

SEACHANGE INTERNATIONAL INC
Form 10-Q
December 10, 2009

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2009

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-3197974
(IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and

post such files). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock on December 7, 2009 was 31,078,057.

SEACHANGE INTERNATIONAL, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

SEACHANGE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	October 31, 2009 (unaudited)	January 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,512	\$ 62,458
Restricted cash	78	1,431
Marketable securities	10,762	9,447
Accounts receivable, net of allowance for doubtful accounts of \$855 and \$853, respectively	39,196	41,513
Income taxes receivable	668	771
Unbilled receivables	3,572	4,595
Inventories, net	18,846	17,251
Prepaid expenses and other current assets	6,623	3,131
Deferred tax assets	2,080	217
Total current assets	113,337	140,814
Property and equipment, net	40,161	35,217
Marketable securities, long-term	11,004	12,415
Investments in affiliates	13,697	13,043
Intangible assets, net	29,335	4,621
Goodwill	56,662	27,422
Other assets	979	451
Total assets	\$ 265,175	\$ 233,983
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,469	\$ 11,951
Income taxes payable	902	519
Other accrued expenses	13,018	10,455
Customer deposits	3,106	1,966
Deferred revenues	27,381	26,237
Deferred tax liabilities	1,051	137
Total current liabilities	55,927	51,265
Deferred revenues, long-term	11,914	6,737
Other liabilities, long-term	6,529	-
Distribution and losses in excess of investment	1,783	1,745
Deferred tax liabilities and taxes payable, long-term	7,973	2,000
Total liabilities	84,126	61,747
Commitments and contingencies (Note 7)		
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; 32,062,965 and 31,822,838 shares issued; 30,891,169 and 30,949,457 shares outstanding, respectively	321	318
Additional paid-in capital	210,052	206,411
Treasury stock, at cost, 1,171,796 and 873,381 common shares, respectively	(7,709)	(5,989)
Accumulated deficit	(17,494)	(18,773)
Accumulated other comprehensive loss	(4,121)	(9,731)
Total stockholders' equity	181,049	172,236
Total liabilities and stockholders' equity	\$ 265,175	\$ 233,983

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

SEACHANGE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Revenues:				
Products	\$ 27,349	\$ 29,691	\$ 76,317	\$ 76,317
Services	25,941	22,104	72,356	72,356
	53,290	51,795	148,673	148,673
Cost of revenues:				
Products	10,046	10,374	27,804	27,804
Services	15,687	13,278	44,580	44,580
	25,733	23,652	72,384	72,384
Gross profit	27,557	28,143	76,289	76,289
Operating expenses:				
Research and development	13,353	10,488	37,433	37,433
Selling and marketing	7,067	6,831	19,582	19,582
General and administrative	5,986	5,464	16,036	16,036
Amortization of intangibles	571	393	1,844	1,844
	26,977	23,176	74,895	74,895
Income from operations	580	4,967	1,394	1,394
Interest and other income, net	455	45	739	739
Income before income taxes and equity loss in earnings of affiliates	1,035	5,012	2,133	2,133
Income tax expense	(105)	(1,466)	(337)	(337)
Equity loss in earnings of affiliates, net of tax	(273)	(179)	(517)	(517)
Net income	\$ 657	\$ 3,367	\$ 1,279	\$ 1,279
Earnings per share:				
Basic	\$ 0.02	\$ 0.11	\$ 0.04	\$ 0.04
Diluted	\$ 0.02	\$ 0.11	\$ 0.04	\$ 0.04
Weighted average common shares outstanding:				
Basic	30,871	30,514	30,838	30,838
Diluted	31,659	31,143	31,407	31,407

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

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

	Nine Months Ended October 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 1,279	\$ 5,197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,893	5,423
Amortization of intangibles and capitalized software	2,393	1,556
Inventory valuation charge	434	831
Provision for doubtful accounts receivable	75	480
Discounts earned and amortization of premiums on marketable securities	108	72
Equity loss in earnings of affiliates	517	576

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Stock-based compensation expense	2,365	2,836
Deferred income taxes	(422)	120
Changes in operating assets and liabilities:		
Accounts receivable	8,254	(16,863)
Unbilled receivables	1,023	2,943
Inventories	(4,385)	(6,872)
Income taxes receivable	(936)	-
Prepaid expenses and other assets	(2,647)	(1,285)
Accounts payable	(4,170)	1,496
Income taxes payable	181	287
Accrued expenses	(775)	1,371
Customer deposits	1,140	4,642
Deferred revenues	(143)	6,631
Other	165	-
Net cash provided by operating activities	10,349	9,441
Cash flows from investing activities:		
Purchases of property and equipment	(6,823)	(10,373)
Purchases of marketable securities	(28,932)	(47,168)
Proceeds from sale and maturity of marketable securities	28,816	48,403
Acquisition of businesses, net of cash acquired, and payment of contingent consideration	(34,734)	(43)
Investment in affiliates	(1,402)	-
Release of restricted cash	1,511	-
Net cash used in investing activities	(41,564)	(9,181)
Cash flows from financing activities:		
Purchase of treasury stock	(1,720)	(5,989)
Excess tax benefit related to share based compensation expense	159	-
Proceeds from issuance of common stock relating to the stock plans	1,120	1,870
Net cash used in financing activities	(441)	(4,119)
Effect of exchange rates on cash	710	(2,833)
Net increase (decrease) in cash and cash equivalents	(30,946)	(6,692)
Cash and cash equivalents, beginning of period	62,458	63,359
Cash and cash equivalents, end of period	\$ 31,512	\$ 56,667
Supplemental disclosure of non-cash activities:		
Transfer of items originally classified as inventories to equipment	\$ 2,349	\$ 2,884
Issuance of equity for ODG contingent consideration	-	8,150
Conversion of accounts receivable to equity related to investment in affiliate	-	332

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

SEACHANGE INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of October 31, 2009 and for the three and nine months ended October 31, 2009 and 2008, respectively, include the accounts of SeaChange International, Inc. and its subsidiaries ("SeaChange" or the "Company") in accordance with generally accepted accounting principles for interim financial reports and the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles have been condensed or omitted pursuant to such regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K as filed with the SEC for the fiscal year ended January 31, 2009. In the opinion of management, the accompanying financial statements include all adjustments necessary to present a fair statement of financial position as of October 31, 2009 and results of operations for the three and nine months ended October 31, 2009 and 2008 and cash flows for the nine months ended October 31, 2009 and 2008. The results of operations and cash flows for the period ended October 31, 2009 are not necessarily indicative of the operating results and cash flows for the full fiscal year or any future periods.

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 management's estimates. The Company has reclassified certain prior period balances to conform to the current year presentation. These reclassifications have no impact on previously reported total assets, total liabilities, stockholders' equity, and results of operations or cash flows.

Other than the adoption of the updated authoritative guidance on *Business Combinations*, there have been no significant changes in our accounting policies during the three and nine months ended October 31, 2009, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended January 31, 2009.

We have evaluated subsequent events through December 10, 2009, which is the date these condensed consolidated financial statements were issued.

2. Fair Value Measurements

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 provides fair value measurement disclosures of its available for sale securities in accordance with one of three levels of fair value measurement.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. A fair value hierarchy 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. Assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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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.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of October 31, 2009 are as follows:

October 31, 2009	Fair Value Measurements Using		
	Level 1	Level 2	Level 3

(in thousands)

Financial assets:
