 2,353 |
| Deferred tax liabilities | 137 | 93 |
| Total other accrued expenses | $ 10,592 | $ 17,480 |

**6. Investments in Affiliates**

SeaChange periodically reviews indicators of the fair value of its investments in affiliate companies in order to assess whether available facts or circumstances, both internally and externally, may suggest an other than temporary decline in the fair value of the investment. In fiscal year 2007, SeaChange expensed the remaining $150,000 balance of one of its investments. There were no other indications of other than temporary declines in the fair value of investments in affiliates as of January 31, 2009 and 2008, respectively. The Company's investments in affiliates under the cost method of accounting are as follows:

| | Year ended January 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (in thousands) | |
| Casa | $ 8,243 | $ 8,243 |
| Minerva | 1,000 | 1,000 |
| Insite One | 2,748 | 2,416 |
| Visible World | 552 | 509 |
| Other investments | 500 | 500 |
| Total investments in affiliates | $ 13,043 | $ 12,668 |

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*Casa Systems.* In fiscal year 2006, the Company invested $8.2 million in convertible preferred stock, representing a 19.8% ownership interest, of Casa Systems, Inc. ("Casa"), a Massachusetts development stage company that specializes in video-on-demand products within the telecommunications and television markets. The investment is represented by shares of convertible preferred stock, and the shares are convertible at SeaChange's option into shares of Casa's common stock on a one-to-one basis. The convertible preferred stock accrues dividends at the rate per annum of $0.3832 per share and the payment of the cumulative accruing dividends must be declared by the Board of Directors of Casa. SeaChange determined that Casa was a variable interest entity ("VIE") as defined by the accounting guidance of FIN 46R. However, SeaChange concluded that it is not the primary beneficiary in Casa.

Accordingly, since the Company's convertible preferred stock investment was not "in-substance" common stock, and the investment is not a SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, security, the cost method of accounting would be required to record its convertible preferred investment as long as the estimated fair value of Casa's common stock continued to be sufficient to support a determination that the convertible preferred stock was not "in-substance" common stock. Consequently, SeaChange accounts for this investment under the cost method of accounting. For fiscal 2009, 2008, and 2007, Seachange purchased $98,000, $984,000, and $1.3 million of equipment from Casa Systems.

*Minerva.* SeaChange owns 1.3 million shares of preferred stock representing 2.5% of the total capital stock of Minerva Networks, Inc. ("Minerva"), a California based company specializing in software products for the telecommunications and television markets. The preferred shares are convertible to 1.3 million shares of common stock under certain conditions as defined in the Stock Purchase Agreement. SeaChange accounts for this investment under the cost method of accounting. At the time of the investment in Minerva, SeaChange entered into a Software License Agreement with Minerva in which SeaChange agreed to purchase from Minerva a license for its iTV Manager Software and related source code for $3.8 million. The license and source code was purchased during fiscal year 2006. The Company capitalized the purchase of the license and source code and will amortize the amount over the expected life of the software license and source code. During the second quarter of fiscal 2008, the Company wrote-off the remaining unamortized portion of the capitalized purchased software licenses of $3.3 million since the Company determined it would not use iTV Manager Software in any future products.

*InSite One.* In fiscal year 2006, the Company invested $2.0 million for 5.9 million shares of 8% cumulative convertible preferred stock of InSite One, Inc. ("InSite"). In conjunction with the Stock Purchase Agreement, SeaChange and InSite entered into a Master Purchase Agreement in which InSite agreed to purchase SeaChange digital storage products and services under the terms and conditions defined in the agreement. Under the terms of this agreement and during fiscal year 2007, SeaChange recorded revenue for equipment sold to InSite. In exchange for the equipment, InSite issued a convertible note receivable to SeaChange in the amount of $407,000, with an interest rate of 9% per annum. The sale of equipment is considered substantive due to the utility of the equipment to InSite and to the customer's ability to pay for the equipment without the additional financing. During the fiscal year 2007, InSite One converted the note and accrued interest into approximately 600,000 shares of 8% cumulative convertible preferred stock as part of an effort by InSite One to refinance its capital structure. In February 2008, the Company agreed to convert the outstanding accounts receivable balance of $332,000 as of January 31, 2008 for 474,300 shares of InSite One's Series E Convertible Preferred Stock. The Company had an approximately 12% share of the total capital stock of InSite One. SeaChange accounts for this investment under the cost method of accounting. In total, for fiscal years 2009, 2008, and 2007 SeaChange recognized revenues of $164,000, $711,000, and $1.2 million, respectively, from InSite One.

*Visible World.* SeaChange owns less than 5% of the common and preferred stock of Visible World and is accounting for this investment under the cost method of accounting. In fiscal 2004, SeaChange and Visible World signed a revised Marketing Agreement in which SeaChange agreed to receive warrants to purchase 2.8 million shares of preferred stock of Visible World in lieu of future royalties that would have been earned by SeaChange relating to revenue earned by Visible World in accordance with an agreement between Visible World and Comcast Cable Corporation ("Comcast"). The warrants vested over the five year term of the agreement between Visible World and Comcast ending in the fourth quarter of fiscal year 2009. SeaChange estimated the fair value of these warrants to be $223,000 and included the amount in investments in affiliates with an offsetting amount included in deferred revenue. SeaChange recognized the deferred revenue over a five year period, the term of the agreement ending in the fourth quarter of fiscal year 2009. For fiscal years 2009, 2008, and 2007, SeaChange recognized revenues of approximately $703,000, $971,000, and $500,000 respectively, from Visible World.



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**7. Acquisitions and Dispositions**

*On Demand Group Limited*

In fiscal year 2006, SeaChange purchased the remaining 72.4% of the outstanding capital stock of the On Demand Group Limited ("ODG"), a company incorporated under the laws of the United Kingdom. As a result of this acquisition, SeaChange owned 100% of ODG and acquired a 33.3% equity investment in FilmFlex Movies Limited ("FilmFlex"), a company based in the United Kingdom. The acquisition provides SeaChange with a broader range of service offerings that complement its existing video-on-demand products and services. As a wholly-owned subsidiary, the financial position and results of operations of ODG have been consolidated subsequent to the acquisition date. Prior to the acquisition, SeaChange owned 27.6% of ODG and accounted for the investment under the equity method of accounting.

Under the terms of the purchase agreement, SeaChange acquired the outstanding shares in ODG it did not previously own in exchange for approximately $14.0 million in cash consideration, including transaction costs of $500,000. Two of the former shareholders of ODG became executive officers of SeaChange in conjunction with the acquisition. The purchase agreement provided for additional contingent consideration to the former shareholders of ODG, if ODG met certain goals. The contingent consideration was paid in cash or issued of SeaChange common stock in four installments. In May 2006, SeaChange paid $3.0 million in cash to satisfy the first installment. On June 30, 2006, SeaChange and the former shareholders of ODG amended the original purchase agreement to provide for the acceleration of the second installment of contingent consideration in exchange for the issuance of 341,360 shares of SeaChange's common stock having a fair market value of $2.3 million as of the date of the amendment. In December 2007 SeaChange and the former shareholders of ODG amended the original purchase agreement to provide the former shareholders of ODG 417,304 shares of SeaChange's common stock which was satisfied in March 2008 having a fair market value of $3.2 million as of the date of the amendment in satisfaction of the third installment. On March 13, 2008, SeaChange and the former stockholders of ODG amended the original purchase agreement to provide for the satisfaction of the final contingent payment through the issuance in March 2008 of 714,084 shares of SeaChange's common stock having a fair market value of $4.9 million, as of the date of the amendment. As of January 31, 2008 the Company recorded the third and fourth contingent consideration installments totaling $8.1 million, as additional goodwill for the step up acquisition of ODG.

*FilmFlex Movies Limited*

As a result of the ODG purchase, SeaChange acquired a 33.3% equity investment in FilmFlex Movies Limited ("FilmFlex"), a company based in the United Kingdom. FilmFlex was founded in 2004 by ODG, Columbia Pictures Corporation Limited ("Sony") and Walt Disney Company Limited ("Disney") to provide high-quality movies for use in an on-demand service. Each of the investors owned 33.3% of FilmFlex. SeaChange's original investment in

FilmFlex reflected the historical basis of ODGs recorded assets and liabilities; whereas, the additional investment in FilmFlex that resulted from the step acquisition of ODG was recorded at its estimated fair value as of the date of the acquisition of ODG. The Company determined the fair value of FilmFlex and the customer contracts based on the net present value of the expected future cash flows. The value of the customer contracts was recorded as an intangible asset with the balance of the FilmFlex fair value recorded as equity method goodwill. SeaChange accounted for this investment under the equity method of accounting. In fiscal 2005, ODG and FilmFlex executed an outsourcing services agreement in which ODG provided FilmFlex with financial planning, scheduling, marketing, production and operations support services. ODGs share of profits from this agreement in proportion to its equity ownership interest was eliminated in consolidation. SeaChanges proportionate share of Film Flexs income was reported one month in arrears. ODG recognized revenues of $2.7 million (through December 21, 2007 when the Company sold its equity investment) and $3.3 million from FilmFlex for fiscal years 2008 and 2007, respectively.

On December 21, 2007, SeaChange sold all of the shares held by ODG in FilmFlex to the two other existing shareholders in FilmFlex (Sony and Disney) and to FilmFlex. The aggregate consideration received by ODG in connection with this sale was $17.9 million in cash resulting in a gain of approximately $10.0 million. Concurrent with the FilmFlex divestiture, ODG executed a two year outsourcing services agreement in which ODG will continue to provide FilmFlex with selected planning, production and operations support services.

*On Demand Deutschland GmbH & Co. KG*

On February 27, 2007, ODG entered into an agreement with Tele-Munchen Fernseh GmbH & Co. Produktionsgesellschaft (TMG) to create a joint venture named On Demand Deutschland GmbH & Co. KG. On Demand Deutschland specializes in establishing on-demand and pay-per-view services on multiple platforms in German-speaking Europe. ODG contributed $2.8 million to acquire its 50% ownership interest in the joint venture of which $2.6 million consisted of the fair value of customer contracts and content license agreements contributed by ODG and $154,000 represented a cash contribution. The customer contracts and licensed content had no book value. SeaChange determined that this investment is an operating joint venture and does not require consolidation under the accounting guidance of FIN 46R. Consequently, SeaChange accounts for this investment under the equity method of accounting.

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ODGs original investment in the joint venture was recorded at $154,000 representing the US dollar equivalent of the initial cash contribution. The difference between the book and fair value of the customer contracts and content license agreements is being accreted over the expected five year life of the contracts and recorded as a gain and an increase in the investment. This gain will be partially offset by ODGs 50% share of the joint ventures amortization expense over the same period related to the acquired contracts and content license agreements. ODG also recorded a net payable amount to the joint venture of $337,000 as of the joint venture formation date (February 27, 2007) reflecting the transfer of net liabilities incurred by ODG related to the joint venture as well as the joint ventures reimbursement of previously incurred costs by ODG of $787,000 related to joint venture activities prior to its formation. Consistent with EITF 89-7, *Exchange of Assets or Interest in a Subsidiary for a Noncontrolling Equity Interest in a New Entity*, ODG did not record other income in connection with the reimbursement of these costs or any other gains as ODG is deemed to have a commitment to support the operations of the joint venture. ODG treated the reimbursement and other gain for a total of $832,000 as a capital distribution in excess of the carrying value of its investment in the joint venture. This capital distribution will be accreted over the expected five year life of the customer contracts and recorded as a gain and an increase in the investment in the joint venture. ODG recorded an income tax provision during fiscal 2008 of $1.1 million for the taxable gain recognized by ODG related to the $2.6 million contribution of customer contracts and content licenses to and the reimbursement of previously paid costs from the joint venture.

ODG entered into a Service Agreement with the joint venture whereby ODG provides content aggregation, distribution, marketing and administration services to the joint venture under an arms length fee structure. For the years ended January 31, 2009 and 2008, ODG recorded revenues of $1.5 million and $1.0 million, related to the Service Agreement. ODGs share of profits from this agreement in proportion to its equity ownership interest is eliminated in consolidation.

The Shareholder's Agreement requires ODG to provide cash contributions up to $4.2 million (USD equivalent) upon the request of the joint venture's management and approval by the shareholders of the joint venture. ODG recorded its proportionate share of the joint venture's losses for the fiscal years ended January 31, 2009 and 2008 of $723,000 and $490,000. Due to the capital distribution and ODG's share of the joint venture's net loss exceeding the book value of its investment in the joint venture, the investment is recorded as a long-term liability of $1.6 million and $1.3 million at January 31, 2009 and 2008, respectively.

*Mobix Interactive Limited*

On November 19, 2008, ODG, a wholly-owned subsidiary of SeaChange entered into a Share Purchase Agreement (the "Share Purchase Agreement") providing for the purchase by ODG of all the outstanding capital stock (the "Mobix Shares") of Mobix Interactive Limited ("Mobix"). Mobix is a London, England based company that provides software and content services related to the deployment of mobile video services for wireless network operators.

At the closing, ODG paid the shareholders of Mobix approximately £2 million (approximately $3 million USD) in cash for the Mobix Shares, with an additional £1 million (approximately $1.5 million USD) deposited in escrow to be released on the date certain performance goals have been satisfied or May 19,2009, with the amount of the escrow being subject to reduction should there have been a breach of the representations, warranties, covenants and agreements contained in the Share Purchase Agreement. Subsequent to fiscal 2009, on March 16, 2009, ODG released £500,000 from restricted cash (approximately $700,000 USD) to the shareholders of Mobix upon meeting its first performance goal.

In addition, under the earnout provisions in the Share Purchase Agreement, if Mobix meets certain performance goals, over the next three year period ending November 19, 2011, primarily related to the financial performance of Mobix, SeaChange will be obligated to make additional cash payments aggregating £8.3 million (approximately $12.4 million USD). The contingent consideration will be reduced or increased based upon Mobix's actual performance relative to the performance goals. Any payout of contingent consideration will be recorded as additional goodwill.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the financial position and results of operations of Mobix business have been consolidated subsequent to the acquisition date. The Company is currently undergoing a valuation of the assets and liabilities acquired and it is expected to finalize the purchase price allocation in the quarter ending April 30, 2009. The allocation of the purchase price is preliminary based on the Company's best estimates of fair values as of November 19, 2008 and is as follows, subject to the final valuation results (in thousands):

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| | | |
|---|---|---|
| Consideration: | | |
| Cash paid, net of cash acquired of $209 | $ | 2,791 |
| Transaction costs | | 413 |
| Total consideration | $ | 3,204 |
| Preliminary allocation of the purchase consideration: | | |
| Liabilities assumed | $ | (898) |
| Tangible assets acquired | | 592 |
| Goodwill | | 3,510 |
| | $ | 3,204 |

SeaChange determined that the goodwill included the value of the Mobix work force and expected synergies in global sales and marketing, especially within the European market, and in content services related to the deployment of mobile video services for wireless network operators. The goodwill generated from the acquisition is not tax deductible. The acquired assets, including goodwill, have been assigned to the Media Service operating segment.

In addition, under the earnout provisions in the Share Purchase Agreement, if Mobix meets certain performance goals over the next three year period ending November 19, 2011, primarily related to the financial performance of Mobix, SeaChange will be obligated to make additional cash payments aggregating £8.3 million (approximately $12.4 million USD). The contingent consideration will be reduced or increased based upon Mobix's actual performance relative to the performance goals. Any payout of contingent consideration will be recorded as additional goodwill.

**8. Goodwill and Intangible Assets**

At January 31, 2009 and 2008, the Company had goodwill of $27.4 million and $29.5 million, respectively. The change in the carrying amount of goodwill for the years ended January 31, 2009 and 2008 are as follows:

| | Broadband Segment | Services Segment | Software | Servers & Storage | Media Services | Total |
|---|---|---|---|---|---|---|
| | (in thousands) | | | | | |
| Balance at January 31, 2007 | $ 11,169 | $ 12,557 | $ - | $ - | $ - | $ 23,726 |
| Contingent consideration-ODG goodwill | - | 8,105 | - | - | - | $ 8,105 |
| Sale of equity investment in Filmflex | - | (2,533) | - | - | - | (2,533) |
| Cumulative translation adjustment | - | 173 | - | - | - | 173 |
| Balance at January 31, 2008 | 11,169 | 18,302 | - | - | - | 29,471 |
| Reallocation | (11,169) | (18,302) | 10,398 | 771 | 18,302 | - |
| Mobix acquisition | - | - | - | - | 3,348 | 3,348 |
| Realized deferred tax asset (Note 14) | - | - | (236) | (17) | - | (253) |
| Cumulative translation adjustment | - | - | - | - | (5,144) | (5,144) |
| Balance at January 31, 2009 | $ - | $ - | $ 10,162 | $ 754 | $ 16,506 | $ 27,422 |

The goodwill reallocation shown in the table above relates to the reorganization of the Company's reportable segments finalized in the first quarter of fiscal 2009. The goodwill formerly included in the Broadband and Services segments was allocated between the Software, Servers and Storage and Media Services segments based on a relative fair value approach using management estimates of fair value of the segments. No impairment was recorded as a result of the change in segments. As of August 1, 2008, SeaChange reviewed the recoverability of goodwill associated with its three reporting units, Software, Servers and Storage and Media Services, and determined that there was no goodwill impairment.

At January 31, 2009 and 2008, the Company had recorded net intangible assets of $4.6 million and $6.8 million respectively, consisting of customer contracts, completed technology and trademarks.



Intangible assets, net, consisted of the following:

| Intangible Assets | Customer Contracts | Completed Technology | Trademark and Other | Total |
|---|---|---|---|---|
| Balance as of January 31, 2008 | $ 14,392 | $ 3,068 | $ 1,038 | $ 18,498 |
| Cumulative translation adjustment | (447) | (201) | (90) | (738) |
| Balance as of January 31, 2009 | $ 13,945 | $ 2,867 | $ 948 | $ 17,760 |

| Accumulated Amortization | Customer Contracts | Completed Technology | Trademark and Other | Total |
|---|---|---|---|---|
| Balance as of January 31, 2008 | $ 8,461 | $ 2,415 | $ 813 | $ 11,689 |
| Current period amortization | 1,491 | 330 | 104 | 1,925 |
| Cumulative translation adjustment | (264) | (153) | (58) | (475) |
| Balance as of January 31, 2009 | $ 9,688 | $ 2,592 | $ 859 | $ 13,139 |
| Intangible Assets, net, as of January 31, 2009 | $ 4,257 | $ 275 | $ 89 | $ 4,621 |

Estimated useful lives and the amortization basis for the intangible assets are as follows:

| | Estimated Useful Life and Amortization Basis |
|---|---|
| Customer contracts | 1 - 8 years using economic consumption life basis |
| Completed technology | 4 - 6 years using economic consumption life basis |
| Trademarks and other | 5 years using economic consumption life basis |

Amortization expense for intangible assets was $2.0 million, $3.4 million and $6.3 million for the years ended January 31, 2009, 2008 and 2007, respectively. In the years ended January 31, 2009, 2008, and 2007, $450,000, $490,000 and $643,000, respectively, were charged to cost of product revenues. In the years ended January 31, 2009, 2008, and 2007, $1.6 million, $3.0 million and $5.7 million, respectively, were charged to operating expense. Amortization expense is estimated to be approximately $2.1 million in fiscal 2010, $1.3 million in fiscal 2011, $600,000 in fiscal 2012 and $600,000 in fiscal 2013.

**9. Lines of Credit**

On October 31, 2008, RBS Citizens, (a subsidiary of the Royal Bank of Scotland Group plc) extended the Company's $15.0 million revolving line of credit from October 31, 2008 through October 31, 2010. Loans made under this revolving line of credit bear interest at a rate per annum equal to the bank's prime rate. Borrowings under this line of credit are collateralized by substantially all of the Company's assets. The loan agreement requires that the Company provide RBS Citizens with certain periodic financial reports and comply with certain financial ratios including a minimum level of earnings before interest, taxes and depreciation and amortization on a trailing twelve month basis. As of January 31, 2009, the Company was in compliance with the financial covenants and there are currently no amounts outstanding under the revolving line of credit.

We are occasionally required to post letters of credit, issued by a financial institution, to secure certain sales contracts. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as we have satisfied the commitment secured by the letter of credit. We are obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. We believe that it is unlikely we will be required to fund a claim under our outstanding letters of credit. As of January 31, 2009, the full amount of the letters of credit of $833,000 was supported by our credit facility.



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**10. Commitments and Contingencies**

SeaChange leases certain of its operating facilities and certain office equipment under non-cancelable operating leases, which expire at various dates through 2015. Rental expense under operating leases was $3.7 million, $3.1 million and $1.7 million for the years ended January 31, 2009, 2008 and 2007, respectively. Future commitments under minimum lease payments as of January 31, 2009 are as follows:

| | Operating Leases (in thousands) |
|---|---|
| Fiscal Year ended January 31, 2010 | $ 2,575 |
| 2011 | 1,405 |
| 2012 | 1,249 |
| 2013 | 534 |
| 2014 | 90 |
| 2015 and beyond | 313 |
| Minimum lease payments | $ 6,166 |

SeaChange has non-cancelable purchase commitments for its inventories of approximately $7.8 million at January 31, 2009.

**Guarantees and Indemnification Obligations**

SeaChange provides indemnification, to the extent permitted by law, to its officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee, or agent is or was serving at SeaChange's request in such capacity. With respect to acquisitions, SeaChange provides indemnification to or assumes indemnification obligations for the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies' bylaws and charter. As a matter of practice, SeaChange has maintained directors' and officers' liability insurance including coverage for directors and officers of acquired companies.

SeaChange enters into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require SeaChange to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to SeaChange's products. From time to time, SeaChange also indemnifies customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of SeaChange's products and services or resulting from the acts or omissions of SeaChange, its employees, authorized agents or subcontractors. For example, SeaChange has received requests from several of its customers for indemnification of patent litigation claims asserted by Acacia Media Technologies, USA Video Technology Corporation and VTran Media Technologies. Management performed an analysis of these requests under Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* ("SFAS 5") as interpreted by FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others* ("FIN45").

SeaChange warrants that its products, including software products, will substantially perform in accordance with its standard published specifications in effect at the time of delivery. Most warranties have at least a one year duration that generally commence upon installation. In addition, SeaChange provides maintenance support to its customers and therefore allocates a portion of the product purchase price to the initial warranty period and recognizes revenue on a straight line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. When SeaChange receives revenue for extended warranties beyond the standard duration, it is deferred and recognized on a straight line basis over the contract period. Related costs are expensed as incurred.

In the ordinary course of business, SeaChange provides minimum purchase guarantees to certain of its vendors to ensure continuity of supply against the market demand. Although some of these guarantees provide penalties for cancellations and/or modifications to the purchase commitments as the market demand decreases, most of the guarantees do not. Therefore, as the market demand decreases, SeaChange re-evaluates the accounting implications of guarantees and determines what charges, if any, should be recorded.

With respect to its agreements covering product, business or entity divestitures and acquisitions, SeaChange provides certain representations and warranties and agrees to indemnify and hold such purchasers harmless against breaches of such representations, warranties and covenants. With respect to its acquisitions, SeaChange may, from time to time, assume the liability for certain events or occurrences that took place prior to the date of acquisition.



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SeaChange provides such guarantees and indemnification obligations after considering the economics of the transaction and other factors including but not limited to the liquidity and credit risk of the other party in the transaction. SeaChange believes that the likelihood is remote that any such arrangement could have a material adverse effect on its financial position, results of operation or liquidity. SeaChange records liabilities, as disclosed above, for such guarantees based on the Company's best estimate of probable losses which considers amounts recoverable under any recourse provisions.

**11. Stockholders Equity**

*Stock Authorization*

The Board of Directors is authorized to issue from time to time up to an aggregate of 5,000,000 shares of preferred stock, in one or more series. Each such series of preferred stock shall have the number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges to be determined by the Board of Directors, including dividend rights, voting rights, redemption rights and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights.

*Stock Repurchase Program*

On February 13, 2008, SeaChange Internationals Board of Directors authorized the repurchase of up to $20.0 million of its common stock, par value $0.01 per share, through a share repurchase program which expired on December 31, 2008. During fiscal 2009, 833,597 shares of our common stock had been purchased as part of this repurchase program at an average price of $7.16.

On March 11, 2009, SeaChange Internationals Board of Directors authorized the repurchase of up to $20 million of its common stock through a share repurchase program, expiring on January 31, 2010. As authorized by the program, shares will be purchased through the open market or through privately negotiated transactions, and in a manner consistent with applicable securities laws and regulations. This stock repurchase program does not obligate the Company to acquire any specific number of shares and may be suspended or discontinued at any time. All repurchases are expected to be funded from the Companys current cash and investments balances. The Company does not intend to repurchase any shares from its management team or other insiders.

*Accumulated Other Comprehensive (Loss) Income*

SeaChanges accumulated other comprehensive (loss) income is as follows:

| | Year ended January 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (in thousands) | |
| Accumulated other comprehensive (loss) income | | |
| Accumulated unrealized gain on marketable securities, net of tax | $ 458 | $ 435 |
| Accumulated foreign currency translation adjustments, net of tax | (10,189) | 1,788 |
| Total accumulated other comprehensive (loss) income, net of tax | $ (9,731) | $ 2,223 |

**12. Segment Information**

Until the end of fiscal 2008, the Company was managed and operated as three segments, Broadcast, Broadband and Services. In its first quarter of fiscal 2009, the Company realigned its previously reported segments into three new reporting segments: Software, Servers and Storage, and Media Services, as segments defined by SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*. The Company believes this reorganization better reflects the increasing importance and magnitude of its software products and services as well as the scale of its ODG subsidiary. A description of the three new reporting segments is as follows:

- Software segment includes product revenues from the Companys Advertising, VOD, Middleware and Broadcast software, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products, and operating expenses relating to the Software segment such as research and development, selling and marketing and amortization of intangibles.

- Servers and Storage segment includes product revenues from the VOD and Broadcast server product lines and related services such as professional services, installation, training, project management, product maintenance, and technical support for those products and operating expenses relating to the Servers and Storage segment, such as research and development and selling and marketing.

- Media Services segment includes the operations of ODG, including the acquisition of Mobix on November 19, 2008, activities which include content acquisition and preparation services for television and wireless network service providers and related operating expenses.

Under this revised reporting structure, the Company further determined that there are significant functions, and therefore costs, that are considered corporate expenses and are not allocated to the reportable segments for the purposes of assessing performance and making operating decisions. These unallocated costs include general and administrative expenses, other than general and administrative expenses related to ODG, interest, taxes and equity earnings in affiliates, which are managed separately at the corporate level.

The segment data for the fiscal years ended January 31, 2008 and 2007 respectively, have been recast to reflect the realignment of the new segments. Prior to fiscal 2009, services revenues, which included ODG revenues, were reported in the Services segment and the Company did not separately track these service revenues and costs by these new segments, except for ODG. Accordingly, management has made certain assumptions to determine the amount of service revenues and service costs attributed to the Software and Servers and Storage reporting segments for the fiscal years January 31, 2008 and 2007, respectively. The basis of the assumptions for all such revenues, costs and expenses includes significant judgments and estimations. There are no inter-segment revenues for the periods shown below. The Company does not separately track all assets by operating segments nor are the segments evaluated under this criterion.



The following summarizes the income (loss) from operations by reportable operating segment:

| | Year ended January 31, | | |
|---|---|---|---|
| | **2009** | **2008** (in thousands) | **2007** |
| **Software** | | | |
| Revenue: | | | |
| Products | $ 78,397 | $ 69,762 | $ 58,672 |
| Services | 53,840 | 43,507 | 41,714 |
| Total revenue | 132,237 | 113,269 | 100,386 |
| Gross profit | 76,087 | 58,238 | 55,310 |
| Operating expenses: | | | |
| Research and development | 33,373 | 31,035 | 27,904 |
| Selling and marketing | 16,417 | 13,259 | 11,565 |
| Amortization of intangibles | 1,456 | 2,146 | 3,874 |
| | 51,246 | 46,440 | 43,343 |
| **Income from operations** | $ 24,841 | $ 11,798 | $ 11,967 |
| **Servers and Storage** | | | |
| Revenue: | | | |
| Products | $ 38,975 | $ 36,007 | $ 36,328 |
| Services | 14,665 | 12,990 | 11,752 |
| Total revenue | 53,640 | 48,997 | 48,080 |
| Gross profit | 24,865 | 19,730 | 15,961 |
| Operating expenses: | | | |
| Research and development | 9,669 | 11,664 | 12,585 |
| Selling and marketing | 11,025 | 9,703 | 10,467 |
| Amortization of intangibles | - | - | 75 |
| | 20,694 | 21,367 | 23,127 |

| | | | |
|---|---|---|---|
| **Income (loss) from operations** | $ 4,171 | $ (1,637) | $ (7,166) |
| **Media Services** | | | |
| Service revenue | $ 15,959 | $ 17,627 | $ 12,868 |
| Gross profit | 2,344 | 2,996 | 4,540 |
| Operating expenses: | | | |
| Research and development | - | - | 428 |
| Selling and marketing | 64 | 111 | 351 |
| General and administrative | 3,049 | 2,449 | 4,000 |
| Amortization of intangibles | 119 | 806 | 1,715 |
| | 3,232 | 3,366 | 6,494 |
| **Loss from operations** | $ (888) | $ (370) | $ (1,954) |
| **Unallocated Corporate** | | | |
| Operating expenses: | | | |
| General and administrative | $ 17,930 | $ 17,791 | $ 14,873 |
| **Total unallocated corporate expenses** | $ 17,930 | $ 17,791 | $ 14,873 |
| **Consolidated income (loss) from operations** | $ 10,194 | $ (8,000) | $ (12,026) |

The following summarizes revenues by customers geographic locations. Certain reclassifications have been made to conform prior period amounts to current period presentation, including the reclassification of revenue originated in Canada from Latin American to North American revenue:



| | Year ended January 31, 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| | (in thousands, except percentages) | | | | | |
| Revenues by customers' geographic locations: | | | | | | |
| North America | $ 139,457 | 69% | $ 118,970 | 66% | $ 109,933 | 68% |
| Europe and Middle East | 44,059 | 22% | 40,767 | 23% | 39,659 | 25% |
| Asia Pacific and other international locations | 14,165 | 7% | 12,705 | 7% | 6,279 | 4% |
| Latin America | 4,155 | 2% | 7,451 | 4% | 5,463 | 3% |
| Total | $ 201,836 | | $ 179,893 | | $ 161,334 | |

The following summarizes fixed assets, net by geographic locations:

| | Year ended January 31, 2009 | 2008 |
|---|---|---|
| | (in thousands) | |
| Fixed assets, net | | |
| North America | $ 24,497 | $ 25,107 |
| Europe and Middle East | 7,280 | 825 |
| Asia Pacific and other international locations | 3,440 | 2,134 |
| Total | $ 35,217 | $ 28,066 |

**13. Stock-Based Compensation and Stock Incentive Plans**

Effective February 1, 2006, SeaChange adopted on a modified prospective basis the provisions of the Financial Accounting Standards Boards SFAS 123R, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock units and employee stock purchases related to SeaChanges Employee Stock Purchase Plan (ESPP) based on estimated fair values. The estimated fair value of SeaChanges stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards vesting period on a graded vesting basis, whereas the restricted stock units and Employee Stock Purchase Plan stock units are amortized on a straight line basis. SeaChange has applied the provisions of SAB No. 107, *Share-Based Payment*, (SAB 107) in its adoption of SFAS 123R. Effective January 1, 2008, the Company has applied the provisions of SAB No. 110, an amendment to SAB No. 107, which provides expressed views on the use of a simplified method, in developing an estimate of the expected term of plain vanilla share options in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* (Note 2).

Under the modified prospective transition method, SeaChange recognized stock-based compensation expense during the year ended January 31, 2007 for: (a) ESPP awards from offering periods that began on December 1, 2005, June 1, 2006 and December 1, 2006 and ended on May 31, 2006, November 30, 2006 and May 31, 2007, respectively, (b) stock options and restricted stock units granted prior to, but not yet vested as of February 1, 2006, based on the grant date fair value estimated in accordance with the disclosure provisions of SFAS No. 123, and (c) stock options and restricted stock units granted subsequent to February 1, 2006, based on the grant date fair value, estimated in accordance with the provisions of SFAS No. 123R. Under the modified prospective transition method, results for prior periods are not restated. The adoption of SFAS No. 123R did not affect the accounting for stock-based compensation expense related to restricted stock units. The fair value of a restricted stock unit is the market value of a share of the Companys common stock on the date of grant of the restricted stock unit. This fair value is amortized on a straight-line basis over the related vesting period of the restricted stock unit.

Stock-based compensation includes expense charges for all stock-based awards to employees and directors. Such awards include option grants, restricted stock unit awards, and shares expected to be purchased under an employee stock purchase plan. The estimated fair value of SeaChanges stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards vesting period on a graded vesting basis, whereas the restricted stock units and ESPP stock units are amortized on a straight line basis.

The effect of recording stock-based compensation for the years ended January 31, 2009, 2008, and 2007 was as follows:

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| | Year ended January 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (in thousands) | | |
| Stock-based compensation expense by type of award: | | | |
| Stock options | $ 304 | $ 1,060 | $ 2,179 |
| Restricted stock units | 996 | 775 | 625 |
| Performance-based restricted stock units | 2,061 | 1,557 | 248 |
| Employee stock purchase plan | 593 | 586 | 462 |
| Total stock-based compensation | $ 3,954 | $ 3,978 | $ 3,514 |

Since additional option grants and restricted stock unit awards are expected to be made each year and options and awards vest over several years, the effects of applying SFAS 123R for recording stock-based compensation for the year ended January 31, 2009 are not indicative of future amounts.

***Determining Fair Value under SFAS 123(R)***

SeaChange estimates the fair value of stock options, including rights granted under the ESPP, using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price, the expected option term, the risk-free interest rate over the options expected term, the expected annual dividend yield and the expected stock price volatility. The expected option term was determined using the simplified method for plain vanilla options as allowed by SAB No. 107, as amended by SAB No. 110. The expected stock price volatility was established using a blended volatility, which is an average of the historical volatility of SeaChanges common stock over a period of time equal to the expected term of the stock option, and the average volatility of SeaChanges common stock over the most recent one-year and two-year periods.

SeaChange used the Black-Scholes valuation model for estimating the grant date fair value of employee stock options granted using the following assumptions for the years ended January 31, 2009, 2008 and 2007, respectively:

| | Year ended January 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Expected (range in years) | 4-5 | 4-5 | 4-5 |
| Expected volatility (range) | 52%-56% | 46%-50% | 51%-58% |
| Weighted average volatility | 52% | 48% | 56% |
| Risk-free interest rate | 2.6%-2.9% | 3.2%-5.1% | 4.4%-5.1% |
| Weighted average interest rate | 2.9% | 4.6% | 4.7% |
| Expected dividend yield | 0% | 0% | 0% |

The fair value of the rights to purchase shares of common stock under the ESPP was estimated on the commencement date of the offering period using the Black-Scholes valuation model with the following assumptions:

| | Year ended January 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Expected term (in years) | 0.5 | 0.5 | 0.5 |
| Weighted average volatility | 61% | 42% | 45% |
| Weighted average interest rate | 2.8% | 4.6% | 4.6% |
| Expected dividend yield | 0% | 0% | 0% |

***Stock Option Plans***

*Amended and Restated 2005 Equity Compensation and Incentive Plan*

The Amended and Restated 2005 Equity Compensation and Incentive Plan (the 2005 Plan) provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and other non-stock option awards as determined by the plan administrator for the purchase of up to an aggregate of 2,800,000 shares of SeaChanges common stock by officers, employees, consultants and directors of SeaChange. The Company may satisfy awards upon the exercise of stock options or restricted stock units with either newly issued shares or treasury shares. The Board of Directors is responsible for administration of the 2005 Plan and determining the term of each award, award exercise price, number of shares for which each award is granted and the rate at which each award is exercisable. As of January 31, 2009, there were 2,480,483 shares available for future grant. The Company has made an undertaking not to issue an amount of awards under the 2005 Plan greater than two percent of the aggregate shares outstanding per fiscal year.



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Option awards may be granted to employees at an exercise price per share of not less than 100% of the fair market value per common share on the date of the grant (not less than 110% for an incentive stock option granted to a 10% or more stockholder). Incentive stock options may be granted only to those employees of SeaChange to the extent that the fair value of the options granted that become exercisable during any one calendar year plus previously granted incentive stock options that become exercisable in that period is less than $100,000. Restricted stock units and other equity-based non-stock option awards may be granted to any officer, employee, director or consultant at a purchase price per share as determined by SeaChanges Board of Directors. Awards granted under the 2005 Plan generally vest over three years and expire seven years from the date of the grant (five years for incentive stock options granted to holders of more than 10% of SeaChanges voting stock).

*1995 Stock Option Plan*

In July 2005, SeaChanges Board of Directors terminated the 1995 Stock Option Plan and began granting stock options under the Companys 2005 Plan. The Amended and Restated 1995 Stock Option Plan (the 1995 Stock Option Plan) provided for the grant of incentive stock options and nonqualified stock options. The Board of Directors is responsible for administration of the 1995 Stock Option Plan and determining the term of each option, option exercise price, number of shares for which each option is granted and the rate at which each option is exercisable. Options generally vest ratably over four years. SeaChange may not grant an employee incentive stock options with a fair value in excess of $100,000 that are initially exercisable during any one calendar year.

Incentive stock options may be granted to employees at an exercise price per share of not less than the fair value per common share on the date of the grant (not less than 110% of the fair value in the case of holders of more than 10% of SeaChanges voting stock). Nonqualified stock options may be granted to any officer, employee, director or consultant at an exercise price per share as determined by SeaChanges Board of Directors. Grants of stock options to the Board of Directors under SeaChanges 1995 Stock Option Plan are made pursuant to a policy under which each non-employee director receives a grant of 2,500 stock options per quarter.

Options granted under the 1995 Stock Option Plan generally expire ten years from the date of the grant (five years for incentive stock options granted to holders of more than 10% of SeaChanges voting stock).

*Director Option Plan*

In May 2002, SeaChanges Board of Directors terminated the Director Option Plan and began granting stock options to the board of directors under the Companys 1995 Stock Option Plan. In June 1996, SeaChanges Board of Directors adopted and the stockholders approved a director stock option plan (the Director Option Plan) which provided for the grant of options to full time directors of SeaChange. Under the Director Option Plan, participating directors receive an option to purchase 5,062 shares of common stock per annum. Options granted under the Director Option Plan vest as to 33% of the shares underlying the option immediately upon the date of the grant, and vest as to an additional 8% of the shares underlying the option at the end of each of the next eight quarters, provided that the option holder remains a director. Directors will also receive, on each three-year anniversary of such directors option grant date, an additional option to purchase 5,062 shares of common stock, provided that such director continues to serve on the Board of Directors. All options granted under the Director Option Plan have an exercise price equal to the fair value of the common stock on the date of grant and a term of ten years from the date of grant.

The following table summarizes the stock option activity (excluding restricted stock units) during the years ended January 31, 2009, 2008 and 2007:



| | Year ended January 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | **Shares** | **Weighted average exercise price** | **Shares** | **Weighted average exercise price** | **Shares** | **Weighted average exercise price** |
| Outstanding at beginning of period | 4,884,205 | $ 14.99 | 5,936,735 | $ 14.85 | 6,449,857 | $ 14.68 |
| Granted | 13,500 | 8.71 | 41,550 | 8.81 | 363,891 | 7.99 |
| Exercised | (223,006) | 5.29 | (189,623) | 5.91 | (264,959) | 6.11 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Forfeited/expired/cancelled | (446,462) | 15.51 | (904,457) | 15.65 | (612,054) | 15.27 |
| Outstanding at end of period | 4,228,237 | $ 15.43 | 4,884,205 | $ 14.99 | 5,936,735 | $ 14.85 |
| Options exercisable at end of period | 4,169,492 | $ 15.53 | 4,577,138 | $ 15.49 | 5,169,736 | $ 15.94 |
| Weighted average remaining contractual term (in years) | | 4.06 | | 4.78 | | 5.79 |

The weighted-average fair valuation at grant date of stock options granted during the years ended January 31, 2009, 2008 and 2007, was $3.52, $3.89 and $4.10, respectively. As of January 31, 2009, the unrecognized stock-based compensation related to the unvested stock options was $61,000 net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for any future changes in estimated changes in forfeitures. This cost will be recognized over an estimated weighted average amortization period of seven months.

The total intrinsic value of options exercised during the years ended January 31, 2009, 2008 and 2007 was approximately $576,000, $299,000 and $731,000, respectively, with intrinsic value defined as the difference between the market price on the date of exercise and the grant date price.

The cash received from employees as a result of employee stock options exercises during fiscal years 2009, 2008, and 2007 was $1.2 million, $1.1 million, and $1.6 million, respectively.

The following table summarizes information about employee and director stock options outstanding and exercisable as of January 31, 2009:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | Number outstanding | Weighted average remaining contractual terms (years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| $ 5.17 to 6.88 | 604,538 | 3.74 | $ 6.53 | 594,872 | $ 6.53 |
| 6.93 to 8.38 | 426,845 | 3.95 | 7.38 | 400,578 | 7.35 |
| 8.42 to 10.75 | 429,099 | 4.14 | 10.12 | 406,287 | 10.18 |
| 11.00 to 13.76 | 718,379 | 4.30 | 13.09 | 718,379 | 13.09 |
| 14.12 to 15.59 | 437,855 | 4.28 | 15.02 | 437,855 | 15.02 |
| 15.62 to 17.39 | 451,973 | 4.18 | 16.55 | 451,973 | 16.55 |
| 17.56 to 22.00 | 123,262 | 4.30 | 19.20 | 123,262 | 19.20 |
| 23.31 to 23.31 | 478,806 | 3.71 | 23.31 | 478,806 | 23.31 |
| 24.10 to 34.00 | 503,930 | 4.21 | 29.39 | 503,930 | 29.39 |
| 35.50 to 39.13 | 53,550 | 4.43 | 37.35 | 53,550 | 37.35 |
| | 4,228,237 | 4.08 | $ 15.43 | 4,169,492 | $ 15.53 |

***Restricted Stock Units***

Pursuant to the 2005 Plan, SeaChange may grant restricted stock units that entitle the recipient to acquire shares of SeaChange's common stock. Awards of restricted stock units vest in equal increments on each of the first three anniversaries of the grant of the award. Stock-based compensation expense associated with the restricted stock units is charged for the market value of the Company's stock on the date of grant, assuming nominal forfeitures, and is amortized over the awards' vesting period on a straight-line basis for awards with only a service condition and graded vesting basis for awards that include both a performance and service condition. The Company recorded non-performance based restricted stock unit compensation expense of $996,000, $775,000, $625,000 for the years ended January 31, 2009, 2008 and 2007, respectively. Performance-based restricted stock unit compensation of $2.1 million, $1.6 million and $248,000 was recorded during fiscal 2009, 2008 and 2007, respectively. As of January 31, 2009, 2008 and 2007, $861,000, $1.1 million and $248,000 was accrued for restricted stock units earned by the Company's senior executives, respectively. In fiscal 2009, 381,814 shares were issued under the fiscal 2008 performance based plans. Awards of restricted stock units related to the fiscal year 2009 performance based plan will be made in fiscal year 2010.



The following table summarizes the restricted stock unit activity as of and for the years ended January 31, 2009, 2008 and 2007:

| | Year ended January 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2006 | |
| | Shares | Weighted average grant date fair value | Shares | Weighted average grant date fair value | Shares | Weight averag grant date fair val |
| Nonvested at beginning of period | 230,508 | $ 8.99 | 240,676 | $ 8.61 | 102,000 | $ 8. |
| Awarded | 519,814 | 7.30 | 129,214 | 8.27 | 181,000 | 8. |
| Vested | (287,648) | 6.40 | (124,050) | 7.70 | (35,657) | 8. |
| Forfeited/expired/cancelled | (4,000) | 6.93 | (15,332) | 7.32 | (6,667) | 8. |
| Nonvested at end of period | 458,674 | $ 8.72 | 230,508 | $ 8.99 | 240,676 | $ 8. |

As of January 31, 2009, 2008 and 2007, the unrecognized stock-based compensation related to the unvested restricted stock units was $1.5 million, $1.2 million, and $1.7 million respectively. This cost will be recognized over an estimated weighted average amortization period of 1.8.

***Employee Stock Purchase Plan***

In September 1996, SeaChange's Board of Directors adopted and the stockholders approved an employee stock purchase plan (the "ESPP"), effective January 1, 1997 as amended July 16, 2008, which provides for the issuance of a maximum of 2.2 million shares of common stock to participating employees who meet eligibility requirements. Employees who would immediately after the purchase own 5% or more of the total combined voting power or value of SeaChange's stock and directors who are not employees of SeaChange may not participate in the ESPP. The purchase price of the stock is 85% of the lesser of the average market price of the common stock on the first or last business day of each six-month plan period. In the most recent period under the ESPP ended November 30, 2008, employees purchased an aggregate of 115,872 shares at a discounted price of $6.63 per share. During the fiscal years ended January 31, 2009, 2008 and 2007, 236,707, 236,553 and 250,082 shares of common stock, respectively, were issued under the Stock Purchase Plan. The cash received from employees as a result of the ESPP during fiscal 2009, 2008 and 2007 was $1.6 million, $1.6 million, and $1.4 million, respectively. As of January 31, 2009, there were 488,444 shares available for future grant.

**14. Income Taxes**

The components of income (loss) before income taxes are as follows:

| | Year ended January 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | | (in thousands) | |
| Domestic | $ 2,840 | $ (13,191) | $ (11,454) |
| Foreign | 8,479 | 17,106 | 313 |
| | $ 11,319 | $ 3,915 | $ (11,141) |

The components of the income tax (expense) benefit are as follows:

| | Year ended January 31, 2009 | 2008 (in thousands) | 2007 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 296 | $ (192) | $ 1,188 |
| State | (80) | - | - |
| Foreign | (915) | (2,985) | (49) |
| | (699) | (3,177) | 1,139 |
| Deferred: | | | |
| Foreign | 124 | 1,021 | 493 |
| | $ (575) | $ (2,156) | $ 1,632 |

The income tax (expense) benefit computed using the federal statutory income tax rate differs from SeaChange□s effective tax rate primarily due to the following:

| | Year ended January 31, 2009 | 2008 (in thousands) | 2007 |
|---|---|---|---|
| Statutory U.S. federal tax rate | $ (3,962) | $ (1,370) | $ 3,899 |
| State taxes, net of federal tax benefit | 52 | 147 | 557 |
| Change in valuation allowance on U.S. net deferred tax assets | 527 | 1,620 | (3,869) |
| Non-deductible stock compensation expense | (255) | (465) | (996) |
| Other | (35) | 82 | 314 |
| Gain on transfer of intangible assets | - | (1,055) | - |
| Gain on sale of FilmFlex | - | (4,008) | - |
| Current year impact of FIN 48 | (529) | (638) | - |
| Research and development tax credits | 650 | 695 | 1,080 |
| Foreign tax rate differential | 2,977 | 2,836 | 647 |
| | $ (575) | $ (2,156) | $ 1,632 |

Excluded in the research and development tax credits are approximately $324,000 related to research and development tax credit resulting from exercise of employee stock options, the tax benefit of which when recognized, will be accounted for as a credit to additional paid in capital rather than a reduction in income tax.

SeaChange□s effective tax rate was 5%, 55%, and (15%) in the years ended January 31, 2009, 2008 and 2007, respectively. The tax rate for the fiscal year 2009 was primarily driven by the utilization of $1.4 million of foreign tax credits attributable to the taxable gain from the sale of our equity investment in Filmflex in fiscal 2008.

For the fiscal year 2008, the income tax provision was primarily attributable to the $1.1 million taxable gains recorded in the first quarter of fiscal 2008 for the ODG□s U.K. operation related to the transfer of assets to and the reimbursement of previously paid costs from On Demand Deutschland GmbH & Co. KG, the German joint venture formed in February 2007 with Tele-Munchen Fernseh GmbH & Co. Produktionsgesellschaft and to the gain on the sale of the Company□s investment in FilmFlex during fiscal 2008 for $4.0 million.



The components of deferred income taxes are as follows:

| | Year ended January 31, 2009 | 2008 (in thousands) |
|---|---|---|
| Deferred tax assets: | | |
| Inventories | $ 2,202 | $ 2,194 |

| | | |
|---|---|---|
| Deferred revenue | 1,188 | 1,189 |
| Accrued expenses | 1,093 | 809 |
| Capitalized intangible costs | 1,228 | 1,448 |
| Stock-based compensation expense | 1,787 | 1,034 |
| Various tax credit carryforwardsfederal and state | 3,868 | 4,857 |
| Net operating loss carryforwards | 4,332 | 2,004 |
| Other | 673 | 767 |
| Deferred tax assets | 16,371 | 14,302 |
| Less: Valuation allowance | (15,692) | (13,319) |
| Net deferred tax assets | 679 | 983 |
| Deferred tax liabilities: | | |
| Property and equipment | (486) | (822) |
| Intangible assets | (168) | (320) |
| Other | (146) | (153) |
| Deferred tax liabilities | (800) | (1,295) |
| Total net deferred tax liabilities | $ (121) | $ (312) |

At January 31, 2009, SeaChange had federal, state and foreign net operating loss carryforwards of $1.8 million, $29.1 million and $9.2 million respectively, which can be used to offset future tax liabilities and expire at various dates beginning in fiscal 2016. Utilization of these net operating loss carryforwards may be limited pursuant to provisions of the respective local jurisdiction. At January 31, 2009, SeaChange had federal and state research and development credit carryforwards of $2.6 million and $913,000, respectively and state investment tax credit carryforwards of $284,000. The federal credit carryforwards will expire at various dates beginning in fiscal 2011 if not utilized. Certain state credit carryforwards will expire at various dates beginning in fiscal 2011, while certain other state credit carryforwards may be carried forward indefinitely. Utilization of these credit carryforwards may be limited pursuant to provisions of the respective local jurisdiction. SeaChange also has alternative minimum tax credit carryforwards of $558,000 which is available to reduce future federal regular income taxes over an indefinite period.

SeaChange reviews quarterly the adequacy of the valuation allowance for deferred tax assets. The Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets and has established a full valuation allowance of approximately $15.7 million for such assets, which are comprised principally of net operating loss carryforwards, research and development credits, inventory and stock based compensation. If SeaChange continues to generate pre-tax income in the future, some portion or all of the valuation allowance could be reversed and a corresponding increase in net income would be reported in future periods. The Company recorded an increase to deferred tax assets of approximately $2.0 million due to the acquisition of Mobix in November 2008 and the assumption of its net operating loss carryforwards. However this increase was entirely offset by a corollary increase to the valuation allowance resulting in no impact to the net deferred tax balances. In addition, the Company utilized during fiscal 2009 foreign net operating loss carryforwards from our acquisition of IPC Interactive Pte. Ltd (IPC) in 1997, resulting in the reduction of the remaining IPC goodwill balance of $253,000. These deferred tax assets were carried with a 100% valuation allowance since the acquisition; therefore, the tax benefit associated with IPCs net operating loss carryforwards was not recorded until the Company utilized them. The $191,000 decrease in the net deferred tax liabilities was due to the difference in the accounting for ODG intangible assets. The net deferred tax liabilities cannot be offset against the Companys deferred tax assets under U.S. generally accepted accounting principles since they relate to indefinite-lived assets and are not anticipated to reverse in the same period.

At January 31, 2009, the Company has indefinitely reinvested $29.9 million of the cumulative undistributed earnings of certain foreign subsidiaries. Approximately $19.6 million of such earnings would be subject to U.S. taxes if repatriated to the U.S. Through January 31, 2009, the Company has not provided deferred income taxes on the undistributed earnings of its foreign subsidiaries because such earnings are considered to be indefinitely reinvested outside the U.S. Non-US income taxes are, however, provided on those foreign subsidiaries undistributed earnings. Determination of the potential deferred income tax liability on these undistributed earnings in not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

The Company adopted FIN 48 on February 1, 2007, at which time differences between the amounts recognized in the financial statements prior to the adoption of FIN 48 and the amounts recognized after adoption were accounted for as a cumulative effect adjustment recorded to the beginning balance of retained earnings. As a result of this implementation, the Company recognized a $456,000 increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings in fiscal 2008. As of February 1, 2007, the Company had $5.0 million of total gross unrecognized tax benefits (before consideration of any valuation allowance). Of this total, $1.0 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

For the year ended January 31, 2009, the Company recognized an additional tax expense for unrecognized tax benefits of $834,000. None of the amounts included in the balance of unrecognized tax benefits at January 31, 2009 of $2.2 million are related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months.

The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense. A reconciliation of the beginning and ending balance of the total amounts of gross unrecognized tax benefits, excluding interest of $422,000 is as follows (in thousands):

| | Year ended January 31, | |
|---|---|---|
| | **2009** | **2008** |
| | **(in thousands)** | |
| Balance of gross unrecognized tax benefits, beginning of period | $ 5,468 | $ 4,772 |
| Gross amounts of increases in unrecognized tax benefits as a result of tax positions taken in the current period | 834 | 698 |
| Gross amounts of decreases in unrecognized tax benefits as a result of the expiration of the applicable statute of limitations | - | (2) |
| Balance of gross unrecognized tax benefits, end of period | $ 6,302 | $ 5,468 |

As of January 31, 2009, the Company is subject to U.S. Federal income tax examinations for the tax years 2004 through 2007.

**15. Employee Benefit Plan**

SeaChange sponsors a 401(k) retirement savings plan (the Plan). Participation in the Plan is available to full-time employees who meet eligibility requirements. Eligible employees may contribute up to 25% of their annual salary, subject to certain limitations. SeaChange matched contributions up to 25% of the first 6% of compensation contributed by the employee to the Plan for February 2008 and 30% from March 2008 to December 2008. Beginning in January 2009, SeaChange matched contributions up to 50% of the first 6% of compensation. The Company also contributes to various retirement plans in our international subsidiaries, of which the amounts will vary, according to the local foreign plans specific to each location.

During the fiscal years ended January 31, 2009, 2008 and 2007, SeaChange contributed $802,000, $566,000 and $482,000, respectively.



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**16. Quarterly Results of Operations Unaudited**

The following table sets forth certain unaudited quarterly results of operations for the fiscal years ended January 31, 2009 and 2008. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the quarterly information when read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The selected financial data for the quarters ended April

30, 2007 through July 31, 2008, respectively have been recast to reflect the reclassification of foreign currency gain (loss) from operating expenses to other income (expense) below operating income. The quarterly operating results are not necessarily indicative of future results of operations.

| | Three months ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | April 30, 2007 | July 31, 2007 | October 31, 2007 | January 31, 2008 | April 30, 2008 | July 31, 2008 | October 31 2008 |
| Revenue | $ 38,844 | $ 44,194 | $ 49,024 | $ 47,831 | $ 45,384 | $ 50,705 | $ 51,7 |
| Gross profit | 17,817 | 15,145 | 24,278 | 23,724 | 22,762 | 24,640 | 28,1 |
| Operating expenses | 21,834 | 23,753 | 21,213 | 22,164 | 22,580 | 23,509 | 23,1 |
| Net (loss) income | (4,583) | (7,850) | 3,305 | 12,030 | 343 | 1,487 | 3,3 |
| (Loss) earnings per share-Basic | (0.16) | (0.27) | 0.11 | 0.40 | 0.01 | 0.05 | 0. |
| (Loss) earnings per share-Diluted | (0.16) | (0.27) | 0.11 | 0.40 | 0.01 | 0.05 | 0. |

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**Schedule II**
**SEACHANGE INTERNATIONAL, INC.**
**VALUATION OF QUALIFYING ACCOUNTS AND RESERVES**

## Years ended January 31, 2009, 2008, and 2007

| | Balance at beginning of period | Charged to costs and expenses | Deductions and write-offs (in thousands) | Other Adjustments | Balance at end of period |
|---|---|---|---|---|---|
| **Accounts Receivable Allowance:** | | | | | |
| Year ended January 31, 2009 | $ 663 | $ 670 | $ (480) | $ - | $ 853 |
| Year ended January 31, 2008 | 466 | 486 | (224) | (65) | 663 |
| Year ended January 31, 2007 | 405 | 403 | (305) | (37) | 466 |

| | Balance at beginning of period | Additions | Deletions (in thousands) | Adjustments | Balance a end of perio |
|---|---|---|---|---|---|
| **Deferred Tax Assets Valuation Allowance:** | | | | | |
| Year ended January 31, 2009 | $ 13,319 | $ 2,373 | $ - | $ - | $ 15,6 |
| Year ended January 31, 2008 | 18,785 | - | (1,393) | (4,073) | 13,3 |
| Year ended January 31, 2007 | 15,444 | 6,702 | - | (3,361) | 18,7 |

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