

SEACHANGE INTERNATIONAL INC

Form 10-K

April 07, 2015

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**UNITED STATES**

**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, 2015**

.. **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)**

<b>Delaware</b>	<b>04-3197974</b>
<b>(State or other jurisdiction</b>	<b>(IRS Employer</b>
<b>of incorporation or organization)</b>	<b>Identification No.)</b>
<b>50 Nagog Park, Acton, MA 01720</b>	

**(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  No

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  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation 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 in any amendment to this Form 10-K.

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

As of July 31, 2014, 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 \$232,231,128. The number of shares of the registrant's Common Stock outstanding as of the close of business on April 2, 2015 was 33,299,577.

**DOCUMENTS INCORPORATED BY REFERENCE:**

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Portions of the definitive Proxy Statement filed no later than 120 days after the Company's fiscal year end pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

The statements contained in this Annual Report on Form 10-K ( Form 10-K ) of SeaChange International, Inc. ( SeaChange, the Company, us, or we ), including, but not limited to the statements contained in Item 1., *Business*, and Item 7., *Management's Discussion and Analysis of the Financial Condition and Results of Operations*, along with statements contained in other reports that we have filed with the Securities and Exchange Commission (the SEC ), external documents and oral presentations, which are not historical facts, are considered to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements which may be expressed in a variety of ways, including the use of forward looking terminology such as believe, expect, seek, intend, may, will, should, potential, continue, estimate, plan, or anticipate, or the negatives thereof, other variations thereon or compatible terminology, relate to, among other things, our transition to being a company that primarily provides software solutions, 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, general market conditions, our continued limited number of customers, geographic location of sales and a reduction in workforce and the impact thereof. We do not undertake any obligation to publicly update any forward-looking statements.

These forward-looking statements, and any forward looking statements contained in other public disclosures of the Company which make reference to the cautionary factors contained in this Form 10-K, are based on assumptions that involve risks and uncertainties and are subject to change based on the considerations described below. We discuss many of these risks and uncertainties in greater detail in Item 1A., *Risk Factors*, of this Form 10-K. These and other risks and uncertainties may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements.

The following discussion should be read in conjunction with Part II, Item 7., *Management Discussion and Analysis of Financial Condition and Results of Operations*, and our financial statements and footnotes contained in this Form 10-K.

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**PART I**

**Item 1. BUSINESS**

**General**

SeaChange International, Inc., a Delaware corporation founded on July 9, 1993, is an industry leader in the delivery of multiscreen video. Our products and services facilitate the aggregation, licensing, management and distribution of video (primarily movies and television programming) and television advertising content to cable television system operators, telecommunications and media companies. We sell our software products and services worldwide, primarily to television service providers including: cable television system operators, such as Liberty Global, plc. ( LGI ), Comcast Corporation ( Comcast ), Cox Communications, Inc. ( Cox ) and Rogers Communications, Inc.; telecommunications companies, such as Verizon Communications, Inc., AT&T, Inc. and Eircom; and media companies such as BBC Worldwide.

Our products and services are designed to enable our customers to reduce capital and operating expenses, reduce subscriber turnover, and increase average revenue per subscriber by establishing new, revenue-generating subscription television services and advertising. Using our products and services, we believe our customers can increase their revenues by offering services such as video-on-demand ( VOD ) television programming on a variety of consumer devices, including mobile telephones ( smart phones ), personal computers ( PCs ), tablets and over-the-top ( OTT ) streaming players. Our systems enable television service providers to offer other interactive television services that allow subscribers to receive personalized services and interact with their video devices, thereby enhancing their viewing experience. Our products also allow our customers to insert advertising into broadcast and VOD content.

SeaChange serves an exciting global marketplace where multiscreen viewing is increasing, consumer device options are evolving rapidly, and viewer habits are shifting. The primary thrust of our business has been to enable the delivery of video assets in the evolving multiscreen television environment. Through acquisitions and partnerships, we have expanded our capabilities, products and services to address the delivery of content to devices other than television set-top boxes, namely PCs, tablets, smart phones and OTT streaming players. We believe that our strategy of expanding into adjacent product lines will position us to further support and maintain our existing service provider customer base. Providing our customers with more technologically advanced software platforms enables them to further reduce their infrastructure costs and improve reliability. Additionally, we believe we are well positioned to capitalize on new customers entering the multiscreen marketplace and increasingly serve adjacent markets, such as mobile and OTT. Our core technologies provide a foundation for products and services that can be deployed in next generation video delivery systems capable of increased levels of subscriber interactivity. We have received several awards for technological excellence, including three Emmy Awards for our pivotal roles in the growth of volume service provider businesses including VOD and multi-channel television advertising. Our achievements on behalf of certain customers have also received significant market recognition including, during fiscal year 2014, winning the Liberty Global Vendor Award for Best Product & Service Quality and the Cable Europe Innovation Award for cable operator Voo s multiscreen service launch.

On February 2, 2015, we acquired TLL, LLC ( Timeline Labs ), a California-based software-as-a-service ( SaaS ) company that enables local broadcasters, national news organizations and other media companies and brands to analyze social media messages in real-time, find and broadcast social trends, and measure viewing audience engagements across television, mobile and personal computers. Through its acquisition of Timeline Labs, SeaChange is a partner and technology provider for the NewCoin LLC ( NewCoin ) local television audience measurement venture with FOX Television Stations, Tribune Media and Univision. NewCoin s mission is to harness

the data-gathering power of currently available and emerging technologies in order to create a broader based measurement tool that will accurately measure audiences across the entire spectrum of linear and digital platforms.

In January 2015, we initiated a global restructuring plan to streamline our activities, primarily from an employee headcount reduction of 10%, now that our next generation software products have been brought to market and are being deployed around the globe. The reduction in workforce has been implemented immediately in the

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United States and, to comply with non-U.S. legal requirements, will be implemented on an international basis over the next several quarters. Once fully implemented, we expect this initiative to yield approximately \$11 million in annualized cost savings.

## **Products and Services**

Our business is comprised of three product areas: multiscreen video, television advertising and video gateway software. Our revenue sources consist of product revenue from these areas, as well as related services.

### ***Multiscreen Video***

We offer our multiscreen video products under the following two deployment options, on-site software licenses and on a SaaS basis.

#### ***On-Site Software Licenses***

In this model, revenue is derived from perpetual software license and annual maintenance and support fees, as well as associated professional services. This model includes the following:

*SeaChange Adrenalin MultiScreen Television Platform.* Adrenalin is a comprehensive software platform that enables service providers to manage, monetize and deliver a seamless viewing experience to subscribers across televisions, PCs, tablets, smart phones and other IP-enabled devices. Adrenalin is modular allowing our customers to gradually adopt new functionality and features to expand multiscreen television distribution capabilities. Adrenalin automates and streamlines functionality in four crucial areas:

Ingest of video content including custom workflow, transcoding, encryption and distribution;

Content management including data analysis and management of metadata;

Business management such as advertising placement, contract rights and subscriber entitlements, cloud-based monitoring and management and recommendation of social media applications; and

Publishing and purchasing, which allow content to be formatted for viewing on any device.

*SeaChange Nitro Subscriber Experience Software.* Our Nitro subscriber experience software gives service providers a customizable interface that personalizes the multi-platform subscriber experience and provides consistent presentation and navigation of linear, on-demand, OTT and time-shifted television. Nitro optimizes subscriber engagement and content promotions to ensure that the value of all content is fully realized on any consumer device.

*SeaChange AssetFlow.* In today's multiscreen viewing platform, a show, movie or advertisement and its associated metadata, such as poster, description and pricing, are reproduced with numerous variants to serve the unique requirements of multiple network types, consumer devices and geographies. At the point of content ingest, our AssetFlow software is used to receive, manage and publish content for on-demand viewing on televisions, tablets, PCs and other consumer devices. AssetFlow simplifies the increasingly complex tasks of movie and television program



asset tracking, metadata management, and overall content workflow.

*SaaS Offering*

In this model, we license our product offerings on a SaaS basis and our customers pay us on a monthly recurring basis based on the total number of subscriber lines deployed by the customer.

*SeaChange Rave Premium OTT Video Platform.* Our Rave premium OTT platform ( Rave ) offering provides a managed services offering for our customers. Rave enables live, time-shifted, pay-per-view and on-demand video services and storefront creation. Advanced content recommendations, discovery and social media are enabled through SeaChange's user experience and third-party applications. Rave includes services, tools and integrations for OTT content workflow, media management and analytics. Rave also enables video and interactive cross-device advertising throughout individual streams and user experiences. Advanced content promotion and monetization features include download to purchase and rent, subscription packaging and

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couponing. Through these features, Rave allows media companies and service providers to fully integrate with the connected consumer lifestyle and create a deeper audience relationship to project their brand and create pertinent, contextual promotions and advertising.

### ***Television Advertising***

*SeaChange Infusion Advanced Advertising Platform.* As more television content is served to multiple consumer devices, the ability to generate additional revenue by inserting targeted advertising on these devices becomes crucial to service providers seeking to offset content rights costs and reduce subscriber fees for viewing the content. Infusion enables service providers to maximize advertising revenue across multiscreen, broadcast, on-demand and OTT viewing and reach their audiences while viewers watch television on multiple devices. The platform incorporates demographic intelligence to target viewers by geography and personal preference, then engages the viewer through pre-rolls, mid-rolls, banners, overlays and click-action interactivity. Infusion scales to support service providers migration to consolidated regional and national advertising systems that are managed from increasingly web-centric and virtualized datacenters.

*SeaChange Infusion AdPulse On-Demand Advertising Software.* Service providers leverage Infusion AdPulse to capitalize on their VOD television services with ad placements that are dynamically targeted according to the content viewers select, as well as by geographic, demographic and viewing characteristics. Because the advertisements are tracked separately from the content, the data provided includes detailed advertisement viewing and trick-mode (fast-forward, rewind, and pause) usage leading to easier analysis of reach and effectiveness.

*SeaChange AdFlow.* AdFlow simplifies the ingest and preparation of content required to cost-effectively deliver multichannel or multiscreen advertising. It enables the range of advertisements to be ready for insertion, regardless of encoding formats, screen size, and the many other factors affecting today's linear, on-demand and multiscreen television operations. It also handles advertisement file processing, verification, transcoding operations and confirms payout for confident revenue booking.

### ***Video Gateway Software***

*Nucleus.* Nucleus ports to any set-top box, or other customer premises equipment hardware and system on a chip ( SoC ), and acts as a hub for all video distribution to any IP- connected device throughout the home, such as tablets, smart phones and game consoles.

SeaChange capitalized on open software and networking technologies to create Nucleus, a fully customizable foundation for rich multiscreen services running on the chipset and hardware. Nucleus enables the service providers to select the chipset, hardware and set-top box vendor of their choice. Nucleus extends providers' video services to a wide range of video consumer devices through its support for DLNA networking protocols, and enables them to enhance their overall offering by providing the framework for the introduction of new applications. Further, Nucleus leverages the industry Reference Design Kit, a technology standard that enables the video service provider community to take advantage of open technologies to more rapidly introduce and support service innovations.

### ***Social Tools***

*SeaChange Timeline.* SeaChange Timeline provides an end-to-end content management platform for media companies and brands to leverage the power of social content and conversations on a SaaS model. SeaChange Timeline simplifies the real-time editorial content and production process by offering the ability to discover social news, gather content relevant to an audience and present it with visualizations ready for video broadcast or the Internet.

*Services*

SeaChange offers comprehensive professional services and customer support for all of its products. We have developed extensive capabilities in systems integration, implementation and custom engineering. Our focus on,

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and expertise in video means that we often take on the role of primary integrator for increasingly complex multi-vendor deployments. We also offer managed services with advantages, including remote monitoring and proactive system maintenance, to help our customers quickly and confidently establish new on-demand and multiscreen services.

## **Strategy**

Our goal is to strengthen our position as a leading global provider of multiscreen video by enabling service providers and content owners to increase revenue opportunities by delivering transformative multiscreen video products to their end subscribers. Key elements of our strategy include:

We intend to continue to provide to our existing base and new customers, industry-leading solutions through our focus on product innovation and substantial investment in research and development for our next generation software products and services;

We intend to accelerate adoption of our next generation products and services and time to market by promoting and expanding to adjacent markets such as mobile and OTT;

We intend to provide pre-packaged integrated solutions with the goal of better enabling new and existing customers to drive the adoption of the Rave and Timeline features and functions through a service offering hosted and/or managed by us;

We intend to continue to pursue acquisitions and collaborations which we believe will strengthen our industry leadership position, expand our geographic presence, or allow us to expand to new products or services, or enhance our existing ones;

We may enter into strategic relationships to help our customers address deficiencies in their market space, such as our recent joint venture with FOX, Tribune Media and Univision to address the weaknesses in local television market audience measurement;

Although our initial sale with a service provider may be for a single screen and device, once a service provider deploys services using our Adrenalin platform, we believe we are well positioned to sell additional features to that service provider to help them expand the number of devices in their customers' households; and

Our customers are located worldwide and include top cable service providers. We believe we are well positioned to grow by adding customers in regions where we already have a strong presence and by expanding our geographic footprint in Asia Pacific and Latin America. In addition, we intend to penetrate more deeply into other markets such as mobile, telecommunications and media companies.

## **Research and Product Development**

Our research and development costs were \$42.2 million in fiscal 2015, \$39.7 million in fiscal 2014 and \$38.7 million in fiscal 2013. We believe that our success will depend on our ability to develop and introduce timely new integrated solutions and enhancements to our existing products that meet changing customer requirements in our current and future customer base as well as new markets. We have made substantial investments in developing and bringing to market our next generation products. Our current research and development activities are focused on developing multiscreen television platforms, video gateway software and advertising solutions in the multiscreen video market, and integrating the solutions we currently offer. Our direct sales and marketing groups closely monitor changes in customer needs, changes in the marketplace and emerging industry standards to help us focus our research and development efforts to address our customers' needs, such as increasing average revenue per subscriber, lowering operating and capital costs and reducing customer churn. Our research and development efforts are performed in the United States at our Acton, Massachusetts headquarters as well as our sites in California; Oregon; Pennsylvania; and worldwide in Bangalore, India; Manila, Philippines; and Eindhoven, Netherlands.

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During fiscal 2015 we continued the focus of our research and development efforts on the next generation software platforms, which are vital to our customers' success. We achieved this by further increasing our investment in our software products for multiscreen video and video gateway software platforms, while reducing our investment in certain legacy product lines. As of January 31, 2015, we had a research and development staff of 296 employees.

## **Selling and Marketing**

Our sales cycle tends to be long, in some instances twelve to twenty-four months, and purchase orders are typically in excess of one million dollars. As a result, it is sometimes difficult to predict what quarter or fiscal year our sales will occur. In light of the complexity of our video products, we primarily utilize a direct sales process. We sell and market our products worldwide through a direct sales organization, primarily conducted from our headquarters although we will use sales representatives deployed in different regions where we do not have a direct sales force. 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 their specific needs. As we recently announced, we have expanded our direct sales presence into Asia Pacific and Latin America.

We use several marketing programs to focus on our targeted markets to support the sale and distribution of our products. We also market certain of our products to systems integrators and value-added resellers. We attend and exhibit our products at a limited number of prominent industry trade shows and conferences and we present our technology at seminars and smaller conferences to promote the awareness of our products. We also publish articles in trade and technical journals. As of January 31, 2015, we had marketing and sales staff of 49 employees.

## **Manufacturing and Quality Control**

Our manufacturing operation consists primarily of component and subassembly procurement, systems integration and final assembly, testing and quality control of the complete systems. As of January 31, 2015 we had a manufacturing staff of 11 employees.

## **Our Customers**

We currently sell our products primarily to video service providers, such as cable system operators and telecommunications companies, as well as content providers. Our customer base is highly concentrated among a limited number of large service provider customers. A significant portion of our revenues in any given fiscal period have been derived from substantial orders placed by these large organizations. For the fiscal year ended January 31, 2015, Comcast and LGI each accounted for more than 10% of our total revenues.

We expect that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues in the near future, even as we intend to penetrate new markets and customers. 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, the timing and relative size of orders received and accepted during a fiscal quarter, or the timing and size of orders for which revenue recognition criteria have been satisfied during a fiscal quarter.

We do not believe that our backlog at any particular time is meaningful as an indicator of our future level of revenue for any particular period. Because of the requirements of particular customers, orders may require final acceptance

prior to revenue being recognized, resulting in the related revenues not being recognized in the ensuing quarter. Therefore, there is no direct correlation between the backlog at the end of any quarter and our total revenue for the following quarter or other periods.

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### **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 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 multiscreen video, we compete with various larger companies offering video platforms and applications such as Cisco Systems, Inc., Arris Group Inc. ( ARRIS ), and Ericsson Inc. as well as in-house solutions. In our video gateway software market, we compete with system integrators and gateway software and applications vendors who offer proprietary software and hardware solutions. In the advertisement platform market, we generally compete with ARRIS. In the OTT market, we compete with online video platform providers such as Brightcove, Kaltura and Ooyala. We expect the competition in each of the markets in which we operate to intensify in the future as existing and new competitors with significant market presence and financial resources.

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 31 patents worldwide, have several patents pending 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. Currently, we are not party to intellectual property litigation, but 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**

The table below represents the number of employees that we employ in different geographic areas across the world for the periods shown. We believe that our relations with our employees are good. None of our employees are represented by a collective bargaining agreement.



<b>Country</b>	<b>January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
United States	302	382	411
Philippines	161	150	143
Netherlands	137	111	97
Other international	103	80	71
<b>Total employees by country</b>	<b>703</b>	<b>723</b>	<b>722</b>

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The following is a list of our executive officers, their ages as of March 31, 2015 and their positions held with us:

<b>Name</b>	<b>Age</b>	<b>Title</b>
Jay A. Samit	54	Chief Executive Officer and Board member
Anthony C. Dias	48	Chief Financial Officer, Senior Vice President, Finance and Administration and Treasurer
David McEvoy	57	Senior Vice President and General Counsel and Secretary

*Mr. Samit* joined SeaChange as Chief Executive Officer ( CEO ) on October 20, 2014. Mr. Samit currently serves on the Board of Equal Earth Corporation and as an adjunct professor at the University of Southern California. Prior to joining SeaChange Mr. Samit was President at ooVoo, a social video chat service, from May 2011 to January 2013. Prior to that Mr. Samit served as CEO of SocialVibe (later renamed TrueX), a digital advertising technology company powering engagement for some of the world's top brands, from October 2009 to January 2011. Prior to that he held senior executive roles with Sony and EMI, where he spearheaded these companies' digital media efforts.

*Mr. Dias* joined the Company on December 3, 2007 as Vice President of Finance and Corporate Controller. He became Chief Financial Officer in September 2013. Prior to that, Mr. Dias served since June 2012 as Chief Accounting Officer. Prior to joining SeaChange, Mr. Dias served as Corporate Controller at LeMaitre Vascular, Inc. from October 2006 to November 2007. Prior to that Mr. Dias held various senior finance positions with Candela Corporation, Globalware, Inc. and Aldiscon, Inc. (later acquired by Logica). Mr. Dias is also a Certified Public Accountant.

*Mr. McEvoy* joined the Company on July 1, 2012 as Vice President and General Counsel. He became Senior Vice President and General Counsel on February 1, 2013. Prior to joining SeaChange, Mr. McEvoy was the Senior Vice President and General Counsel of Peoplefluent Inc. Mr. McEvoy was the Senior Vice President and General Counsel of Art Technology Group, Inc. ( ATG ) from September 2005 to March 2010. ATG was acquired by Oracle on January 5, 2011. Prior to joining ATG, Mr. McEvoy was the Group General Counsel of Gores Technology Group, a private equity firm. Mr. McEvoy has held various General Counsel and other executive level legal positions with several companies including Aprisma Inc., Anker Systems Ltd., VeriFone Inc., Mattel Interactive, Broderbund and The Learning Company.

**Geographic Information**

Geographic information is included in Part II, Item 7 of this Form 10-K under the heading *Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations* and in Note 11., *Segment Information, Significant Customers and Geographic Information*, to the consolidated financial statements located in Part II, Item 8, of this Form 10-K.

**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 SEC. Such reports, proxy statements and other information may be obtained by visiting the

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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 our Code of Ethics and Business Conduct and charters for our Audit Committee, Compensation Committee and Corporate Governance and Nominating

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Committee, is available on the Investor Relations section of our website at [www.schange.com](http://www.schange.com). We make available free of charge on our website our Form 10-K, Quarterly Reports on Form 10-Q ( Form 10-Q ), Current Reports on Form 8-K ( Form 8-K ) and amendments to those reports 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 Form 10-K. Our website address is included in this document as an inactive textual reference only.

**Item 1A. RISK FACTORS**

We wish to caution each reader of this Form 10-K to consider the following factors and other factors discussed herein and in other past reports, including but not limited to prior year Form 10-K and Form 10-Q reports filed with the SEC. Our business and results of operations could be materially affected by any of the following risks. The factors discussed herein are not exhaustive. Therefore, the factors contained herein should be read together with other reports that we file with the SEC from time to time, which may supplement, modify, supersede, or update the factors listed in this document.

**Our business is dependent on customers continued spending on video systems and services. A reduction in spending by customers would adversely affect our business.**

Our performance is dependent on customers continued spending for video systems and services. Spending for these systems and services is cyclical and can be curtailed or deferred on short notice. A variety of factors affect the amount of spending, and, therefore, our sales and profits, including:

general economic conditions;

customer specific financial or stock market conditions;

availability and cost of capital;

governmental regulation;

demand for services;

competition from other providers of video systems and services;

acceptance of new video systems and services by our customers; and

real or perceived trends or uncertainties in these factors.

Any reduction in spending by our customers would adversely affect our business. 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 our research and development organization, which we believe are necessary to continue to provide innovative 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.

**Our future success is dependent on the continued development of the multiscreen video and over the top ( OTT ) market and if these markets do not continue to develop, our business may not continue to grow.**

A large portion of our anticipated revenue growth is expected to come from sales and services related to our multiscreen video and OTT products. However, these markets continue to develop as a commercial market, both within and outside North America. The potential size of these markets and the timing of their development are uncertain. The success of these markets require that video service providers continue to upgrade their cable networks to service and successfully market multiscreen video, OTT and similar services to their cable television

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subscribers. Some cable system operators, particularly outside of North America, are still in the early stages of commercial deployment of multiscreen video and OTT service to major residential cable markets. If cable system operators and telecommunications companies fail to make the capital expenditures necessary to upgrade their networks or determine that broad deployment of multiscreen video and OTT services is not viable as a business proposition or if our products cannot support a substantial number of subscribers while maintaining a high level of performance, our revenues will not grow as we have planned.

**Our efforts to introduce a SaaS-based multiscreen service offering may either not succeed or impair our sale of on-site licensed offerings. The occurrence of either of which may adversely affect our financial condition and operating results.**

We have been, and will continue to, devote considerable resources and allocate capital expenditures to growing our SaaS service offering revenue over the next several years. There can be no assurance that we will meet our revenue targets for this service and if we fail to achieve our revenue goals, our growth and operating results will be materially adversely affected. Additionally, new or existing customers may choose to purchase our SaaS services rather than our on-premise solutions. If our customers' purchases trend away from perpetual licenses toward our SaaS, or to the extent customers defer orders due to evaluation SaaS, our product revenues, and our timing of revenue generally, may be adversely affected, which could adversely affect our results of operations and financial condition.

**If we are unable to successfully introduce new products or enhancements to existing products on a timely basis, 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 on a timely basis. 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 acceptance, or require design modifications that could adversely affect our competitive position. Currently, we are focused on our next generation software products, including SeaChange Adrenalin, SeaChange Nucleus, SeaChange Infusion Advanced Advertising Platform and SeaChange Rave. Our inability to complete the development of these 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 in fiscal 2016 and in future periods.

**We may be unsuccessful in our efforts to become a company that primarily provides software solutions.**

Our efforts to become a company that primarily provides software solutions may result in a reduction in both the range of products and services we offer and in the range of our current and potential future customers. Each of these factors may increase the level of execution risk in our strategy, in that there may be increased variability in our revenues. If we are unsuccessful in this transition, our business, financial condition and results of operation may be adversely affected, and the market price of our common stock may decrease.

**Our business is impacted by worldwide economic cycles, which are difficult to predict.**

The global economy and financial markets experienced a severe downturn in recent years. The downturn stemmed from a multitude of factors, including, among other things, extreme volatility in security prices,

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diminished credit availability, concerns about inflation and deflation, rapid changes in foreign exchange rates, increased energy costs, decreased consumer confidence, rating downgrades of certain investments and declining valuations of others. These economic developments, the rate of recovery and the change in business spending resulting from these 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. The continuation of the change in business spending from these events or further disruption and deterioration in economic conditions may reduce customer purchases of our products and services, thereby reducing our revenues and earnings. In addition, these events may, among other things, result in increased price competition for our products and services, increased risk in the collectability of our accounts receivable from our customers, increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable, and higher operating costs as a percentage of revenues. We have taken actions to address the effects of the change in business spending and future economic cycles, including implementing cost control and cost reduction measures. It is possible that we may need to take further actions to control our cost structure and implement further cost reduction measures. We cannot predict whether these measures will be sufficient to offset certain of the negative trends that might affect our business.

**We have taken and continue to take measures to address the variability in the market for our products and services, which could have long-term negative effects on our business or impact our ability to adequately address a rapid increase in customer demand.**

We have taken and continue to take measures to address the variability in the market for our products and services, to increase average revenue per unit of our sales and to reduce our operating expenses, rationalize capital expenditure and minimize customer turnover. These measures include shifting more of our operations to lower cost regions by outsourcing and off-shoring, implementing cost reduction programs and reducing and rationalizing planned capital expenditures and expense budgets. We cannot ensure that the measures we have taken will not impair our ability to effectively develop and market products and services, to remain competitive in the industries in which we compete, to operate effectively, to operate profitably during slowdowns or to effectively meet a rapid increase in customer demand. These measures may have long-term negative effects on our business by reducing our pool of technical talent, decreasing or slowing improvements in our products and services, making it more difficult to hire and retain talented individuals and to quickly respond to customers or competitors in an upward cycle.

**Because our customer base is highly concentrated among a limited number of large customers, a change in demand by, a return of product by or the failure to satisfy revenue acceptance criteria in a given quarter by one or more 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 fiscal period. 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 and from quarter to quarter 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, reduced demand for products or related services by, return of a product previously purchased by any of our major customers or the failure of revenue acceptance criteria to have been satisfied in a given fiscal quarter, could materially and adversely affect, either in a particular quarter or on a more long-term basis, our business, financial condition and results of operations.

**Consolidations in the television service providers industry could result in delays or reductions in purchases of products, which would have a material adverse effect on our business.**



The television service providers industry has historically experienced, and continues to experience, the consolidation of many industry participants. For example, in the first half of calendar 2014, Comcast announced

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its proposed acquisition of Time Warner Cable and AT&T announced its proposed acquisition of DIRECTV and in February 2015, Verizon Communications Inc. announced that it is selling certain wireline businesses to Frontier Communications Corp. When consolidations occur, it is possible that the acquirer will not continue using the same suppliers, possibly resulting in an immediate or future elimination of sales opportunities for us or our competitors. Even if sales are not reduced, consolidation can also result in pressure from customers for lower prices or better terms, reflecting the increase in the total volume of products purchased or the elimination of a price differential between the acquiring customer and the company acquired. Consolidations also could result in delays in purchasing decisions by the affected companies prior to completion of the transaction and by the merged businesses. The purchasing decisions of the merged companies could have a material adverse effect on our business.

**Cancellation or deferral of purchases of our products or final customer acceptance, or the return of previously purchased products could cause a substantial variation in our operating results, resulting in a decrease in the market price of our common stock and making period-to-period comparisons of our operating results less meaningful.**

We derive a substantial portion of our revenues from purchase orders that exceed one million dollars in value. Therefore, any significant cancellation or deferral of purchases of our products or receiving final customer acceptance could result in a substantial variation in our operating results in any particular quarter due to the resulting decrease in revenue and gross margin. 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 guidance that we may issue or the expectations of public market analysts and investors, any of which may adversely affect the market price of our common stock. In addition, these factors may make period-to-period comparisons of our operating results less meaningful.

**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.**

Our next generation software products and related services are relatively complex and their purchase generally involves 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 next generation software products and services 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 products, our revenues and operating results would be materially affected.**

We expect our next generation software product lines to account for a significant portion of our revenues. Accordingly, a decline in demand or average selling prices for these products in the foreseeable future, 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.



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### **We must manage product transitions successfully in order to remain competitive.**

The introduction of a new product or product line is a complex task, involving significant expenditures in research and development, training, promotion and sales channel development. However, we cannot assure that we will be able to execute product transitions in an efficient manner or that product transitions will be executed without harming our operating results. Failure to develop products with required features and performance levels or any delay in bringing a new product to market could significantly reduce our revenues and harm our competitive position.

### **We may fail to achieve our financial forecasts due to inaccurate sales forecasts or other factors.**

Our revenues are difficult to forecast, and as a result, our quarterly operating results can fluctuate substantially. We use a pipeline system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all proposals and estimate when a customer will make a purchase decision and the dollar amount of the sale. These estimates are aggregated periodically to generate a sales pipeline. Our pipeline estimates can prove to be unreliable both in a particular quarter and over a longer period of time, in part because the conversion rate or closure rate of the pipeline into contracts can be very difficult to estimate. A reduction in the conversion rate, or in the pipeline itself, could cause us to plan or budget incorrectly and adversely affect our business or results of operations. In particular, a slowdown in capital spending or economic conditions generally can unexpectedly reduce the conversion rate in particular periods as purchasing decisions are delayed, reduced in amounts or cancelled. The conversion rate can also be affected by the tendency of some of our customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms, which can also impede our ability to negotiate, execute and deliver upon these contracts in a timely manner. In addition, for our new product offerings, including those acquired through our Timeline Labs acquisition, we have limited ability to predict how their pipelines will convert into sales or revenues. Conversion rates for new product offerings are often variable as product acceptance often takes longer than anticipated and conversion rates for products acquired through acquisition may be quite different from the acquired companies' historical conversion rates, including from changes in our business practices that we implement with our newly acquired companies that may affect customer behavior.

Because a significant portion of our cost structure is largely fixed in the short-term, revenue shortfalls tend to have a disproportionately negative impact on our profitability. The number of large new software licenses transactions increases the risk of fluctuations in our quarterly results because a delay in even a small number of these transactions could cause our quarterly revenues and profitability to fall significantly short of our predictions.

### **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 software products and services for a significant portion of our total revenue. In light of the growing complexities in managing our expanding portfolio of products and services, our anticipated future operations may continue to strain our operational and administrative resources. To manage future growth effectively, we must continue to improve our operational controls and internal controls over financial reporting, integrate new personnel and the businesses we have acquired, or will acquire, and 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 and services.**

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

difficulties in establishing and managing international distribution channels;

difficulty in staffing and managing foreign operations;

difficulties in selling, servicing and supporting overseas products and services and in translating products and services into foreign languages;

the uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;

fluctuations in currency exchange rates;

multiple and possibly overlapping tax structures;

negative tax consequences such as withholding taxes and employer payroll taxes;

differences in labor laws and regulations affecting our ability to hire and retain employees;

business and operational disruptions or delays caused by political, social and economic instability and unrest, including risks related to terrorist activity;

changes in economic policies by foreign governments, including the imposition and potential continued expansion of economic sanctions by the U.S. and the European Union on the Russian Federation;

the burden of complying with a wide variety of foreign laws, treaties and technical standards; and

growth and stability of the economy or political changes in international markets.

The effect of one or more of these international risks could have a material and adverse effect on our business, financial condition, operating results and cash flow.

**We are subject to the Foreign Corrupt Practices Act ( FCPA ), and our failure to comply could result in penalties which could harm our reputation, business, and financial condition.**

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. The FCPA also requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the Company. Under the FCPA, U.S. companies may be held liable for actions taken by their strategic or local partners or representatives. The FCPA and similar laws in other countries can impose civil and criminal penalties for violations.

If we do not properly implement practices and controls with respect to compliance with the FCPA and similar laws, or if we fail to enforce those practices and controls properly, we may be subject to regulatory sanctions, including administrative costs related to governmental and internal investigations, civil and criminal penalties, injunctions and restrictions on our business activities, all of which could harm our reputation, business and financial condition.

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

Because a significant 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

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evolve, and they could have a material adverse impact on our financial results and cash flows. An increase in the value of the U.S. 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. In preparing our consolidated financial statements, certain financial information is required to be translated from foreign currencies to the U.S. dollar using either the spot rate or the weighted-average exchange rate. If the U.S. dollar weakens or strengthens 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. For example, the exchange rate of the U.S. dollar to foreign currency has strengthened significantly of late, which could make the price of our products and services outside the United States less competitive, reducing our sales and negatively impacting our financial results.

### **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 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 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. We have received certain claims for indemnification from customers but have not been made party to any litigation involving intellectual property infringement claims as a result. 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. 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.

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**If content providers limit the scope of content licensed for use in the digital VOD and OTT 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 multiscreen video market is contingent on content providers 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 their subscribers. A limitation of content for the VOD and OTT market would indirectly limit the market for our products which are used in connection with that market.

**If we are not able to obtain necessary licenses, services 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 or obtain services from third parties to develop new products or product enhancements or to provide specific solutions. Third-party providers 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 products required in our current products or to obtain any new third-party licenses and services 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 inability could delay or prevent us from making these products or services, which could seriously harm the competitiveness of our solutions.

We may also incorporate open source software into our products. Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. We could also be subject to similar conditions or restrictions should there be any changes in the licensing terms of the open source software incorporated into our products. In either event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely or successful basis, any of which could adversely affect our business, operating results and financial condition.

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

We currently compete against large companies offering video software solutions. To the extent the products developed are competitive with and not complementary to our products, they may be more cost effective than our solutions, which could result in cable system operators and telecommunications companies discontinuing their purchases of our on-demand products. Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources, such as in-house solutions and online video platforms, may enter those markets, thereby further intensifying competition. Increased competition could result in price reductions, cancellations of purchase orders, losses of business with current customers to competitors, 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. They may be in better position to withstand any significant reduction in capital spending by customers in our markets and may not be as susceptible to downturns in a particular market. Moreover, our competitors may also foresee the course of market developments more accurately than we do. 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

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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 multiscreen video, our business, financial condition and results of operations would be materially adversely affected because the competitive advantage of our products and services 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 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 such as the OTT market. In the future, we may not be successful in enhancing our video products or developing 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.

**We may not fully realize the benefits of our completed acquisitions or it may take longer than we anticipate for us to achieve those benefits. 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 such as our acquisition of Timeline Labs on February 2, 2015. 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;

delays in realizing, or failure to realize, the anticipated benefits of an acquisition;

adverse effects on the business relationships with pre-existing suppliers and customers of both companies. This 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; and

uncertainty among current and prospective employees regarding their future roles with our company, which might adversely affect our ability to retain, recruit and motivate key personnel.

**Acquisitions or divestitures may adversely affect our financial condition.**

We acquired Timeline Labs on February 2, 2015 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. Negotiation of potential acquisitions, divestitures or joint ventures and our integration or transfer of acquired or divested products, technologies or businesses, could divert management's time and resources.

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As part of our strategy for growth, we may continue to explore acquisitions, divestitures, or strategic alliances, which may not be completed or may not be ultimately beneficial to us.

Acquisitions or divestitures may pose risks to our operations, including:

problems and increased costs in connection with the integration or divestiture of the personnel, operations, technologies, or products of the acquired or divested businesses;

unanticipated costs;

potential disruption of our business and the diversion of management's attention from our core business during the acquisition process;

inability to make planned divestitures of businesses on favorable terms in a timely manner or at all;

acquired assets becoming impaired as a result of technical advancements or worse-than-expected performance by the acquired company; and entering markets in which we have no, or limited, prior experience.

Additionally, in connection with any acquisitions or investments we could:

issue stock that would dilute our existing stockholders' ownership percentages, such as we agreed to do with our Timeline Labs acquisition;

incur debt and assume liabilities;

record contingent liabilities estimated for potential earnouts based on achieving financial targets;

obtain financing on unfavorable terms;

incur amortization expenses related to acquired intangible assets or incur large and immediate write-offs;

incur large expenditures related to office closures of the acquired companies, including costs relating to the termination of employees and facility and leasehold improvement charges resulting from our having to vacate the acquired companies' premises; and

reduce the cash that would otherwise be available to fund operations or for other purposes.

**The performance of the companies in which we have made and may in the future make equity investments could have a material adverse effect on our financial condition and results of operations.**

We have made non-controlling equity investments in complementary companies and we may in the future make additional investments. 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.

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

Under accounting principles generally accepted in the United States ( U.S. GAAP ), we review our intangible assets, including goodwill, for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Indefinite-lived assets are 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 indefinite-lived assets or other intangible assets may not be recoverable include declines in our stock price and market capitalization, or decreased 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

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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 noncash charge to earnings in our financial statements during the period in which any impairment of our indefinite-lived assets 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 marketable securities in a variety of instruments which may include commercial paper, certificates of deposit, money market funds and government debt securities. 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. 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 this growth, which is uncertain. Video service providers are subject to extensive government regulation by the Federal Communications Commission and other federal, state and international regulatory agencies. These regulations could have the effect of limiting capital expenditures by video service providers 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, 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 integration of new 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.

**We face significant risks to our business when we engage in the outsourcing of engineering work, including outsourcing of software work overseas, which, if not properly managed, could result in the loss of valuable intellectual property and increased costs due to inefficient and poor work product, which could harm our business, including our financial results, reputation, and brand.**



We may, from time-to-time, outsource engineering work related to the design and development of our products, typically to save money and gain access to additional engineering resources. We have worked, and expect to work in the future, with companies located in jurisdictions outside of the United States, including, but not limited to India, Poland and the Philippines. We have limited experience in the outsourcing of engineering and other

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work to third-parties located internationally that operate under different laws and regulations than those in the United States. If we are unable to properly manage and oversee the outsourcing of this engineering and other work related to our products, we could suffer the loss of valuable intellectual property, or the loss of the ability to claim such intellectual property, including patents and trade names. Additionally, instead of saving money, we could in fact incur significant additional costs as a result of inefficient engineering services and poor work product. As a result, our business would be harmed, including our financial results, reputation, and brand.

### **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 various tax jurisdictions. 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 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.

In September 2013, we received an audit notification from the Internal Revenue Service ( IRS ) requesting materials relating to our 2009 through 2011 federal tax return. As of January 31, 2015, we continue to provide information relating to the audit and have not received or agreed upon any final adjustments from the IRS.

### **If our security measures are breached and unauthorized access is obtained to a customer's data or our data on our systems, our service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.**

Our service involves the transmission of customers' proprietary information and security breaches could expose us to a risk of loss of this information or a network disruption, which may result in litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in unauthorized publication of our confidential business or proprietary information, cause an interruption in our operations, result in the unauthorized release of customer or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation or damage our reputation, which could harm our business and operating results. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data or IT systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third-party technology providers to access their customer data. Because we do not control our customers and third-party technology providers, or the processing of such data by third-party technology providers, we cannot ensure the integrity or security of such transmissions or processing. Malicious third-parties may also conduct attacks designed to temporarily deny customers access to our services. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, negatively impact our future sales, disrupt our business and lead to legal liability. While we believe that we have taken appropriate security measures to minimize these risks to our data and information systems, there can be no assurance that our efforts will

prevent breakdowns or breaches in our systems that could adversely affect our business.

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Recently reported hacking attacks on government and commercial computer systems raise the risks that such an attack may compromise, in a material respect, one or more of our computer systems and permit hackers access to our proprietary information and data. If such an attack does, in fact, allow access to or theft of our proprietary information or data, our business, operating results and reputation could be materially and adversely affected.

### **Interruptions or delays in service from our third-party data center hosting facilities could impair the delivery of our service and harm our business.**

For our customers buying our SaaS product offering, we use third-party data center hosting facilities located in the United States and the United Kingdom. Any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our attrition rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable. We do not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

### **We recently implemented a restructuring program, which could have a material negative impact on our business.**

To increase strategic focus and operational efficiency, at the end of January 2015, we implemented a restructuring program that will affect approximately 100 full-time positions. We anticipate completing the majority of the activities related to our restructuring program over the next several quarters. We may incur additional restructuring costs or not realize the expected benefits of these new initiatives. Further, we could experience delays, business disruptions, decreased productivity, unanticipated employee turnover and increased litigation related costs in connection with the restructuring and other efficiency improvement activities, and there can be no assurance that our estimates of the savings achievable by the restructuring will be realized. As a result, our restructuring and our related cost reduction activities could have an adverse impact on our financial condition or results of operations.

### **Our stock price may be volatile and an investment in our stock may decline.**

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. The stock market in general, and The NASDAQ Global Select Market ( NASDAQ ) 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 these circumstances, investors may be unable to sell their shares of our common stock at or above their purchase price over the short-term, or at all. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies.

### **Securities analysts may not publish favorable research or reports about our business or may publish no information which could cause our stock price or trading volume to decline.**

The trading market for our common stock is influenced by the research and reports industry or financial analysts publish about us and our business. We do not control these analysts. If any of the analysts who cover us issue an adverse opinion regarding our stock price, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports covering us, we could lose visibility in the market, which in turn could cause our stock price or trade volume to decline.

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### **We utilize non-GAAP reporting in our quarterly earnings press releases.**

We publish non-GAAP financial measures in our quarterly earnings press releases along with a reconciliation of non-GAAP financial measures to those measures compiled in accordance with accounting principles generally accepted in the U.S. GAAP. The reconciling items have adjusted U.S. GAAP net (loss) income and U.S. GAAP (loss) earnings per share for certain non-cash, non-operating or non-recurring items and are described in detail in each such quarterly earnings press release. We believe that this presentation may be more meaningful to investors in analyzing the results of operations and income generation as this is how our business is managed. The market price of our stock may fluctuate based on future non-GAAP results if investors base their investment decisions upon such non-GAAP financial measures. If we decide to curtail use of non-GAAP financial measures in our quarterly earnings press releases, the market price of our stock could be affected if investors analyze our performance in a different manner.

### **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.

### **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.**

We rely on a limited number of third parties who manufacture certain components used in our products. We may experience quality control problems, where products did not meet specifications or were damaged in shipping, and delays in the receipt of these components. These risks could be heightened during a substantial economic slowdown or if a sole supplier were adversely affected by a natural disaster because our suppliers are more likely to experience adverse changes in their financial condition and operations during such a period. 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 a significant amount of time. 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. 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.

### **Regulations related to conflict minerals could adversely impact our business.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals. As a result, the SEC adopted

annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These regulations may require due diligence efforts by the Company each year with disclosure requirements due annually on May 31<sup>st</sup>. There are costs associated with

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complying with these disclosure requirements, including due diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Even though we are not aware of any conflict minerals in our products, the implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products in the future. As there may be only a limited number of suppliers offering conflict free conflict minerals, we cannot be sure that we will be able to obtain necessary materials from such suppliers in sufficient quantities or at competitive prices. Also, we may face adverse effects to our reputation if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

### **As a Delaware corporation, we are subject to certain Delaware anti-takeover provisions.**

As a Delaware corporation, we are subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which may, unless certain criteria are met, prohibit large stockholders, in particular those owning 15% or more of the voting rights of our common stock, from merging or combining with us for a practical period of time. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of SeaChange could limit the opportunity of our stockholders to receive a premium for their shares of SeaChange common stock and also could affect the price that some investors are willing to pay for our common stock.

### **Changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations.**

A change in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New pronouncements and varying interpretations of existing pronouncements have occurred with frequency and may occur in the future. Changes to existing rules, or changes to the interpretations of existing rules, could lead to changes in our accounting practices, and such changes could adversely affect our reported financial results or the way we conduct our business.

The Financial Accounting Standards Board ( FASB ) issued a new accounting standard for revenue recognition in May 2014 Accounting Standards Update No. ( ASU ) 2014-09, *Revenue from Contracts with Customers (Topic 606)* that supersedes nearly all existing U.S. GAAP revenue recognition guidance. Although we are currently in the process of evaluating the impact of ASU 2014-09 on our consolidated financial statements, it is likely to change the way we account for certain of our sales transactions in fiscal 2018, the first year that such new rules will be effective for us. Adoption of the standard could have a significant impact on our financial statements and may retroactively affect the accounting treatment of transactions completed before adoption.

### **Item 1B. UNRESOLVED STAFF COMMENTS**

None.



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<b>Location</b>	<b>Principal Use</b>	<b>Square Feet</b>
<b><u>Owned Facilities</u></b>		
Acton, Massachusetts	Corporate Headquarters,  Engineering, Customer Services, Manufacturing, Marketing and Human Resources	120,000
Greenville, New Hampshire	Subleased	24,000
<b><u>Leased Facilities</u></b>		
Eindhoven, The Netherlands	Engineering, Sales and Customer Services	20,553
Milpitas, California	Engineering	20,155
Manila, Philippines	Engineering and Customer Services	14,175
Portland, Oregon	Engineering	9,557

In addition, we lease offices in Ft. Washington, Pennsylvania, Ireland, India and Turkey. We believe that existing facilities are adequate to meet our foreseeable requirements.

**Item 3. LEGAL PROCEEDINGS**

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these 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. From time to time, we also indemnify 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 our products and services or resulting from the acts or omissions of us, our employees, authorized agents or subcontractors. From time to time, we have received requests from customers for indemnification of patent litigation claims. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Registrant's Common Equity**

Our common stock is traded on NASDAQ under the symbol SEAC .

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, 2015 and 2014.

	<b>Fiscal Year 2015</b>		<b>Fiscal Year 2014</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
<b>Three Month Period Ended:</b>				
First Quarter	\$ 12.27	\$ 9.26	\$ 12.08	\$ 10.50
Second Quarter	9.71	7.49	12.58	10.51
Third Quarter	7.97	6.48	15.12	9.97
Fourth Quarter	7.45	5.43	14.86	11.11

On April 2, 2015, there were 149 holders of record.

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.

**Issuer Purchases of Equity Securities*****Stock Repurchase Plans***

On September 4, 2013, our Board of Directors authorized the repurchase of up to \$25.0 million of our common stock through a share repurchase program which would have terminated on January 31, 2015. On May 31, 2014, this program was amended to increase the authorized repurchase amount to \$40.0 million and extend the termination date to April 30, 2015. Under the program, we are authorized to repurchase shares through Rule 10b5-1 plans, open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. This share repurchase program does not obligate us to acquire any specific number of shares and may be suspended or discontinued at any time. All repurchases are expected to be funded from our current cash and investment balances. The timing and amount of shares to be repurchased will be based on market conditions and other factors, including price, corporate and regulatory requirements, and alternative investment opportunities. Any shares repurchased by us under the share repurchase program will reduce the number of shares outstanding. Pursuant to the share repurchase program, we executed a Rule 10b5-1 plan in June 2014 to repurchase shares. We used \$5.5 million of cash in connection with the repurchase of 591,520 shares of our common stock (an average price of \$9.31 per share) in fiscal 2015. As of January 31, 2015, \$34.5 million remained available for repurchase under the existing share repurchase authorization.

**Stock Performance Graph**

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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, 2010 through January 31, 2015, with the cumulative total return on the Center for Research in Securities Prices ( CRSP ) Index for NASDAQ (U.S. Companies) and a SIC Code Index based on SeaChange's SIC Code. The comparison assumes \$100 was invested on January 29, 2010 in SeaChange's common stock at the \$6.47 closing price on January 29, 2010 and in each of the foregoing indices and assumes reinvestment of dividends, if any.

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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:

- (1) The lines represent monthly index levels derived from compounded daily returns that include all dividends.
- (2) If the monthly interval, based on the fiscal year end, is not a trading day, the preceding trading day is used.
- (3) The index level for all series was set to 100 on January 31, 2010.

**Table of Contents****Item 6. SELECTED FINANCIAL DATA**

Our selected financial data below should be read in conjunction with our audited, consolidated financial statements and related notes contained in Part II, Item 8., *Financial Statements and Supplementary Data*, of this Form 10-K. For all periods presented, this selected financial data have been adjusted to reflect the businesses divested as discontinued operations.

**CONSOLIDATED STATEMENTS OF OPERATIONS DATA**

	<b>For the Fiscal Years Ended January 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(Amounts in thousands, except per share data)</b>				
Product revenue	\$ 31,507	\$ 54,749	\$ 64,274	\$ 73,157	\$ 82,155
Service revenue	83,928	91,570	92,914	91,635	91,500
<b>Total revenues</b>	<b>115,435</b>	<b>146,319</b>	<b>157,188</b>	<b>164,792</b>	<b>173,655</b>
Total operating costs and expenses	(141,888)	(147,948)	(162,534)	(166,462)	(171,669)
Other (expense) income, net	(2,161)	(224)	(86)	6	(880)
(Loss) gain on sale of investment in affiliates		(363)	885		27,071
(Loss) income before income taxes and equity income in earnings of affiliates	(28,614)	(2,216)	(4,547)	(1,664)	28,177
Income tax (benefit) provision	(1,106)	55	(1,555)	1,881	(2,227)
Equity income in earnings of affiliates, net of tax	19	44	193	142	167
Net (loss) income from continuing operations	(27,489)	(2,227)	(2,799)	(3,403)	30,571
Loss on sale of discontinued operations			(14,073)		
Income (loss) from discontinued operations, net	5	(803)	(2,293)	(611)	(1,103)
<b>Net (loss) income</b>	<b>\$ (27,484)</b>	<b>\$ (3,030)</b>	<b>\$ (19,165)</b>	<b>\$ (4,014)</b>	<b>\$ 29,468</b>
(Loss) earnings per share:					
Basic	\$ (0.84)	\$ (0.09)	\$ (0.59)	\$ (0.13)	\$ 0.94
Diluted	\$ (0.84)	\$ (0.09)	\$ (0.59)	\$ (0.13)	\$ 0.92
(Loss) earnings per share from continuing operations:					
Basic	\$ (0.84)	\$ (0.07)	\$ (0.09)	\$ (0.11)	\$ 0.98
Diluted	\$ (0.84)	\$ (0.07)	\$ (0.09)	\$ (0.11)	\$ 0.96
Income (loss) per share from discontinued operations:					
Basic	\$ 0.00	\$ (0.02)	\$ (0.50)	\$ (0.02)	\$ (0.04)
Diluted	\$ 0.00	\$ (0.02)	\$ (0.50)	\$ (0.02)	\$ (0.04)

**CONSOLIDATED BALANCE SHEET DATA**

	<b>As of January 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(Amounts in thousands)</b>				
Working capital	\$ 101,014	\$ 125,875	\$ 116,922	\$ 103,290	\$ 92,846
Total assets	212,351	254,113	264,676	298,852	305,191
Deferred revenue	19,088	25,628	30,603	35,735	39,783
Long-term liabilities	6,266	6,670	7,815	21,685	27,275
Total liabilities	41,300	49,672	62,475	87,914	96,049
Total stockholders' equity	171,051	204,441	202,201	210,938	209,142

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### **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ( MD&A )**

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included in this Form 10-K. When reviewing the discussion, you should keep in mind the substantial risks and uncertainties that characterize our business. In particular, we encourage you to review the risk and uncertainties described under Item 1A., *Risk Factors*, of this Form 10-K. These risks and uncertainties could cause actual results to differ materially from those forecasted in forward-looking statements or implied by past results and trends. Forward-looking statements are statements that attempt to project or anticipate future developments in our business; we encourage you to review the discussion of forward-looking statements under *Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995*, at the beginning of this report. These statements, like all statements in this report, speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments. Unless otherwise specified, any reference to a year is to a fiscal year ended January 31st.

#### **Business Overview**

We are an industry leader in the delivery of multiscreen video headquartered in Acton, Massachusetts. Our products and services facilitate the aggregation, licensing, management and distribution of video and advertising content for cable television system operators, telecommunications and media companies (television networks, movie studios and broadcasters). We currently operate under one reporting segment.

In fiscal 2016, we expect to continue addressing what we see as the continuing rise of over-the-top ( OTT ) services by such companies as Netflix, Hulu and Amazon and by media companies such as HBO, CBS and BBC. This rise of OTT video services in the United States has increased the demand for multiscreen capabilities on a range of consumer devices operating on cloud-based platforms. We have been increasing our strategic investments in research and development related to our cloud-based offerings, as well as in sales and marketing as we work to increase our go-to-market efforts in this area.

We plan to invest in Rave, our cloud-based SaaS offering, which permits service providers and media companies to offer features and functions through a service hosted and managed by SeaChange, reducing cost and increasing speed and ease of use for end-users. We believe that delivering innovative solutions to both our existing customer base and to content owners that are looking to provide OTT services, we can meet their growing needs and help them get to market faster that will help them drive new revenue growth. Recognizing the importance of OTT, we have architected our cloud solutions and products to make integrating with existing networks simple and a core competency of our platform. We have optimized our software solutions to serve a wide range of consumer devices.

We expect that revenue from our next generation products will continue to grow during fiscal 2016. This is driven by increasing market acceptance of both Adrenalin and Nucleus. We believe that we have the opportunity for continued revenue growth by expanding our selling efforts in new geographic areas such as Asia Pacific and Latin America. We also believe that our existing service operator customers will need to upgrade to the next generation product to enable the capacity to increase average revenue per subscriber, reduce operating and capital expenses, and lower customer churn. During fiscal 2015, we continued to generate new design wins driven by growth of Adrenalin and market introduction of our Nucleus product. We also achieved our first win with a media company for an OTT solution that will be deployed in fiscal 2016 and several service providers have entered into trials of our Rave product.

On February 2, 2015, we acquired Timeline Labs, a California-based software-as-a-service ( SaaS ) company that enables local broadcasters, national news organizations and other media companies and brands to analyze





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social media messages in real-time, find and broadcast social trends, and measure viewing audience engagements across television, mobile and personal computers.

We continue to experience fluctuations in our revenues from period to period due to the following factors:

Budgetary approvals by our customers for capital purchases;

The ability of our customers to process the purchase order within their organization in a timely manner;

The time required to deliver and install the product and for the customer to accept the product and services;

Declines in sales of legacy products; and

Uncertainty caused by potential consolidation in the industry.

In addition, many customers may delay or reduce capital expenditures. This, together with other factors, could result in the reductions in sales of our products, longer sales cycles, difficulties in collection of accounts receivable, a longer period of time before we may recognize revenue attributable to a sale, excess and obsolete inventory, gross margin deterioration, slower adoption of new technologies, the transition to SaaS, and increased price competition.

In January 2015, we initiated a global restructuring plan to streamline our activities, primarily from an employee headcount reduction of 10%, now that our next generation software products have been brought to market and are being deployed around the globe. The reduction in workforce was implemented immediately in the United States and, to comply with non-U.S. legal requirements, will be implemented on an international basis over the next several quarters. Once fully implemented, we expect this initiative to yield approximately \$11 million in annualized cost savings.

**Results of Operations**

The following discussion summarizes the key factors our management believes are necessary for an understanding of our consolidated financial statements.

**Revenues**

The components of our total revenues are described in the following table:

	For the Fiscal Years Ended January 31,			FY15 vs. FY14		FY14 vs. FY13	
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
Software Revenues:	(Amounts in thousands, except for percentage data)						

Software Revenues:

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Products	\$ 31,507	\$ 54,749	\$ 64,274	\$ (23,242)	(42.5%)	\$ (9,525)	(14.8%)
Services	83,928	91,570	92,914	(7,642)	(8.3%)	(1,344)	(1.4%)
Total revenues	115,435	146,319	157,188	(30,884)	(21.1%)	(10,869)	(6.9%)
Cost of product revenues	9,915	11,795	19,826	(1,880)	(15.9%)	(8,031)	(40.5%)
Cost of service revenues	48,413	55,325	52,319	(6,912)	(12.5%)	3,006	5.7%
Inventory write-down			1,752		N/A	(1,752)	(100.0%)
Total cost of revenues	58,328	67,120	73,897	(8,792)	(13.1%)	(6,777)	(9.2%)
Gross profit	\$ 57,107	\$ 79,199	\$ 83,291	\$ (22,092)	(27.9%)	\$ (4,092)	(4.9%)
Gross product profit margin	68.5%	78.5%	69.2%		(10.0%)		9.3%
Gross service profit margin	42.3%	39.6%	43.7%		2.7%		(4.1%)
Gross profit margin	49.5%	54.1%	53.0%		(4.6%)		1.1%

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*Fiscal 2015 As Compared to Fiscal 2014*

*Product Revenue.* Product revenue in fiscal 2015 decreased \$23.2 million, or 43%, as compared to fiscal 2014 due primarily to:

a \$14.0 million decrease in our legacy middleware product line;

a \$6.6 million decrease in revenue from our multiscreen video platform primarily in Europe and South America; and

a \$2.6 million decrease primarily related to lower revenue from our legacy VOD backoffice products. The \$16.6 million decline in revenue from legacy products is consistent with our expectations for fiscal 2015. We expect revenues from our legacy products to continue to decrease in fiscal 2016. The decline in revenue from legacy products will be offset by an increase in our next generation product revenue.

*Service Revenue.* Service revenue decreased \$7.6 million, or 8%, for fiscal 2015, when compared to fiscal 2014, primarily due to lower video gateway service revenue and lower installation revenues due to lower product revenues.

For fiscal 2015, two customers each accounted for more than 10%, and collectively accounted for 32% of our total revenues. For fiscal 2014, three customers each accounted for more than 10%, and collectively accounted for 49% of our total revenues. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers.

International revenues accounted for approximately 48%, or \$55.6 million, and 54%, or \$79.4 million, of total revenues in fiscal 2015 and 2014, respectively. The strengthening of the U.S. dollar against the Euro adversely impacted revenue by approximately \$1.9 million in fiscal 2015. Since January 31, 2015, the U.S. dollar has continued to strengthen against the Euro, therefore, we expect that revenue will continue to be impacted next fiscal year as international revenues remain a significant portion of our business.

*Gross Profit and Margin.* Cost of product revenues consists primarily of the cost of resold third-party products and services, purchased components and subassemblies, labor and overhead relating to the assembly and testing of complete systems and costs related to customized software development contracts.

Our gross profit margin decreased approximately five percentage points for fiscal 2015, as compared to fiscal 2014. This decrease in gross profit margin was primarily due to a 10 percentage point decrease in gross product profit margin to 69% for fiscal 2015, primarily due to lower legacy middleware revenue, which carried high margins, offset by a three percentage point increase in gross service profit margin to 42% for fiscal 2015, compared to fiscal 2014, primarily due to a mix of lower video gateway service revenue, as mentioned above, which carry lower margins due to the customer-specific requirements.

*Fiscal 2014 As Compared to Fiscal 2013*

*Product Revenue.* Product revenue decreased \$9.5 million, or 15%, for fiscal 2014 as compared to fiscal 2013 due primarily to:

a \$13.3 million decrease in our revenues from legacy products, primarily in our advertising sales to our North American customers and VOD server product lines primarily to South American customers; and

\$3.1 million in lower video gateway license revenues due to a significant licensing transaction with a customer in Europe during fiscal 2013; offset by

a \$3.0 million increase in revenues from our legacy middleware product line; and

a \$3.9 million increase in revenues from our multiscreen video platform sales to large North American customers.

*Service Revenue.* Service revenue for fiscal 2014 decreased \$1.3 million as compared to fiscal 2013. This is primarily related to a \$2.5 million decrease in our legacy middleware service revenues as a result of a fiscal 2013 amendment with a European customer which resulted in a higher portion of revenue to be recognized as product revenue in fiscal 2014. This decrease was partially offset by higher customization service revenues primarily for our next generation multiscreen platform products.

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*Gross Profit and Margin.* Our gross profit margin increased one percentage point for fiscal year ended January 31, 2014, as compared to fiscal 2013, net of the inventory write-down recorded during the second quarter of fiscal 2013.

This is primarily due to the following:

A four percentage point decrease in gross service profit margin to 40% for fiscal 2014, compared to fiscal 2013, primarily due to the mix of higher customized development revenues which typically carry lower margins due to higher costs of research and development personnel; offset by

A nine percentage point increase in gross product profit margin to 79% for fiscal 2014, primarily due to a mix of higher software licensing revenues and lower VOD server revenues, which typically carry lower margins.

**Operating Expenses*****Research and Development***

The following table provides information regarding the change in research and development expenses during the periods presented:

	For the Fiscal Years Ended January 31,		FY15 vs. FY14		FY14 vs. FY13		
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Research and development expenses	\$ 42,169	\$ 39,657	\$ 38,667	\$ 2,512	6.3%	\$ 990	2.6%
% of total revenue	36.5%	27.1%	24.6%				

***Fiscal 2015 As Compared to Fiscal 2014***

Research and development expenses consist primarily of employee costs, which include salaries, benefits and related payroll taxes, depreciation of development and test equipment and an allocation of related facility expenses. Research and development costs increased \$2.5 million in fiscal 2015 as compared to fiscal 2014. The increase is related to our investment in our video gateway software product, Nucleus, and our cloud-based platform, Rave.

***Fiscal 2014 As Compared to Fiscal 2013***

During fiscal 2014, our total research and development expenses increased \$1.0 million, or 3%, as compared to fiscal 2013, due primarily to an increase in outside contract labor costs as we continue to focus our investment in research and development related to our next generation product offerings.

***Selling and Marketing***

The following table provides information regarding the change in selling and marketing expenses during the periods presented:

	For the Fiscal Years Ended January 31,			FY15 vs. FY14		FY14 vs. FY13	
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Selling and marketing expenses	\$ 13,920	\$ 15,018	\$ 15,398	\$ (1,098)	(7.3%)	\$ (380)	(2.5%)
% of total revenue	12.1%	10.3%	9.8%				

**Table of Contents***Fiscal 2015 As Compared to Fiscal 2014*

Selling and marketing expenses consist primarily of payroll costs, which include salaries and related payroll taxes, benefits and commissions, travel expenses and certain promotional expenses. Selling and marketing expenses decreased \$1.1 million, or 7%, in fiscal 2015 when compared to fiscal 2014. This reduction was primarily related to lower employee related costs due to a reduction in headcount, and to lower commissions resulting from lower revenues.

*Fiscal 2014 As Compared to Fiscal 2013*

Selling and marketing expenses decreased \$0.4 million, or 3%, in fiscal 2014, when compared to fiscal 2013 due to lower commission expense resulting from lower revenues and a reduction in headcount compared to the prior fiscal year.

**General and Administrative**

The following table provides information regarding the change in general and administrative expenses during the periods presented:

	For the Fiscal Years Ended January 31,			FY15 vs. FY14		FY14 vs. FY13	
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
	(Amounts in thousands, except for percentage data)						
General and administrative expenses	\$ 16,014	\$ 17,618	\$ 17,674	\$ (1,604)	(9.1%)	\$ (56)	(0.3%)
% of total revenue	13.9%	12.0%	11.2%				

*Fiscal 2015 As Compared to Fiscal 2014*

General and administrative expenses consist primarily of employee costs, which include salaries and related payroll taxes and benefit-related costs, legal and accounting services and an allocation of related facilities expenses. General and administrative expenses decreased \$1.6 million, or 9%, in fiscal 2015, as compared to fiscal 2014, primarily due to a decrease in employee costs from a lower headcount year over year.

*Fiscal 2014 As Compared to Fiscal 2013*

General and administrative expenses remained relatively stable during fiscal 2014, as compared to fiscal 2013.

**Amortization of Intangible Assets**

The following table provides information regarding the change in amortization of intangible assets during the periods presented:

	For the Fiscal Years Ended January 31,			FY15 vs. FY14		FY14 vs. FY13	
	2015	2014	2013	% Change	\$ Change	% Change	\$ Change

\$

**Change****(Amounts in thousands, except for percentage data)**

Amortization of intangible assets.	\$ 5,154	\$ 4,630	\$ 6,395	\$ 524	11.3%	\$ (1,765)	(27.6%)
% of total revenue	4.5%	3.2%	4.1%				

Amortization expense is primarily related to the costs of acquired intangible assets. Amortization is also based on the future economic value of the related intangible assets which is generally higher in the earlier years of the assets' lives.



**Table of Contents*****Stock-based Compensation Expense***

The following table provides information regarding the change in stock-based compensation expense during the periods presented:

	For the Fiscal Years Ended January 31, FY15 vs. FY14				FY14 vs. FY13		
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Stock-based compensation expense	\$ 3,220	\$ 2,959	\$ 5,929	\$ 261	8.8%	\$ (2,970)	(50.1%)
% of total revenue	2.8%	2.0%	3.8%				

*Fiscal 2015 As Compared to Fiscal 2014*

Stock-based compensation expense is primarily due to the issuance of stock grants to our employees, executives and members of our Board of Directors. Stock-based compensation expense increased \$0.3 million during fiscal 2015 as compared to fiscal 2014 related to additional stock compensation expense recorded as a result of our separation agreement with the former Chief Executive Officer ( CEO ) and the hiring of our new CEO.

*Fiscal 2014 As Compared to Fiscal 2013*

Stock-based compensation expense decreased \$3.0 million during fiscal 2014, as compared to fiscal 2013 primarily due to higher stock-based compensation related to the performance-based stock compensation granted to our now former CEO, who was appointed to his permanent position on May 1, 2012.

***Earn-outs and Change in Fair Value of Earn-outs***

The following table provides information regarding the change in earn-outs and change in fair value of earn-out expenses during the periods presented:

	For the Fiscal Years Ended January 31, FY15 vs. FY14				FY14 vs. FY13		
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Earn-outs and change in fair value of earn-outs	\$	\$ (60)	\$ 2,435	\$ 60	(100.0%)	\$ (2,495)	>(100%)
% of total revenue	0.0%	0.0%	1.5%				

During fiscal 2013 we incurred \$2.4 million of earn-out expenses for payments made in connection with certain of our acquisitions in accordance with the respective earn-out criteria being met.

***Professional Fees Other***

The following table provides information regarding the change in professional fees expenses associated with acquisitions, divestitures, litigation and strategic alternatives during the periods presented:

**For the Fiscal Years Ended January 31,    FY15 vs. FY14        FY14 vs. FY13**  
**2015                    2014                    2013        \$ Change % Change \$ Change % Change**  
**(Amounts in thousands, except for percentage data)**

Professional fees other	\$ 671	\$ 1,614	\$ 1,619	\$ (943)	(58.4%)	\$ (5)	(0.3%)
% of total revenue	0.6%	1.1%	1.0%				

Professional fees in fiscal 2015 decreased \$0.9 million when compared to fiscal 2014 primarily due to a decrease in costs related to patent litigation and remained relatively stable in fiscal 2014 when compared to fiscal 2013.

**Table of Contents*****Severance and Other Restructuring Expenses***

The following table provides information regarding the change in severance and other restructuring expenses during the periods presented:

	For the Fiscal Years Ended January 31,			FY15 vs. FY14		FY14 vs. FY13	
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Severance and other restructuring expenses	\$ 3,623	\$ 911	\$ 3,106	\$ 2,712	>100%	\$ (2,195)	(70.7%)
% of total revenue	3.1%	0.6%	2.0%				
<i>Fiscal 2015 As Compared to Fiscal 2014</i>							

Severance and other restructuring costs increased \$2.7 million in fiscal 2015, as compared to fiscal 2014, primarily due to the separation agreement with our former CEO and a reduction in workforce during fiscal 2015.

***Fiscal 2014 As Compared to Fiscal 2013***

For fiscal 2014, we incurred severance charges of \$0.9 million related to a reduction in force during the fiscal year, compared to \$1.9 million in severance charges during fiscal 2013. In addition, fiscal 2013 included a \$0.8 million leasehold improvement charge for the reduction of space and certain fixed assets in our leased facility in the Philippines, and \$0.4 million of other restructuring charges.

**Other (Expense) Income, Net**

The table below provides detail regarding our other (expense) income, net:

	For the Fiscal Years Ended January 31,			FY15 vs. FY14		FY14 vs. FY13	
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
	(Amounts in thousands, except for percentage data)						
(Loss) gain on sale of investment in affiliates	\$	\$ (363)	\$ 885	\$ 363	(100.0%)	\$ (1,248)	>(100%)
Interest income, net	211	251	26	(40)	(15.9%)	225	>100%
Foreign exchange loss	(2,348)	(367)	(23)	(1,981)	>100%	(344)	>(100%)
Miscellaneous expense	(24)	(108)	(89)	84	(77.8%)	(19)	21.3%
	\$ (2,161)	\$ (587)	\$ 799	\$ (1,574)		\$ (1,386)	

***Foreign exchange loss***

During fiscal 2015, loss on foreign exchange increased \$2.0 million due to the increased strength of the U.S. Dollar compared to other foreign currencies, primarily the Euro.

***(Loss) gain on sale of investment in affiliates***

During fiscal 2014, we recorded a loss of \$0.4 million on the sale of an investment in affiliates during the second quarter. This is compared to a \$0.9 million gain on sale of an equity investment recorded in fiscal 2013.

**Income Tax (Benefit) Provision**

	For the Fiscal Years Ended January 31,			FY15 vs. FY14		FY14 vs. FY13	
	2015	2014	2013	\$ Change	% Change	\$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Income tax (benefit) provision	\$ (1,106)	\$ 55	\$ (1,555)	\$ (1,161)	>(100%)	\$ 1,610	>100%
% of total revenue	(1.0%)	0.0%	(1.0%)				

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**Table of Contents***Fiscal 2015 As Compared to Fiscal 2014*

We recorded an income tax benefit from continuing operations of \$1.1 million in fiscal 2015. Our effective tax rate is lower than the U.S. federal statutory rate as we did not record tax benefits on our year-to-date losses in certain jurisdictions, including the United States, where we continue to maintain a full valuation allowance against deferred tax assets. Additionally, the rate is impacted by the geographic jurisdiction in which the worldwide income or loss will be incurred, resulting in the difference between the federal statutory rate of 35% and the forecasted effective tax rate. The tax benefit includes the reversal of tax reserves for uncertain tax positions due to the expiration of the statute of limitations. The statute of limitations varies in each jurisdiction we operate in. In any given year, a jurisdiction's statute of limitations may lapse without examination and any tax reserves for uncertain tax positions recorded in a corresponding year will result in the reduction of the liability for unrecognized tax benefits for that year.

Our effective tax rate may fluctuate on a quarterly basis as a result of changes in the valuation of our deferred tax assets, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof. We regularly review our tax positions in each significant taxing jurisdiction in the process of evaluating our unrecognized tax benefits. We make adjustments to our unrecognized tax benefits when: i) facts and circumstance regarding a tax position change, causing a change in management's judgment regarding that tax position; ii) a tax position is effectively settled with a tax authority; and/or iii) the statute of limitations expires regarding a tax position.

We continue to maintain a valuation allowance against deferred tax assets where realization is not certain. We periodically evaluate the likelihood of the realization of deferred tax assets and reduce the carrying amount of these deferred tax assets by a valuation allowance to the extent we believe a portion will not be realized.

*Fiscal 2014 As Compared to Fiscal 2013*

For fiscal 2014, we recorded an income tax provision of \$0.1 million primarily due to state income taxes.

**Non-GAAP Measures**

We define non-GAAP (loss) income from operations as U.S. GAAP operating (loss) income plus stock-based compensation expenses, amortization of intangible assets, earn-outs and change in fair value of earn-outs, professional fees associated with acquisitions, divestitures, litigation and strategic alternatives and severance and other restructuring costs. We define adjusted EBITDA as U.S. GAAP operating (loss) income before depreciation expense, amortization of intangible assets, stock-based compensation expense, earn-outs and change in fair value of earn-outs, professional fees associated with acquisitions, divestitures, litigation and strategic alternatives, and severance and other restructuring costs. We discuss non-GAAP (loss) income from operations in our quarterly earnings releases and certain other communications as we believe non-GAAP operating (loss) income from operations and adjusted EBITDA are both important measures that are not calculated according to U.S. GAAP. We use non-GAAP (loss) income from operations and adjusted EBITDA in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our Board of Directors, determining a component of bonus compensation for executive officers and other key employees based on operating performance and evaluating short-term and long-term operating trends in our operations. We believe that non-GAAP (loss) income from operations and adjusted EBITDA financial measures assist in providing an enhanced understanding of our underlying operational measures to manage the business, to evaluate performance compared to prior periods and the marketplace, and to establish operational goals. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making.

Non-GAAP (loss) income from operations and adjusted EBITDA are non-GAAP financial measures and should not be considered in isolation or as a substitute for financial information provided in accordance with U.S. GAAP. These non-GAAP financial measures may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenses similar to the financial adjustments described above in arriving at non-GAAP (loss) income from operations and adjusted EBITDA, and investors should not infer from our presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring.

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The following table includes the reconciliations of our U.S. GAAP (loss) income from operations, the most directly comparable U.S. GAAP financial measure, to our non-GAAP (loss) income from operations and the reconciliation of our U.S. GAAP (loss) income from operations to our adjusted EBITDA for fiscal 2015, 2014 and 2013 (amounts in thousands, except per share and percentage data):

	For the Fiscal Year Ended January 31, 2015			For the Fiscal Year Ended January 31, 2014			For the Fiscal Year Ended January 31, 2013		
	GAAP As Reported	Adjustments	Non-GAAP	GAAP As Reported	Adjustments	Non-GAAP	GAAP As Reported	Adjustments	Non-GAAP
<b>Revenues:</b>									
Products	\$ 31,507	\$	\$ 31,507	\$ 54,749	\$	\$ 54,749	\$ 64,274	\$	\$ 64,274
Services	83,928		83,928	91,570		91,570	92,914		92,914
<b>Total Revenues</b>	<b>115,435</b>		<b>115,435</b>	<b>146,319</b>		<b>146,319</b>	<b>157,188</b>		<b>157,188</b>
<b>Cost of Revenues:</b>									
Products	8,845		8,845	10,526		10,526	17,397		17,397
Services	48,272		48,272	55,075		55,075	52,162		52,162
Amortization of intangible assets	1,070	(1,070)		1,269	(1,269)		2,429	(2,429)	
Stock-based compensation	141	(141)		250	(250)		157	(157)	
Inventory write-down							1,752	(1,752)	
<b>Total cost of Revenues</b>	<b>58,328</b>	<b>(1,211)</b>	<b>57,117</b>	<b>67,120</b>	<b>(1,519)</b>	<b>65,601</b>	<b>73,897</b>	<b>(4,338)</b>	<b>69,559</b>
<b>Gross profit</b>	<b>57,107</b>	<b>1,211</b>	<b>58,318</b>	<b>79,199</b>	<b>1,519</b>	<b>80,718</b>	<b>83,291</b>	<b>4,338</b>	<b>87,629</b>
<b>Gross profit percentage</b>	<b>49.5%</b>	<b>1.0%</b>	<b>50.5%</b>	<b>54.1%</b>	<b>1.0%</b>	<b>55.2%</b>	<b>53.0%</b>	<b>2.8%</b>	<b>55.7%</b>
<b>Operating Expenses:</b>									
Research and development	42,169		42,169	39,657		39,657	38,667		38,667
Selling and marketing	13,920		13,920	15,018		15,018	15,398		15,398
General and administrative	16,014		16,014	17,618		17,618	17,674		17,674
Amortization of intangible assets	4,084	(4,084)		3,361	(3,361)		3,966	(3,966)	

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Stock-based compensation expense	3,079	(3,079)		2,709	(2,709)		5,772	(5,772)	
Turn-outs and change in fair value of turn-outs				(60)	60		2,435	(2,435)	
Professional fees other	671	(671)		1,614	(1,614)		1,619	(1,619)	
Overance and other structuring costs	3,623	(3,623)		911	(911)		3,106	(3,106)	
<b>Total operating expenses</b>	<b>83,560</b>	<b>(11,457)</b>	<b>72,103</b>	<b>80,828</b>	<b>(8,535)</b>	<b>72,293</b>	<b>88,637</b>	<b>(16,898)</b>	<b>71,739</b>
<b>(Loss) income from operations</b>	<b>\$ (26,453)</b>	<b>\$ 12,668</b>	<b>\$ (13,785)</b>	<b>\$ (1,629)</b>	<b>\$ 10,054</b>	<b>\$ 8,425</b>	<b>\$ (5,346)</b>	<b>\$ 21,236</b>	<b>\$ 15,890</b>
<b>(Loss) income from operations percentage weighted average common shares outstanding:</b>									
<b>Basic</b>	<b>(22.9%)</b>	<b>11.0%</b>	<b>(11.9%)</b>	<b>(1.1%)</b>	<b>6.9%</b>	<b>5.8%</b>	<b>(3.4%)</b>	<b>13.5%</b>	<b>10.1%</b>
<b>Adjusted</b>									
<b>Basic</b>	<b>32,772</b>	<b>32,772</b>	<b>32,772</b>	<b>32,718</b>	<b>32,718</b>	<b>32,718</b>	<b>32,494</b>	<b>32,093</b>	<b>32,494</b>
<b>Adjusted</b>	<b>32,772</b>	<b>33,004</b>	<b>32,772</b>	<b>32,718</b>	<b>33,572</b>	<b>33,572</b>	<b>32,494</b>	<b>32,989</b>	<b>32,989</b>
<b>Non-GAAP operating (loss) income per share:</b>									
<b>Basic</b>	<b>\$ (0.81)</b>	<b>\$ 0.39</b>	<b>\$ (0.42)</b>	<b>\$ (0.05)</b>	<b>\$ 0.31</b>	<b>\$ 0.26</b>	<b>\$ (0.16)</b>	<b>\$ 0.65</b>	<b>\$ 0.49</b>
<b>Adjusted</b>	<b>\$ (0.81)</b>	<b>\$ 0.39</b>	<b>\$ (0.42)</b>	<b>\$ (0.05)</b>	<b>\$ 0.30</b>	<b>\$ 0.25</b>	<b>\$ (0.16)</b>	<b>\$ 0.64</b>	<b>\$ 0.48</b>
<b>Adjusted EBITDA:</b>									
<b>Loss from operations</b>			<b>\$ (26,453)</b>			<b>\$ (1,629)</b>			<b>\$ (5,346)</b>
Depreciation expense			3,683			4,389			4,671
			5,154			4,630			6,395



Amortization of intangible assets			
Stock-based compensation expense	3,220	2,959	5,929
Spin-outs and changes in fair value		(60)	2,435
Professional fees other	671	1,614	1,619
Inventory write-down			1,752
Lease termination and restructuring	3,623	911	3,106
<b>Adjusted EBITDA</b>	<b>\$ (10,102)</b>	<b>\$ 12,814</b>	<b>\$ 20,561</b>
<b>Adjusted EBITDA %</b>	<b>(8.8%)</b>	<b>8.8%</b>	<b>13.1%</b>

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In managing and reviewing our business performance, we exclude a number of items required by U.S. GAAP. Management believes that excluding these items is useful in understanding the trends and managing our operations. We provide these supplemental non-GAAP measures in order to assist the investment community to see SeaChange through the eyes of management, and therefore enhance the understanding of our operating performance. Non-GAAP financial measures should be viewed in addition to, not as an alternative to, our reported results prepared in accordance with U.S. GAAP. Our non-GAAP financial measures reflect adjustments based on the following items:

***Amortization of Intangible Assets.*** We incur amortization expense of intangible assets related to various acquisitions that have been made in recent years. These intangible assets are valued at the time of acquisition, are then amortized over a period of several years after the acquisition and generally cannot be changed or influenced by management after the acquisition. We believe that exclusion of these expenses allows comparisons of operating results that are consistent over time for the Company's newly-acquired and long-held businesses.

***Stock-based Compensation Expense.*** We incur expenses related to stock-based compensation included in our U.S. GAAP presentation of cost of revenues, selling and marketing expense, general and administrative expense and research and development expense. Although stock-based compensation is an expense we incur and is viewed as a form of compensation, the expense varies in amount from period to period, and is affected by market forces that are difficult to predict and are not within the control of management, such as the market price and volatility of our shares, risk-free interest rates and the expected term and forfeiture rates of the awards.

***Inventory Write-down.*** We incur inventory write-downs of our legacy product lines as we end the life of certain product lines to focus on selling the new products being developed.

***Earn-outs and Change in Fair Value of Earn-outs.*** Earn-outs and the change in the fair value of the earn-outs are considered by management to be non-recurring expenses to the former shareholders of the businesses we acquire. We also incur expense due to changes in fair value related to contingent consideration that we believe would otherwise impair comparability among periods.

***Professional Fees Other.*** We have excluded the effect of legal and other professional costs associated with our acquisitions, divestitures, litigation and strategic alternatives because the amounts are considered to be significant non-operating expenses.

***Severance and Other Restructuring.*** We incur charges due to the restructuring of our business, including severance charges and facility reductions resulting from our restructuring and streamlining efforts and any changes due to revised estimates, which we generally would not have otherwise incurred in the periods presented as part of our continuing operations.

***Depreciation Expense.*** We incur depreciation expense related to capital assets purchased to support the ongoing operations of the business. These assets are recorded at cost and are depreciated using the straight-line method over the useful life of the asset. Purchases of such assets may vary significantly from period to period and without any correlation to underlying operating performance. Management believes that exclusion of depreciation expense allows comparisons of operating results that are consistent across past, present and future periods.

**Table of Contents****Liquidity and Capital Resources**

The following table includes key line items of our consolidated statements of cash flows:

	<b>For the Fiscal Years Ended January 31,</b>			<b>FY15 vs FY14</b>	<b>FY14 vs FY13</b>
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>\$ Change</b>	<b>\$ Change</b>
	<b>(Amounts in thousands)</b>				
Total cash (used in) provided by operating activities	\$ (13,339)	\$ 7,364	\$ 17,357	\$ (20,703)	\$ (9,993)
Total cash (used in) provided by investing activities	(8,156)	520	12,994	(8,676)	(12,474)
Total cash (used in) provided by financing activities	(5,504)	1,058	(4,009)	(6,562)	5,067
Effect of exchange rate changes on cash	1,284	71	(206)	1,213	277
Net (decrease) increase in cash	\$ (25,715)	\$ 9,013	\$ 26,136	\$ (34,728)	\$ (17,123)

Historically, we have financed our operations and capital expenditures primarily with cash on-hand. Cash and cash equivalents, restricted cash and marketable securities decreased from \$128.1 million at January 31, 2014 to \$105.4 million at January 31, 2015.

We believe that existing funds combined with available borrowings under the line of credit and cash provided by future operating activities are adequate to satisfy our working capital, potential acquisitions and capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months. However, if our expectations are incorrect, we may need to raise additional funds to fund our operations, to take advantage of unanticipated strategic opportunities or to strengthen our financial position. In the future, we may enter into other arrangements for potential investments in, or acquisitions of, complementary businesses, services or technologies, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

***Operating Activities***

Below are key line items affecting cash from operating activities:

	<b>For the Fiscal Years Ended</b>			<b>FY15 vs FY14</b>	<b>FY14 vs FY13</b>
	<b>2015</b>	<b>January 31,</b>	<b>2013</b>	<b>\$ Change</b>	<b>\$ Change</b>
	<b>(Amounts in thousands)</b>				
Net loss from continuing operations	\$ (27,489)	\$ (2,227)	\$ (2,799)	\$ (25,262)	\$ 572
Adjustments to reconcile net loss to cash (used in) provided by operating activities	12,197	12,092	19,459	105	(7,367)

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Net (loss) income including adjustments	(15,292)	9,865	16,660	(25,157)	(6,795)
Decrease in accounts receivables	1,574	169	6,313	1,405	(6,144)
Decrease (increase) in prepaid expenses and other current assets	1,570	6,724	(5,045)	(5,154)	11,769
Increase (decrease) in accrued expenses	1,650	(3,146)	1,430	4,796	(4,576)
Decrease in deferred revenues	(5,699)	(4,877)	(6,283)	(822)	1,406
All other net	2,853	(568)	2,895	3,421	(3,463)
Net cash (used in) provided by operating activities from continuing operations	(13,344)	8,167	15,970	(21,511)	(7,803)
Net cash provided by (used in) operating activities from discontinued operations	5	(803)	1,387	808	(2,190)
	\$ (13,339)	\$ 7,364	\$ 17,357	\$ (20,703)	\$ (9,993)

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For fiscal 2015, we used net cash from continuing operating activities of \$13.3 million. The decrease was primarily due to a net loss of \$27.5 million, a \$12.2 million net increase in noncash items and a \$1.9 million increase from the net change in other current and noncurrent assets and liabilities. Noncash items primarily consist of stock-based compensation, depreciation of property and equipment, amortization of intangible assets and changes in deferred income taxes.

In fiscal year 2014, we generated net cash from continuing operating activities of \$8.2 million. This cash provided by operating activities was primarily the result of our net loss including adjustments, which provided cash of \$9.9 million, a decrease in prepaid expenses and other current assets of \$6.7 million, primarily due to tax refunds in fiscal 2014 and a \$1.1 million increase in accrued expenses. This amount is partially offset by a \$4.2 million decrease in customer deposits, which are included in accrued expenses, due to the fulfillment of customers' orders in fiscal 2014, a \$4.9 million decrease in deferred revenues due to recognition of previously deferred revenue. Other use of cash from continuing operating activities of \$0.6 million is primarily due to a decrease in accounts payable, due to the timing of payment to our vendors.

**Investing Activities**

Cash flows from investing activities are as follows:

	For the Fiscal Years Ended			FY15 vs FY14 \$ Change	FY14 vs FY13 \$ Change
	2015	January 31, 2014	2013		
	(Amounts in thousands)				
Purchases of property and equipment and capitalized software	\$ (1,873)	\$ (2,315)	\$ (3,972)	\$ 442	\$ 1,657
Purchases of marketable securities	(9,193)	(11,479)	(15,642)	2,286	4,163
Proceeds from sale and maturity of marketable securities	7,181	12,237	14,214	(5,056)	(1,977)
Proceeds from sale of equity investment	229	1,128	885	(899)	243
Investment in affiliate	(2,000)			(2,000)	
Acquisition of businesses and payment of contingent consideration, net of cash acquired		(4,009)	(8,175)	4,009	4,166
Advance for Timeline Labs acquisition	(2,500)			(2,500)	
Other		958	452	(958)	506
Net cash used in investing activities from continuing operations	(8,156)	(3,480)	(12,238)	(4,676)	8,758
Net cash provided by investing activities from discontinued operations		4,000	25,232	(4,000)	(21,232)
	\$ (8,156)	\$ 520	\$ 12,994	\$ (8,676)	\$ (12,474)

We used \$8.2 million of cash in investing activities from continuing operations primarily related to the advance for the Timeline Lab acquisition of \$2.5 million and an investment in affiliate of \$2.0 million. Additionally, we had \$2.0

million of net purchases of marketable securities and \$1.9 million of capital asset purchases.

In fiscal 2014, we used \$3.5 million of cash in investing activities from continuing operations primarily related to the purchase of capital assets of \$2.3 million and \$4.0 million of earn-out payments made in connection with certain of our acquisitions. These cash outlays were offset by \$1.1 million of proceeds from the sale of our equity investments during fiscal 2014, the release of \$0.9 million in restricted cash as we satisfied the commitment secured by performance bonds and \$0.8 million of net proceeds related to the sale of marketable securities. Cash provided by investing activities from discontinued operations included the receipt of \$4.0 million in fiscal 2014 that was previously held in escrow and that was related to the sale of our media services business in fiscal 2013.

**Table of Contents*****Financing Activities***

Cash flows from financing activities are as follows:

	For the Fiscal Years Ended			FY15 vs	FY14 vs
	2015	January 31, 2014	2013	FY14	FY13
				\$ Change	\$ Change
	(Amounts in thousands)				
Repurchases of our common stock	\$ (5,504)	\$	\$ (6,200)	\$ (5,504)	\$ 6,200
Proceeds from issuance of common stock relating to stock option exercises		1,058	2,191	(1,058)	(1,133)
	\$ (5,504)	\$ 1,058	\$ (4,009)	\$ (6,562)	\$ 5,067

We used \$5.5 million in cash from our financing activities in fiscal 2015 for the purchase of stock under a stock repurchase plan during fiscal 2015.

We generated \$1.1 million in cash from our financing activities from continuing operations in fiscal 2014, which is a result of the issuance of common stock for the exercise of employee stock options.

***Debt Instruments and Related Covenants***

We renewed our letter agreement for a demand discretionary line of credit and a demand promissory note in the aggregate amount of \$20.0 million, effective November 26, 2014. Borrowings under the line of credit will be used to finance working capital needs and for general corporate purposes. We currently do not have any borrowings nor are there any financial covenants under this line.

***Contractual Obligations***

The following table reflects our current and contingent contractual obligations to make potential future payments as of January 31, 2015:

	Total	Less than one year	One to three years	Three to five years	Over five years
	(Amounts in thousands)				
Purchase obligations(1)	\$ 5,280	\$ 5,280	\$	\$	\$
Non-cancelable lease obligations	4,448	2,261	2,187		
Total	\$ 9,728	\$ 7,541	\$ 2,187	\$	\$

- (1) Represents obligations under agreements with non-cancelable terms to purchase goods or services. The agreements are enforceable and legally binding, and specify terms, including quantities to be purchased and the timing of the purchase.

We have excluded from the table above uncertain tax liabilities as defined by authoritative guidance due to the uncertainty of the amount and period of payment. As of January 31, 2015, we have gross unrecognized tax benefits of \$5.5 million.

Under the purchase agreement pursuant to which we acquired Timeline Labs on February 2, 2015, the Company is obligated to make earnout payments totaling up to \$2.5 million, payable in shares of our common stock, measured by qualifying revenue, on a cumulative and one-year performance target basis for the fiscal years ended January 31, 2016 and 2017.



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### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

### **Critical Accounting Policies and Significant Judgments and Estimates**

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and disclosure of contingent assets and liabilities. Our actual results could differ from these estimates under different assumptions and conditions.

The significant accounting policies and methods used in the preparation of our consolidated financial statements are described in Note 2., *Summary of Significant Accounting Policies*, to our consolidated financial statements set forth in Part II, Item 8, of this Form 10-K. We believe the following critical accounting policies reflect the significant estimates, judgments and assumptions used in the preparation of our consolidated financial statements.

#### ***Principles of Consolidation***

We consolidate the financial statements of our wholly-owned subsidiaries and all inter-company accounts are eliminated in consolidation. We also hold minority investments in the capital stock of certain private companies having product offerings or customer relationships that have strategic importance. We evaluate our equity and debt investments and other contractual relationships with affiliate companies in order to determine whether the guidelines regarding the consolidation of Variable Interest Entities ( VIE ) should be applied in the financial statements. Consolidation guidelines address consolidation by business enterprises of variable interest entities that possess certain characteristics. A 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. We have concluded that we are not the primary beneficiary for any variable interest entities as of January 31, 2015.

Our 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, our proportionate ownership share of the earnings or losses of the affiliate are included in equity income in earnings of affiliates in the consolidated statement of operations and comprehensive loss.

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 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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**Table of Contents*****Revenue Recognition***

Our transactions frequently involve the sales of hardware, software, systems and services in multiple-element arrangements. Revenues from sales of hardware, software and systems that do not require significant modification or customization of the underlying software are recognized when:

persuasive evidence of an arrangement exists;

delivery has occurred, and title and risk of loss have passed to the customer;

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 is 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 is 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. 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 intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.

Revenue from the sale of software-only products remains within the scope of the software revenue recognition rules. Maintenance and support, training, consulting, and installation services no longer fall within the scope of the software revenue recognition rules, except when they are sold with and relate to a software-only product. Revenue recognition for products that no longer fall under the scope of the software revenue recognition rules is similar to that for other tangible products and Accounting Standard Update No. ( ASU ) 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*, amended ASC 605 and is applicable for multiple-deliverable revenue arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction's economics.

Under the software revenue recognition rules, the fee is allocated to the various elements based on vendor-specific objective evidence ( VSOE ) of fair value. 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 necessary to complete the service. These services are not essential to the

functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple-element arrangements that include software development with significant modification or customization and systems sales where VSOE 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.

Under the revenue recognition rules for tangible products as amended by ASU 2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not

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qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence ( TPE ) if VSOE is not available, and best estimate of selling price ( BESP ) if neither VSOE nor TPE are available. TPE is the price of the Company's, or any competitor's, largely interchangeable products or services in stand-alone sales to similarly situated customers. BESP is the price at which we would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors.

The selling prices used in the relative selling price allocation method for certain of our services are based upon VSOE. The selling prices used in the relative selling price allocation method for third-party products from other vendors are based upon TPE. The selling prices used in the relative selling price allocation method for our hardware products, software, subscriptions, and customized services for which VSOE does not exist are based upon BESP. We do not believe TPE exists for these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes BESP with consideration for market conditions, such as the impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product, discounts provided and profit objectives. Management believes that BESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis.

For our cloud and managed service revenues, we generate revenue from two sources: (1) subscription and support services; and (2) professional services and other. Subscription and support revenue includes subscription fees from customers accessing our cloud-based software platform and support fees. Our arrangements with customers do not provide the customer with the right to take possession of the software supporting the cloud-based software platform at any time. Professional services and other revenue include fees from implementation and customization to support customer requirements. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. For the most part, subscription and support agreements are entered into for 12 to 36 months. Generally, a majority of the professional services component of the arrangements with customers is performed within a year of entering into a contract with the customer.

In most instances, revenue from a new customer acquisition is generated under sales agreements with multiple elements, comprised of subscription and support and other professional services. We evaluate each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within our control.

In determining when to recognize revenue from a customer arrangement, we are often required to exercise judgment regarding the application of our accounting policies to a particular arrangement. The primary judgments used in evaluating revenue recognized in each period involve: determining whether collection is probable, assessing whether the fee is fixed or determinable, and determining the fair value of the maintenance and service elements included in multiple-element software arrangements. Such judgments can materially impact the amount of revenue that we record in a given period. While we follow specific and detailed rules and guidelines related to revenue recognition, we make and use significant management judgments and estimates in connection with the revenue recognized in any reporting period, particularly in the areas described above. If management made different estimates or judgments, material differences in the timing of the recognition of revenue could occur.

***Allowance for Doubtful Accounts***

We recognize revenue for products and services only in those situations where collection from the customer is probable. We perform ongoing credit evaluations of customers' financial condition but generally do not require collateral. For some international customers, we may require an irrevocable letter of credit to be issued by the

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customer before the purchase order is accepted. We monitor payments from customers and assess any collection issues. We maintain allowances for specific doubtful accounts and other risk categories of accounts based on estimates of losses resulting from the inability of our customers to make required payments and record these allowances as a charge to general and administrative expenses. We base our 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.

### ***Fair Value Measurements***

We measure certain financial assets and liabilities at fair value based on valuation techniques using the best information available, which may include quoted market prices, market comparables and discounted cash flow projections. Financial instruments include money market funds, corporate debt investments, asset-backed securities, government-sponsored enterprises and state municipal obligations.

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly.

### ***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 our hardware components are purchased from outside vendors. The value of inventories is reviewed quarterly to determine that the carrying value is stated at the lower of cost or net realizable value. We record charges to reduce inventory to its net realizable value when impairment is identified through the quarterly review process. The obsolescence evaluation is based upon assumptions and estimates about future demand and possible alternative uses and involves significant judgments.

### ***Accounting for Business Combinations***

We apply the acquisition method of accounting for business combinations, including our acquisition of Timeline Labs on February 2, 2015. Under this method of accounting, we are required to record the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Determining these fair values and completing the purchase price allocation process requires management to make significant estimates and assumptions, especially at acquisition date with respect to intangible assets, estimated contingent consideration payments and pre-acquisition contingencies. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Although we believe the assumptions and estimates we have made have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired company and are inherently uncertain. Examples of critical estimates in accounting for acquisitions include but are not limited to:

the estimated fair value of the acquisition-related contingent consideration, which is calculated using a probability-weighted discounted cash flow model based upon the forecasted achievement of post acquisition bookings targets;

the future expected cash flows from product sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents; and

the relevant discount rates.



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Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Additionally, any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the bookings that are expected to be achieved, will be recognized in earnings in the period of the estimated fair value change. A change in fair value of the acquisition-related contingent consideration could have a material effect on the statement of operations and financial position in the period of the change in estimate.

### ***Acquired Intangible Assets and Goodwill***

#### ***Acquired Intangible Assets***

We use significant judgment in determining the fair value of acquired intangible assets, whether the assets are amortizable or non-amortizable and the period and method by which the intangible asset will be amortized. Intangible assets include customer contracts, completed technology, non-compete agreements, trademarks and patents. Acquired intangible assets are reported at cost, net of accumulated amortization and are either amortized on a straight-line basis over their estimated useful lives during the period the economic benefits of the intangible asset are consumed or otherwise used up. We review definite-lived intangible assets for impairment when indication of a potential impairment exists.

#### ***Goodwill***

In connection with acquisitions of operating entities, we recognize the excess of the purchase price over the fair value of the net assets acquired as goodwill. Goodwill is not amortized, but is evaluated for impairment at least annually, in our third quarter beginning August 1<sup>st</sup>. Goodwill may be required to be tested for impairment on an interim basis in addition to the annual evaluation, if an event occurs or circumstances change. We monitor economic, legal and other factors as a whole between annual impairment tests to ensure that there are no indicators that make it more likely than not that there has been a decline in our fair value below our carrying value, indicating that the recorded goodwill may be impaired. We test goodwill for impairment by evaluating our fair value compared to the book value. If the book value of the Company exceeds its fair value, the implied fair value of goodwill is compared to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess.

#### ***Long-Lived Assets***

We review property and equipment, investments and other long-lived assets on a regular basis for impairment when indication of potential impairment exists. If such circumstances exist, we evaluate 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 compare that value to the carrying value of the assets. Our cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time.

#### ***Internal Use Software***

Certain costs incurred in the application development phase of software development for internal use are capitalized and amortized over the product's estimated useful life, which is three years. The Company expenses all costs incurred that relate to planning and post implementation phases of development. Capitalized costs related to internally developed software under development are treated as construction in progress until the technology is available for

intended use, at which time the amortization commences. The Company capitalized internally developed software costs of \$0.5 million in fiscal 2015. Maintenance and training costs are expensed as incurred.

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### ***Software Development Costs***

We also purchase software for resale and capitalize those costs associated with projects that meet technological feasibility. Amortization expense of capitalized software 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 of capitalized software was immaterial for fiscal 2015 and 2014, and \$0.7 million for fiscal 2013.

### ***Accounting for Income Taxes***

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of operations and comprehensive loss except to the extent that it relates to items recognized directly within equity or in other comprehensive loss. Income taxes payable, which is included in other accrued expenses in our consolidated balance sheets, is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially-enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially-enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

We operate in multiple jurisdictions with complex tax policy and regulatory environments. In certain of these jurisdictions, we may take tax positions that management believes are supportable, but are potentially subject to successful challenge by the applicable taxing authority. These interpretational differences with the respective governmental taxing authorities can be impacted by the local economic and fiscal environment. We evaluate our tax positions and establish liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. We review these tax uncertainties in light of changing facts and circumstances, such as the progress of tax audits, and adjust them accordingly. We have a number of audits in process in various jurisdictions. Although the resolution of these tax positions is uncertain, based on currently available information, we believe that the ultimate outcomes will not have a material adverse effect on our financial position, results of operations or cash flows.

Because there are a number of estimates and assumptions inherent in calculating the various components of our tax provision, certain changes or future events such as changes in tax legislation, geographic mix of earnings, completion of tax audits or earnings repatriation plans could have an impact on those estimates and our effective tax rate.

### ***Stock-based Compensation***

We account for all employee and non-employee director stock-based compensation awards using the authoritative guidance regarding share-based payments. We continue to use the Black-Scholes pricing model as we feel it is the most appropriate method for determining the estimated fair value of the majority of applicable

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awards. We also use the Monte Carlo pricing model for our market-based option 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 estimates 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 stock-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 stock-based compensation expense could be significantly different from what we have recorded in the current period. The estimated fair value of our stock-based options and performance-based restricted stock units (RSUs), less expected forfeitures, is amortized over the awards vesting period on a graded vesting basis, whereas the RSUs are amortized on a straight-line basis.

***Foreign Currency Translation***

For subsidiaries where the U.S. dollar is designated as the functional currency of the 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. Non-monetary 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 resulting from translation of the subsidiaries' accounts are included in accumulated other comprehensive loss, a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions, and any unrealized gains and losses on short-term inter-company transactions are included in other income or expense, net.

For subsidiaries where the local currency is designated as the functional currency, we translate the subsidiaries' 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 expense, net.

The aggregate foreign exchange transaction losses included as other expense, net, on the consolidated statement of operations and comprehensive loss was \$2.3 million, \$0.4 million and approximately \$23,000 for the years ended January 31, 2015, 2014 and 2013, respectively.

***Recent Accounting Pronouncements***

We consider the applicability and impact of all Accounting Standards Updates. Updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

**Recent Accounting Guidance Not Yet Effective*****Amendments to the Consolidation Analysis***

In February 2015, the Financial Accounting Standards Board ( FASB ) issued ASU 2015-02, *Amendments to the Consolidation Analysis*. ASU 2015-02 is intended to improve guidance for limited partnerships, limited liability corporations and securitization structures. The guidance places more emphasis on risk of loss when determining a controlling financial interest, reduces the frequency of the application of related-party guidance when determining a controlling financial interest in a VIE and changes consolidation conclusions for public and

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private companies that typically make use of limited partnerships or VIEs. This guidance is effective for us beginning in fiscal 2017. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

*Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Item*

In January 2015, FASB issued ASU 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Item*. ASU 2015-01 is meant to reduce complexity in accounting standards by eliminating the concept of extraordinary items from U.S. GAAP. In the event of a transaction that meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax after income from continuing operations. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Besides presentation on the consolidated statements of operations and comprehensive loss when an item that meets the extraordinary criteria exists, we do not feel that adoption of ASU 2015-01 will have a material impact on our consolidated financial statements.

*Accounting For Share-Based Payments-Performance Target Could Be Achieved after the Requisite Service Period*

In June 2014, FASB issued ASU 2014-12, *Compensation Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 requires that a performance target which affects vesting and that could be achieved after the requisite service period be treated as a performance condition by applying existing guidance in Topic 718 as it relates to awards with performance conditions. The amendment also specifies the period over which compensation costs should be recognized. The amendment is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

*Revenue from Contracts with Customers*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and the International Financial Reporting Standards. This guidance supersedes previously issued guidance on revenue recognition and gives a five step process an entity should follow so that the entity recognizes revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance will be effective for our fiscal 2018 reporting period and must be applied either retrospectively during each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of the initial application. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

*Reporting Discontinued Operations and Disposals of Components of an Entity*

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for reporting discontinued operations while enhancing disclosures in this area.

The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be



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reported as discontinued operations. This guidance also expands the disclosures required when an entity reports a discontinued operation or when it disposes of or classifies as held for sale an individually significant component that does not meet the definition of a discontinued operation. This new guidance will be effective prospectively on disposals (or classifications of held for sale) of components of an entity that occur within our fiscal year beginning on February 1, 2015. Early adoption is permitted but only for disposals (or classification as held for sale) that have not been reported in financial statements previously issued or available for issuance. We do not anticipate material impacts on our financial statements upon initial adoption. This guidance could have a material impact on our disclosure requirements if we dispose of, or classify as held for sale, an individually significant component of our business that does not meet the definition of a discontinued operation.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Foreign Currency Exchange Rate 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 or settlement of intercompany payables and receivables among subsidiaries and their respective 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.

Our principal currency exposures relate primarily to the U.S. dollar, the Euro and the Philippine peso. All foreign currency gains and losses are included in other expenses, net, in the accompanying consolidated statements of operations and comprehensive loss. For fiscal 2015 we recorded approximately \$2.3 million in losses due to the international subsidiary translations and cash settlements of revenues and expenses.

In addition, because a substantial portion of our earnings are generated by our foreign subsidiaries whose functional currency are other than the U.S. dollar, our earnings could be materially impacted by movements in foreign currency exchange rates upon the translation of the subsidiary's earnings into the U.S. dollar. If the U.S. dollar had been stronger by 10% compared to the Euro, our total revenues would have decreased by \$3.3 million and would have negatively impacted our operations by \$0.3 million.

### **Interest Rate Risk**

Exposure to market risk for changes in interest rates relates primarily to our investment portfolio of marketable debt securities of various issuers, types and maturities and to our borrowings under our demand note payable. We do not use derivative instruments in our investment portfolio, and our investment portfolio only includes highly liquid instruments. Our cash and marketable securities include cash equivalents, which we consider to be investments purchased with original maturities of 90 days or less. There is risk that losses could be incurred if we were to sell any securities prior to stated maturity. Given the short maturities and investment grade quality of the portfolio holdings at January 31, 2015, a hypothetical 10% adverse movement in interest rates should not have a material adverse impact on the fair value of our investment portfolio. However, our long-term marketable securities, which are carried at the lower of cost or market value, have fixed interest rates, and therefore are subject to changes in fair value due to changes in interest rates.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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<u>Consolidated Balance Sheets as of January 31, 2015 and 2014</u>	54
<u>Consolidated Statements of Operations and Comprehensive Loss for the years ended January 31, 2015, 2014 and 2013</u>	55
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of SeaChange International, Inc. (a Delaware corporation) and subsidiaries (the Company) as of January 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, cash flows and stockholders' equity for each of the three years in the period ended January 31, 2015. Our audits of the basic consolidated 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2015 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 consolidated 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), the Company's internal control over financial reporting as of January 31, 2015, based on criteria established in the 2013 *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 7, 2015 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Boston, Massachusetts

April 7, 2015

**Table of Contents****SEACHANGE INTERNATIONAL, INC.****CONSOLIDATED BALANCE SHEETS****(Amounts in thousands, except share data)**

	<b>January 31, 2015</b>	<b>January 31, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 90,019	\$ 115,734
Restricted cash	1,073	
Marketable securities	7,516	5,555
Accounts and other receivables, net of allowance for doubtful accounts of \$400 and \$327 at January 31, 2015 and January 31, 2014, respectively	24,962	30,203
Unbilled receivables	6,588	5,511
Inventories, net	2,864	6,632
Prepaid expenses and other current assets	3,026	5,242
<b>Total current assets</b>	<b>136,048</b>	<b>168,877</b>
Property and equipment, net	15,869	18,530
Marketable securities, long-term	6,793	6,814
Investments in affiliates	3,051	1,051
Intangible assets, net	7,314	12,855
Goodwill	41,008	45,150
Other assets	2,268	836
<b>Total assets</b>	<b>\$ 212,351</b>	<b>\$ 254,113</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,129	\$ 6,640
Other accrued expenses	12,507	12,332
Deferred revenues	17,398	24,030
<b>Total current liabilities</b>	<b>35,034</b>	<b>43,002</b>
Deferred revenue, long-term	1,690	1,598
Other liabilities, long-term	1,493	936
Taxes payable, long-term	1,993	2,503
Deferred tax liabilities, long-term	1,090	1,633
<b>Total liabilities</b>	<b>41,300</b>	<b>49,672</b>
Commitments and contingencies (Note 8)		
Stockholders equity:		
	327	330

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Common stock, \$0.01 par value; 100,000,000 shares authorized; 32,733,636 shares issued and 32,693,852 outstanding at January 31, 2015, and 33,037,671 shares issued and 32,997,887 outstanding at January 31, 2014		
Additional paid-in capital	219,651	221,932
Treasury stock, at cost; 39,784 common shares	(1)	(1)
Accumulated loss	(43,172)	(15,688)
Accumulated other comprehensive loss	(5,754)	(2,132)
Total stockholders' equity	171,051	204,441
Total liabilities and stockholders' equity	\$ 212,351	\$ 254,113

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

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

	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>			
Products	\$ 31,507	\$ 54,749	\$ 64,274
Services	83,928	91,570	92,914
Total revenues	115,435	146,319	157,188
<b>Cost of revenues:</b>			
Products	8,845	10,526	17,397
Services	48,272	55,075	52,162
Amortization of intangible assets	1,070	1,269	2,429
Stock-based compensation expense	141	250	157
Inventory write-down			1,752
Total cost of revenues	58,328	67,120	73,897
Gross profit	57,107	79,199	83,291
<b>Operating expenses:</b>			
Research and development	42,169	39,657	38,667
Selling and marketing	13,920	15,018	15,398
General and administrative	16,014	17,618	17,674
Amortization of intangible assets	4,084	3,361	3,966
Stock-based compensation expense	3,079	2,709	5,772
Earn-outs and change in fair value of earn-outs		(60)	2,435
Professional fees other	671	1,614	1,619
Severance and other restructuring costs	3,623	911	3,106
Total operating expenses	83,560	80,828	88,637
Loss from operations	(26,453)	(1,629)	(5,346)
Other expenses, net	(2,161)	(224)	(86)
(Loss) gain on sale of investment in affiliates		(363)	885
Loss before income taxes and equity income in earnings of affiliates	(28,614)	(2,216)	(4,547)
Income tax (benefit) provision	(1,106)	55	(1,555)

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Equity income in earnings of affiliates, net of tax	19	44	193
Loss from continuing operations	(27,489)	(2,227)	(2,799)
Loss on sale of discontinued operations			(14,073)
Income (loss) from discontinued operations, net of tax	5	(803)	(2,293)
Net loss	\$ (27,484)	\$ (3,030)	\$ (19,165)
Net loss	\$ (27,484)	\$ (3,030)	\$ (19,165)
Other comprehensive loss, net of tax:			
Foreign currency translation adjustment	(3,647)	(294)	7,954
Unrealized gain (loss) on marketable securities(1)	25	(12)	(6)
Comprehensive loss	\$ (31,106)	\$ (3,336)	\$ (11,217)

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	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Loss per share:</b>			
Basic loss per share	\$ (0.84)	\$ (0.09)	\$ (0.59)
Diluted loss per share	\$ (0.84)	\$ (0.09)	\$ (0.59)
<b>Loss per share from continuing operations:</b>			
Basic loss per share	\$ (0.84)	\$ (0.07)	\$ (0.09)
Diluted loss per share	\$ (0.84)	\$ (0.07)	\$ (0.09)
<b>Income (loss) per share from discontinued operations:</b>			
Basic loss per share	\$ 0.00	\$ (0.02)	\$ (0.50)
Diluted loss per share	\$ 0.00	\$ (0.02)	\$ (0.50)
<b>Weighted average common shares outstanding:</b>			
Basic	32,772	32,718	32,494
Diluted	32,772	32,718	32,494

(1) Tax amounts for all periods were not significant

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



**Table of Contents****SEACHANGE INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (27,484)	\$ (3,030)	\$ (19,165)
Net (income) loss from discontinued operations	(5)	803	16,366
Adjustments to reconcile net loss to net cash (used in) provided by continuing operating activities:			
Depreciation and amortization of property and equipment	3,683	4,389	4,671
Amortization of intangible assets	5,154	4,630	6,395
Stock-based compensation expense	3,220	2,959	5,929
Deferred income taxes	(372)	(684)	(132)
Other	512	798	2,596
Changes in operating assets and liabilities:			
Accounts receivable	3,567	5,420	1,676
Unbilled receivables	(1,993)	(5,251)	4,637
Inventories	3,183	(234)	2,563
Prepaid expenses and other assets	1,570	6,724	(5,045)
Accounts payable	(1,619)	(873)	(236)
Accrued expenses	1,650	(3,146)	1,430
Deferred revenues	(5,699)	(4,877)	(6,283)
Other	1,289	539	568
Net cash (used in) provided by operating activities from continuing operations	(13,344)	8,167	15,970
Net cash provided by (used in) operating activities from discontinued operations	5	(803)	1,387
Total cash (used in) provided by operating activities	(13,339)	7,364	17,357
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(1,873)	(2,315)	(3,972)
Purchases of marketable securities	(9,193)	(11,479)	(15,642)
Proceeds from sale and maturity of marketable securities	7,181	12,237	14,214
Investment in affiliate	(2,000)		
Proceeds from sale of equity investment	229	1,128	885
Acquisition of businesses and payment of contingent consideration, net of cash acquired		(4,009)	(8,175)
Advance for Timeline Labs acquisition	(2,500)		
Other		958	452

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Net cash used in investing activities from continuing operations	(8,156)	(3,480)	(12,238)
Net cash provided by investing activities from discontinued operations		4,000	25,232
Total cash (used in) provided by investing activities	(8,156)	520	12,994

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	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from financing activities:</b>			
Repurchases of our common stock	(5,504)		(6,200)
Proceeds from issuance of common stock relating to stock option exercises		1,058	2,191
Total cash provided by (used in) financing activities	(5,504)	1,058	(4,009)
Effect of exchange rate changes on cash	1,284	71	(206)
Net (decrease) increase in cash and cash equivalents	(25,715)	9,013	26,136
Cash and cash equivalents, beginning of period	115,734	106,721	80,585
Cash and cash equivalents, end of period	\$ 90,019	\$ 115,734	\$ 106,721
<b>Supplemental disclosure of cash flow information:</b>			
Income taxes paid	\$ 671	\$ 2,606	\$ 1,312
Interest paid	\$ 6	\$ 4	\$ 89
<b>Supplemental disclosure of non-cash activities:</b>			
Transfer of items originally classified as inventories to equipment	\$ 474	\$ 1,110	\$ 897
Issuance of common stock for settlement of contingent consideration related to acquisitions	\$	\$ 1,560	\$
Asset held for sale reclassified to asset held for use and reclassified from current assets to property and equipment	\$	\$ 465	\$

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

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## SEACHANGE INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Amounts in thousands, except share amounts)

	Common Stock		Accumulated Other Comprehensive Income (Loss)			Treasury Stock		Total Stockholders Equity	
	Number of Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Translation Adjustment	Unrealized Gain/Loss Investments	Number of Shares		Amount
Balance at January 31, 2012	32,534,444	326	213,880	6,507	(9,810)	36	(39,784)	(1)	210,938
Issuance of common stock pursuant to exercise of stock options	304,550	2	2,189						2,191
Issuance of common stock pursuant to vesting of restricted stock units	359,676	4	(4)						
Issuance of common stock pursuant to deferred consideration	75,680	1	585						586
Purchase of treasury shares			(6,194)				(764,024)		(6,194)
Retirement of shares	(764,024)	(6)					764,024		(6)
Stock-based compensation expense			5,903						5,903
Change in fair value on marketable securities						(6)			(6)
Translation adjustment					7,954				7,954
Net loss				(19,165)					(19,165)

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Balance at January 31, 2013	32,510,326	327	216,359	(12,658)	(1,856)	30	(39,784)	(1)	202,201
Issuance of common stock pursuant to exercise of stock options	118,529	1	1,057						1,058
Issuance of common stock pursuant to vesting of restricted stock units	205,928	1	(1)						
Issuance of common stock pursuant to deferred consideration	202,888	1	1,558						1,559
Stock-based compensation expense			2,959						2,959
Change in fair value on marketable securities						(12)			(12)
Translation adjustment					(294)				(294)
Net loss				(3,030)					(3,030)

Balance at January 31, 2014	33,037,671	\$ 330	\$ 221,932	\$ (15,688)	\$ (2,150)	\$ 18	(39,784)	\$ (1)	\$ 204,441
Issuance of common stock pursuant to vesting of restricted stock units	287,485	3	(3)						
Purchase of treasury shares			(5,498)				(591,520)		(5,498)
Retirement of shares	(591,520)	(6)					591,520		(6)
Stock-based compensation expense			3,220						3,220
Change in fair value on marketable securities						25			25

Translation adjustment					(3,647)					(3,647)
Net loss					(27,484)					(27,484)

Balance at January 31, 2015	32,733,636	\$ 327	\$ 219,651	\$ (43,172)	\$ (5,797)	\$ 43	(39,784)	\$ (1)	\$ 171,051
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The accompanying notes are an integral part of these consolidated financial statements.

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**SEACHANGE INTERNATIONAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Business**

We are an industry leader in the delivery of multiscreen video. Our products and services facilitate the aggregation, licensing, management and distribution of video (primarily movies and television programming) and television advertising content to cable system operators, telecommunications companies and mobile communications providers.

**2. Summary of Significant Accounting Policies**

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

***Basis of Presentation and Principles of Consolidation***

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP. We consolidate the financial statements of our wholly-owned subsidiaries and all intercompany transactions and account balances have been eliminated in consolidation. We have reclassified certain prior fiscal year data to conform to our current fiscal year presentation.

We also hold minority investments in the capital stock of certain private companies having product offerings or customer relationships that have strategic importance. We evaluate our equity and debt investments and other contractual relationships with affiliate companies in order to determine whether the guidelines regarding the consolidation of VIEs should be applied in the financial statements. Consolidation guidelines address consolidation by business enterprises of VIEs that possess certain characteristics. A 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. We use qualitative analysis to determine whether or not we are the primary beneficiary of a VIE. We consider the rights and obligations conveyed by the implicit and explicit variable interest in each VIE and the relationship of these with the variable interests held by other parties to determine whether its variable interests will absorb a majority of a VIE's expected losses, receive a majority of its expected residual returns, or both. If we determine that our variable interests will absorb a majority of the VIE's expected losses, receive a majority of their expected residual returns, or both, we consolidate the VIE as the primary beneficiary, and if not, it is not consolidated. We have concluded that we are not the primary beneficiary for any variable interest entities during fiscal 2015.

***Use of Estimates***

The preparation of these financial statements in conformity with U.S. GAAP requires management 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 the timing and amounts of revenue recognition, valuation of inventory, collectability of accounts receivable, valuation of investments and income taxes, assumptions used to determine stock-based compensation, valuation of goodwill and intangible assets and related amortization. Management bases these estimates on historical and anticipated results and trends and on various other assumptions that management 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.



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**Table of Contents*****Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand and on deposit and highly liquid, temporary cash investments with an original maturity of three months or less. All cash equivalents are carried at cost, which approximates fair value.

***Marketable Securities***

We account for investments in accordance with authoritative guidance that defines investment classifications. We determine the appropriate classification of debt securities at the time of purchase and reevaluate such designation as of each balance sheet date. Our investment portfolio consists primarily of money market funds, U.S. treasury notes or bonds and U.S. government agency bonds at January 31, 2015 and 2014, but can consist of corporate debt investments, asset-backed securities and government-sponsored enterprises. Our 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 loss. The amortization of premiums and accretion of discounts to maturity are computed under the effective interest method and are included in other expenses, net in our consolidated statements of operations and comprehensive loss. Interest on securities is recorded as earned and is also included in other expenses, net. Any realized gains or losses would be shown in the accompanying consolidated statements of operations and comprehensive loss in other expenses, net.

We evaluate our 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 our 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, are 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, 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.

***Fair Value Measurements******Definition and Hierarchy***

The applicable accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance establishes a framework for measuring fair value and expands required disclosure about the fair value measurements of assets and liabilities. This guidance requires us to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a non-recurring basis in periods subsequent to initial measurement, in a fair value hierarchy.

The fair value hierarchy is broken down into three levels based on the reliability of inputs and requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required, as well as the assets and liabilities that we value using those levels of inputs:

Level 1    Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not very active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The fair value measurements of the contingent consideration obligations related to our business acquisitions are valued using Level 3 inputs.

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**Table of Contents***Valuation Techniques*

Inputs to valuation techniques are observable and unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. When developing fair value estimates for certain financial assets and liabilities, we maximize the use of observable inputs and minimize the use of unobservable inputs. When available, we use quoted market prices, market comparables and discounted cash flow projections. Financial instruments include money market funds, U.S. treasury notes or bonds and U.S. government agency bonds.

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly. In periods of market inactivity, the observability of prices and inputs may be reduced for certain instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

*Concentration of Credit Risk*

Financial instruments which potentially expose us to concentrations of credit risk include cash equivalents, investments in treasury bills, certificates of deposits and commercial paper, trade accounts receivable, accounts payable and accrued liabilities. We have cash investment policies which, among other things, limit investments to investment-grade securities. We restrict our 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. We perform ongoing credit evaluations of our customers. As of January 31, 2015, two customers represented more than 10% of consolidated accounts receivable compared to one customer as of January 31, 2014. For fiscal 2015, 2014 and 2013, two, three and two customers each accounted for more than 10% of our total revenue.

*Accounts Receivable and Allowances for Doubtful Accounts*

For trade accounts receivable, we evaluate customers' financial condition, require advance payments from certain of our customers and maintain reserves for potential credit losses. We perform ongoing credit evaluations of customers' financial condition but generally do not require collateral. For some international customers, we require an irrevocable letter of credit to be issued by the customer before the purchase order is accepted. We monitor payments from customers and assess any collection issues. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments and record these allowances as a charge to general and administrative expenses in our consolidated statements of operations and comprehensive loss. We base our allowances for doubtful accounts on historical collections and write-off experience, current trends, credit assessments, and other analysis of specific customer situations. At January 31, 2015 and 2014, we had an allowance for doubtful accounts of \$0.4 million and \$0.3 million, respectively, to provide for potential credit losses. We charge off trade accounts receivables against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Recoveries of trade receivables previously charged off are recorded when received.

*Inventory Valuation*

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. The values of inventories are reviewed quarterly to determine that the carrying value is stated at the lower of cost or net realizable value. We record charges to reduce inventory to its net realizable value when impairment is identified

through a quarterly review process. The obsolescence evaluation is based upon assumptions and

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estimates about future demand, or possible alternative uses and involves significant judgments. For the years ended January 31, 2015, 2014 and 2013, we recorded a provision for obsolescence of \$0.1 million, \$0.1 million and \$0.3 million, respectively.

***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 our installed base. Property and equipment are recorded at cost and depreciated over their estimated useful lives. Determining the useful lives of property and equipment requires us to make significant judgments that can materially impact our operating results. If our estimates require adjustment, it could have a material impact on our reported results.

Demonstration equipment consists of systems manufactured by us for use in marketing and selling activities. 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 us 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.

Generally, property and equipment include assets in service. Fully depreciated assets remaining in service along with related accumulated depreciation are not removed from the balance sheet until the corresponding asset is removed from service either through a retirement or sale. Upon retirement or sale of an asset or asset group, 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 or loss.

***Investments in Affiliates***

Our 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, our proportionate ownership share of the earnings or losses of the affiliate are included in equity income in earnings of affiliates in our consolidated statements of operations and comprehensive loss.

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. If we determine that an other-than-temporary impairment has occurred, we will write-down the investment to its fair value. 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, the company's current cash position, earnings and cash flow forecasts, recent operational performance, and any other readily available data. 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.



**Table of Contents*****Intangible Assets and Goodwill***

Intangible assets consist of customer contracts, completed technology, non-compete agreements, trademarks and patents. The intangible assets are amortized to cost of sales and operating expenses, as appropriate, on a straight-line or accelerated basis, using the economic consumption life basis, in order to reflect the period that the assets will be consumed, which are:

**Intangible assets with finite useful lives:**

Customer contracts	1 - 8 years
Non compete agreements	2 - 3 years
Completed technology	4 - 6 years
Trademarks, patents and other	5 years

Goodwill is recorded when the consideration for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired.

***Impairment of Assets***

Indefinite-lived intangible assets, such as goodwill are not amortized, but are evaluated for impairment, at the reporting unit level, annually in our third quarter beginning August 1<sup>st</sup>. Indefinite-lived intangible assets may be 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 the Company's 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 indefinite-lived intangible assets for impairment requires several judgments and assumptions to be made to determine the fair value of the Company, 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. We may employ one or more of three generally accepted approaches for valuing businesses: the market approach, the income approach and the asset-based (cost) approach to arrive at the fair value. We chose to use the market approach and the income approach to determine the value of the Company for our testing in fiscal 2015. In calculating the fair value, we derived the standalone projected five year cash flows for the Company. This process started with the projected cash flows which were discounted. The choice of which approach and methods to use in a particular situation depends on the facts and circumstances.

We also evaluate property and equipment, intangible assets with finite useful lives 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, we evaluate 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. Our cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time.

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### ***Income Taxes***

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of operations and comprehensive loss except to the extent that it relates to items recognized directly within equity or in other comprehensive loss. Income taxes payable, which is included in other accrued expenses in our consolidated balance sheets, is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially-enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially-enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

We operate in multiple jurisdictions with complex tax policy and regulatory environments. In certain of these jurisdictions, we may take tax positions that management believes are supportable, but are potentially subject to successful challenge by the applicable taxing authority. These interpretational differences with the respective governmental taxing authorities can be impacted by the local economic and fiscal environment. We evaluate our tax positions and establish liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. We review these tax uncertainties in light of changing facts and circumstances, such as the progress of tax audits, and adjust them accordingly. We have a number of audits in process in various jurisdictions. Although the resolution of these tax positions is uncertain, based on currently available information, we believe that the ultimate outcomes will not have a material adverse effect on our financial position, results of operations or cash flows.

Because there are a number of estimates and assumptions inherent in calculating the various components of our tax provision, certain changes or future events such as changes in tax legislation, geographic mix of earnings, completion of tax audits or earnings repatriation plans could have an impact on those estimates and our effective tax rate.

### ***Restructuring***

Restructuring charges that we record consist of employee-related severance charges, contract termination costs and the disposal of related fixed assets. Restructuring charges represent our best estimate of the associated liability at the date the charges are recognized. Adjustments for changes in assumptions are recorded as a component of operating expenses in the period they become known. Differences between actual and expected charges and changes in assumptions could have a material effect on our restructuring accrual as well as our consolidated results of operations. See Note 7, *Severance and Other Restructuring Costs*, for more information on the current restructuring plan.





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***Foreign Currency Translation***

For subsidiaries where the U.S. dollar is designated as the functional currency of the 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. Non-monetary 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 resulting from translation of the subsidiaries' accounts are included in accumulated other comprehensive loss, a separate component of stockholders' equity. Gains and losses on foreign currency transactions, and any unrealized gains and losses on short-term inter-company transactions are included in other expense, net.

For subsidiaries where the local currency is designated as the functional currency, we translate our 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 expense, net.

The aggregate foreign exchange transaction losses included in other expenses, net, on the consolidated statements of operations and comprehensive loss, were \$2.3 million, \$0.4 million and approximately \$23,000 for fiscal 2015, 2014 and 2013, respectively.

***Comprehensive Loss***

We present accumulated other comprehensive loss in our consolidated balance sheets and comprehensive loss in the consolidated statement of operations and comprehensive loss. At the end of fiscal 2015, 2014 and 2013, our comprehensive loss of \$31.1 million, \$3.3 million and \$11.2 million consists primarily of net loss, cumulative translation adjustments and unrealized gains and losses on marketable securities.

***Revenue Recognition***

Our transactions frequently involve the sales of hardware, software, systems and services in multiple-element arrangements. Revenues from sales of hardware, software and systems that do not require significant modification or customization of the underlying software are recognized when:

persuasive evidence of an arrangement exists;

delivery has occurred, and title and risk of loss have passed to the customer;

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 is 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 is 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. 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 intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.

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Revenue from the sale of software-only products remains within the scope of the software revenue recognition rules. Maintenance and support, training, consulting, and installation services no longer fall within the scope of the software revenue recognition rules, except when they are sold with and relate to a software-only product. Revenue recognition for products that no longer fall under the scope of the software revenue recognition rules is similar to that for other tangible products and ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*, amended ASC 605 and is applicable for multiple-deliverable revenue arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction's economics.

Under the software revenue recognition rules, the fee is allocated to the various elements based on vendor-specific objective evidence (VSOE) of fair value. 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 necessary to complete the service. These services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple-element arrangements that include software development with significant modification or customization and systems sales where VSOE 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.

Under the revenue recognition rules for tangible products as amended by ASU 2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence (TPE) if VSOE is not available, and best estimate of selling price (BESP) if neither VSOE nor TPE are available. TPE is the price of the Company's, or any competitor's, largely interchangeable products or services in stand-alone sales to similarly situated customers. BESP is the price at which we would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors.

The selling prices used in the relative selling price allocation method for certain of our services are based upon VSOE. The selling prices used in the relative selling price allocation method for third-party products from other vendors are based upon TPE. The selling prices used in the relative selling price allocation method for our hardware products, software, subscriptions, and customized services for which VSOE does not exist are based upon BESP. We do not believe TPE exists for these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes BESP with consideration for market conditions, such as the impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product, discounts provided and profit objectives. Management believes that BESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis.

For our cloud and managed service revenues, we generate revenue from two sources: (1) subscription and support services; and (2) professional services and other. Subscription and support revenue includes subscription fees from customers accessing our cloud-based software platform and support fees. Our arrangements with customers do not provide the customer with the right to take possession of the software supporting the cloud-

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based software platform at any time. Professional services and other revenue include fees from implementation and customization to support customer requirements. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. For the most part, subscription and support agreements are entered into for 12 to 36 months. Generally, a majority of the professional services component of the arrangements with customers is performed within a year of entering into a contract with the customer.

In most instances, revenue from a new customer acquisition is generated under sales agreements with multiple elements, comprised of subscription and support and other professional services. We evaluate each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within our control.

In determining when to recognize revenue from a customer arrangement, we are often required to exercise judgment regarding the application of our accounting policies to a particular arrangement. The primary judgments used in evaluating revenue recognized in each period involve: determining whether collection is probable, assessing whether the fee is fixed or determinable, and determining the fair value of the maintenance and service elements included in multiple-element software arrangements. Such judgments can materially impact the amount of revenue that we record in a given period. While we follow specific and detailed rules and guidelines related to revenue recognition, we make and use significant management judgments and estimates in connection with the revenue recognized in any reporting period, particularly in the areas described above. If management made different estimates or judgments, material differences in the timing of the recognition of revenue could occur.

***Stock-based Compensation***

We account for all employee and non-employee director stock-based compensation awards using the authoritative guidance regarding stock-based payments. 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. We also use the Monte Carlo pricing model for our market-based option awards. Determining the appropriate fair value model and calculating the fair value of stock-based payment awards requires the input of highly subjective assumptions, including the expected life of the stock-based payment awards and stock price volatility. Management estimates the volatility based on the historical volatility of our stock. The assumptions used in calculating the fair value of stock-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 stock-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 stock-based compensation expense could be significantly different from what it has recorded in the current period. The estimated fair value of our stock-based options and performance-based restricted stock units ( RSUs ), less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the RSUs and employee stock purchase plan stock units are amortized on a straight-line basis.

***Advertising Costs***

Advertising costs are charged to expense as incurred. Advertising costs were \$0.1 million, \$0.1 million and \$0.2 million for fiscal 2015, 2014 and 2013, respectively.

***Earnings Per Share***

Earnings per share are presented in accordance with authoritative guidance which requires the presentation of basic earnings per share and diluted earnings per share. Basic earnings per share is computed by dividing

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earnings available to common shareholders by the weighted-average shares of common stock outstanding during the period. For the purposes of calculating diluted earnings 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 shares of common stock, such as stock options and restricted stock, calculated using the treasury stock method. For the purpose of calculating diluted loss per share, we do not include these shares in the denominator because these shares would have an anti-dilutive effect on periods in which we incur a net loss. Certain shares of our common stock have exercise prices in excess of the average market price. These shares are anti-dilutive and are omitted from the calculation of earnings per share. For more information on this see Note 14., *Net Loss Per Share*, below.

***Recent Accounting Pronouncements***

We consider the applicability and impact of all Accounting Standards Updates. Updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

***Recent Accounting Guidance Not Yet Effective******Amendments to the Consolidation Analysis***

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. ASU 2015-02 is intended to improve guidance for limited partnerships, limited liability corporations and securitization structures. The guidance places more emphasis on risk of loss when determining a controlling financial interest, reduces the frequency of the application of related-party guidance when determining a controlling financial interest in a VIE and changes consolidation conclusions for public and private companies that typically make use of limited partnerships or VIEs. This guidance is effective for us beginning in fiscal 2017. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

***Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Item***

In January 2015, the FASB issued ASU 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Item*. ASU 2015-01 is meant to reduce complexity in accounting standards by eliminating the concept of extraordinary items from U.S. GAAP. In the event of a transaction that meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax after income from continuing operations. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Besides presentation on the consolidated statements of operations and comprehensive (loss) income when an item that meets the extraordinary criteria exists, we do not feel that adoption of ASU 2015-01 will have a material impact on our consolidated financial statements.

***Accounting For Share-Based Payments Performance Target Could Be Achieved after the Requisite Service Period***

In June 2014, the FASB issued ASU 2014-12, *Compensation Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 requires that a performance target which affects vesting and that could be achieved after the requisite service period be treated as a performance condition by applying existing guidance in



Topic 718 as it relates to awards with performance conditions. The amendment also specifies the period over which compensation costs should be recognized. The amendment is effective for annual

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reporting periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

*Revenue from Contracts with Customers*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and the International Financial Reporting Standards. This guidance supersedes previously issued guidance on revenue recognition and gives a five step process an entity should follow so that the entity recognizes revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance will be effective for our fiscal 2018 reporting period and must be applied either retrospectively during each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of the initial application. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

*Reporting Discontinued Operations and Disposals of Components of an Entity*

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for reporting discontinued operations while enhancing disclosures in this area. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be reported as discontinued operations. This guidance also expands the disclosures required when an entity reports a discontinued operation or when it disposes of or classifies as held for sale an individually significant component that does not meet the definition of a discontinued operation. This new guidance will be effective prospectively on disposals (or classifications of held for sale) of components of an entity that occur within our fiscal year beginning on February 1, 2015. Early adoption is permitted but only for disposals (or classification as held for sale) that have not been reported in financial statements previously issued or available for issuance. We do not anticipate material impacts on our financial statements upon initial adoption. This guidance could have a material impact on our disclosure requirements if we dispose of, or classify as held for sale, an individually significant component of our business that does not meet the definition of a discontinued operation.

**3. Discontinued Operations**

On May 4, 2012, we completed the sale of our broadcast servers and storage business and received a cash payment, net of certain adjustments, of \$4.9 million and recorded a total gain in this transaction, net of tax in the amount of \$1.5 million. The financial results from this divested business are included in discontinued operations in our consolidated statements of operations and comprehensive loss.

On May 21, 2012, we completed the sale of our media services business, ODG, to Avail Media, Inc. (Avail) for a purchase price of approximately \$27 million plus certain working capital adjustments. We recorded a \$15.5 million loss in our consolidated statements of operations and comprehensive loss from the sale of ODG, primarily arising from a related \$17.0 million goodwill impairment charge that we recorded in the first quarter of fiscal 2013. The financial results from our former media services segment are included as discontinued operations in our consolidated statements of operations and comprehensive loss.



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The following table details selected financial information for our former broadcast servers and storage and media services business units for the periods presented (amounts in thousands):

	For the Fiscal Year Ended January 31, 2014			For the Fiscal Year Ended January 31, 2013		
	Servers and Storage	Media Services	Total Discontinued Operations	Servers and Storage	Media Services	Total Discontinued Operations
<b>Revenues:</b>						
Products	\$ 46	\$	\$ 46	\$ 1,031	\$	\$ 1,031
Services				835	9,315	10,150
Total revenues	\$ 46	\$	\$ 46	\$ 1,866	\$ 9,315	\$ 11,181
<b>Income (loss) from discontinued operations:</b>						
Loss from discontinued operations, before tax	\$ (803)	\$	\$ (803)	\$ (1,854)	\$ (194)	\$ (2,048)
Income tax provision (benefit)				84	(13)	71
Income in investment in affiliates					(174)	(174)
Loss from discontinued operations, after tax	\$ (803)	\$	\$ (803)	\$ (1,938)	\$ (355)	\$ (2,293)

**4. Fair Value Measurements*****Fair Value Measurements of Assets and Liabilities***

The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of January 31, 2015 and January 31, 2014:

	Fair Value at January 31, 2015 Using			
	January 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial assets:</b>				
Money market accounts (a)	\$ 1,575	\$ 1,575	\$	\$
<b>Available for sale marketable securities:</b>				

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Current marketable securities:

U.S. treasury notes and bonds conventional	1,501	1,501		
U.S. government agency issues	6,015		6,015	

Non-current marketable securities:

U.S. treasury notes and bonds conventional	4,286	4,286		
U.S. government agency issues	2,507		2,507	

Total	\$ 15,884	\$ 7,362	\$ 8,522	\$
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	<b>Fair Value at January 31, 2014 Using Quoted Prices in Active Markets for Identical Assets January 31, 2014</b>			
	<b>(Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
	<b>(Amounts in thousands)</b>			
<b>Financial assets:</b>				
Money market accounts (a)	\$ 3,463	\$ 3,463	\$	\$
<b>Available for sale marketable securities:</b>				
<b>Current marketable securities:</b>				
U.S. treasury notes and bonds conventional	3,545	3,545		
U.S. government agency issues	2,010	2,010		
<b>Non-current marketable securities:</b>				
U.S. government agency issues	6,814	6,814		
<b>Total</b>	<b>\$ 15,832</b>	<b>\$ 7,008</b>	<b>\$ 8,824</b>	<b>\$</b>

- a) Money market funds and U.S. treasury bills are included in cash and cash equivalents on the accompanying consolidated balance sheet and are valued at quoted market prices for identical instruments in active markets.

**Available-for-Sale Securities**

We determine the appropriate classification of debt securities at the time of purchase and reevaluate such designation as of each balance sheet date. Our investment portfolio consists of money market funds, U.S. treasury notes and bonds, and U.S. government agency notes and bonds as of January 31, 2015 and 2014. 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. Our 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 loss. The amortization of premiums and accretion of discounts to maturity are computed under the effective interest method and is included in other expenses, net. Interest on securities is recorded as earned and is also included in other expenses, net. Any realized gains or losses would be shown in the accompanying consolidated statements of operations and comprehensive loss in other expenses, net.

The following is a summary of cash, cash equivalents and available-for-sale securities, including the cost basis, aggregate fair value and unrealized gains and losses, for short-and long-term marketable securities portfolio as of January 31, 2015 and 2014:

<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>(Amounts in thousands)</b>			

**January 31, 2015:**

Cash	\$ 88,444	\$	\$	\$ 88,444
Cash equivalents	1,575			1,575
Cash and cash equivalents	90,019			90,019
U.S. treasury notes and bonds short-term	1,500	1		1,501
U.S. treasury notes and bonds long-term	4,268	18		4,286
U.S. government agency issues short-term	6,008	7		6,015
U.S. government agency issues long-term	2,490	17		2,507
Total cash, cash equivalents and marketable securities	\$ 104,285	\$ 43	\$	\$ 104,328

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	Amortized Cost	Gross Unrealized Gains (Amounts in thousands)	Gross Unrealized Losses	Estimated Fair Value
<b>January 31, 2014:</b>				
Cash	\$ 112,271	\$	\$	\$ 112,271
Cash equivalents	3,463			3,463
Cash and cash equivalents	115,734			115,734
U.S. treasury notes and bonds short-term	3,540	5		3,545
U.S. government agency issues short-term	2,005	5		2,010
U.S. government agency issues long-term	6,806	8		6,814
Total cash, cash equivalents and marketable securities	\$ 128,085	\$ 18	\$	\$ 128,103

The gross realized gains and losses on sale of available-for-sale securities for fiscal years 2015, 2014 and 2013 were immaterial. 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, 2015 are as follows (amounts in thousands):

	Estimated Fair Value
Maturity of one year or less	\$ 7,516
Maturity between one and five years	6,793
Total	\$ 14,309

We concluded that there were no other than temporary declines in investments recorded as of January 31, 2015, 2014 and 2013. The unrealized holding gains (losses), net of tax, on available-for-sale securities, which are not material for the periods presented, have been included in stockholders' equity as a component of accumulated other comprehensive loss.

***Cash, Cash Equivalents and Marketable Securities***

Cash and cash equivalents consist primarily of highly liquid investments in money market mutual funds, government sponsored enterprise obligations, treasury bills, commercial paper and other money market securities with remaining maturities at date of purchase of 90 days or less.

***Restricted Cash***

In December 2014, in conjunction with our acquisition of TLL, LLC ( Timeline Labs ), we entered into an agreement to fund a \$2.5 million escrow from which Timeline Labs could make withdrawals for working capital purposes. The withdrawn portion of the escrow is accounted for as an advance against the purchase price and is recorded in other



assets on our consolidated balance sheets. The unused portion, being \$1.1 million remaining in escrow after signing the related merger agreement but prior to the consummation of the acquisition on February 2, 2015, is classified as restricted cash on our consolidated balance sheets. See Note 16., *Subsequent Events*, for additional information.

The fair value of cash, cash equivalents, restricted cash and marketable securities at January 31, 2015 and 2014 was \$105.4 million and \$128.1 million, respectively.

**Table of Contents****5. Consolidated Balance Sheet Detail**

Inventories consist primarily of hardware and related component parts and are stated at the lower of cost (on a first-in, first-out basis) or market. Inventories consist of the following:

	<b>January 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(Amounts in thousands)</b>	
Components and assemblies	\$ 1,487	\$ 2,201
Finished products	1,377	4,431
<b>Total inventories</b>	<b>\$ 2,864</b>	<b>\$ 6,632</b>

Property and equipment, net consists of the following:

	<b>Estimated Useful Life (Years)</b>	<b>January 31,</b>	
		<b>2015</b>	<b>2014</b>
		<b>(Amounts in thousands)</b>	
Land		\$ 2,880	\$ 2,880
Buildings	20	12,146	12,081
Office furniture and equipment	5	1,023	998
Computer equipment, software and demonstration equipment	3	17,584	17,466
Service and spare components	5	1,158	1,158
Leasehold improvements	1-7	1,089	1,145
		<b>35,880</b>	<b>35,728</b>
Less Accumulated depreciation and amortization		(20,011)	(17,198)
<b>Total property and equipment, net</b>		<b>\$ 15,869</b>	<b>\$ 18,530</b>

Depreciation and amortization expense of fixed assets was \$3.7 million, \$4.4 million and \$4.7 million for the years ended January 31, 2015, 2014 and 2013, respectively.

Other accrued expenses consist of the following:

	<b>January 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(Amounts in thousands)</b>	
Accrued compensation and commissions	\$ 1,518	\$ 2,290

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Accrued bonuses	2,186	2,095
Accrued severance	2,021	229
Employee benefits	1,959	2,113
Accrued other	4,823	5,605
Total other accrued expenses	\$ 12,507	\$ 12,332

## 6. Goodwill and Intangible Assets

At January 31, 2015 and 2014, we had goodwill of \$41.0 million and \$45.2 million, respectively. The change in the carrying amount of goodwill for the years ended January 31, 2015 and 2014 are as follows (amounts in thousands):

	<b>Goodwill</b>
Balance at January 31, 2013	\$ 45,103
Cumulative translation adjustment	47
Balance at January 31, 2014	45,150
Cumulative translation adjustment	(4,142)
Balance at January 31, 2015	\$ 41,008

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We are required to perform impairment tests related to our goodwill annually, which we perform during the third quarter of each fiscal year, or when an indicator of impairment occurs. There was no impairment of goodwill determined as a result of the annual impairment test completed during the third quarter of fiscal 2015. While no impairment charges resulted from our annual test, impairment charges may occur in the future as a result of changes in projected growth and other factors.

Intangible assets, net, consisted of the following at January 31, 2015 and 2014:

	Weighted average remaining life (Years)	January 31, 2015			January 31, 2014		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
<b>Finite-lived intangible assets:</b>							
Customer contracts	6.0	\$ 30,397	\$ (24,160)	\$ 6,237	\$ 32,593	\$ (22,344)	\$ 10,249
Non-compete agreements		2,433	(2,433)		2,772	(2,632)	140
Completed technology	5.2	10,307	(9,230)	1,077	11,461	(9,195)	2,266
Trademarks, patents and other		7,082	(7,082)		7,151	(7,151)	
Total finite-lived intangible assets		\$ 50,219	\$ (42,905)	\$ 7,314	\$ 53,977	\$ (41,322)	\$ 12,655
<b>Indefinite-lived intangible assets:</b>							
Trade names					200		200
Total intangible assets		\$ 50,219	\$ (42,905)	\$ 7,314	\$ 54,177	\$ (41,322)	\$ 12,855

Amortization expense for intangible assets was \$5.2 million, \$4.6 million and \$6.4 million for fiscal 2015, 2014 and 2013, respectively.

The total amortization expense for each of the next five fiscal years is as follows (amounts in thousands):

For the Fiscal Years Ended January 31,	Estimated Amortization Expense
2016	\$ 3,076
2017	2,195
2018	1,272
2019	649
2020	121
Fiscal 2021 and thereafter	1

Total Future Amortization	\$	7,314
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Actual amortization may differ from estimated amounts in the table above due to fluctuations in foreign currency exchange rates, additional intangible asset acquisitions, potential impairment, accelerated amortization, or other events. During fiscal 2015, we fully amortized our trade name intangible assets as they are no longer in use.

## **7. Severance and Other Restructuring Costs**

During fiscal 2015, we incurred restructuring charges totaling \$3.6 million. These charges included \$3.4 million of severance costs for terminated employees. In addition, we incurred \$0.2 million of other restructuring charges primarily due to the write off of leasehold improvements.

As announced in February 2015, we initiated a global restructuring plan to streamline our operations. The reduction in our domestic work force was implemented in January 2015 and estimated charges were recorded. We will implement an international reduction in workforce in fiscal 2016 and expect to incur future restructuring charges.

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The following table shows the change in balances of our accrued severance reported as a component of other accrued expenses on the consolidated balance sheets (amounts in thousands):

Accrual balance as of January 31, 2014	\$ 229
Restructuring charges incurred	3,623
Severance costs paid	(1,605)
Other charges	(226)
Accrual balance as of January 31, 2015	\$ 2,021

**8. Commitments and Contingencies*****Indemnification and Warranties***

We provide indemnification, to the extent permitted by law, to our 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 our request in such capacity. With respect to acquisitions, we provide indemnification to, or assume indemnification obligations for, the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies' bylaws and charters. As a matter of practice, we have maintained directors' and officers' liability insurance including coverage for directors and officers of acquired companies.

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these 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. From time to time, we also indemnify 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 our products and services or resulting from the acts or omissions of us, our employees, authorized agents or subcontractors. From time to time, we have received requests from customers for indemnification of patent litigation claims. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us. We are not party to current pending legal proceedings that, in the opinion of management, would have a material adverse effect on our financial position, results from operations and cash flows. There is no assurance that future legal proceedings arising from ordinary course of business or otherwise, will not have a material adverse effect on our financial position, results from operations or cash flows.

We warrant that our products, including software products, will substantially perform in accordance with our standard published specifications in effect at the time of delivery. In addition, we provide maintenance support to our customers and therefore allocate a portion of the product purchase price to the initial warranty period and recognize revenue on a straight line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. When we receive 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.

***Revolving Line of Credit/Demand Note Payable***

We renewed our letter agreement for a demand discretionary line of credit and a Demand Promissory Note in the aggregate amount of \$20.0 million, effective November 26, 2014. Borrowings under the line of credit will be used to finance working capital needs and for general corporate purposes. We currently do not have any borrowings nor do we

have any financial covenants under this line.

**Table of Contents*****Operating Leases***

We lease certain of our operating facilities, automobiles and office equipment under non-cancelable operating leases, which expire at various dates through 2019. Leases for our facilities typically contain standard commercial lease provisions, including renewal options and rent escalation clauses. Rental expense under operating leases was \$2.9 million, \$2.4 million and \$2.7 million for fiscal 2015, 2014 and 2013, respectively. Future commitments under minimum lease payments as of January 31, 2015 are as follows (amounts in thousands):

<b>For the Fiscal Years Ended January 31,</b>	<b>Operating Leases</b>
2016	\$ 2,261
2017	1,680
2018	477
2019	30
2020	
2021 and thereafter	
<b>Minimum operating lease payments</b>	<b>\$ 4,448</b>

**9. 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. No preferred stock has been issued as of January 31, 2015.

***Stock Repurchase Program***

On September 4, 2013, our Board of Directors authorized the repurchase of up to \$25.0 million of our common stock through a share repurchase program which would have terminated on January 31, 2015. On May 31, 2014, this program was amended to increase the authorized repurchase amount to \$40.0 million and extend the termination date to April 30, 2015. Under the program, we are authorized to repurchase shares through Rule 10b5-1 plans, open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. This share repurchase program does not obligate us to acquire any specific number of shares and may be suspended or discontinued at any time. All repurchases are expected to be funded from our current cash and investment balances. The timing and amount of shares to be repurchased will be based on market conditions and other factors, including price, corporate and regulatory requirements, and alternative investment opportunities. Any shares repurchased by us under the share repurchase program will reduce the number of shares outstanding. Pursuant to the share repurchase program, we executed a Rule 10b5-1 plan in June 2014 to repurchase shares. During fiscal 2015, we used \$5.5 million of cash in connection with the repurchase of 591,520 shares of our common stock (an average price of \$9.31 per share). As of January 31, 2015, \$34.5 million remained available to repurchase under the existing share repurchase authorization.



***Stock Option Plans***

*2011 Compensation and Incentive Plan.*

In July 2011, our stockholders approved the adoption of our 2011 Compensation and Incentive Plan (the 2011 Plan ). Under the 2011 Plan, as amended in July 2013, the number of authorized shares of common stock is

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equal to 5,300,000 shares plus the number of shares that would have become available for issuance under our prior Amended and Restated 2005 Equity Compensation and Incentive Plan following the adoption of the 2011 Plan due to the expiration, termination, surrender or forfeiture of an award under the prior plan. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, RSUs, deferred stock units ( DSUs ) and other equity based non-stock option awards as determined by the plan administrator, to officers, employees, consultants, and directors of the Company.

Effective February 1, 2014, SeaChange gave its non-employee members of the Board of Directors the option to receive DSUs in lieu of RSUs beginning with the annual grant for fiscal 2015. These DSUs shall fully vest one year from the grant date. The number of units subject to the DSUs is determined as of the first day of the applicable fiscal year and the shares underlying the DSUs are not vested and issued until the earlier of the director ceasing to be a member of the Board of Directors (provided such time is subsequent to the first day of the succeeding fiscal year) or immediately prior to a change in control.

We may satisfy awards upon the exercise of stock options or vesting of RSUs with newly issued shares or treasury shares. The Board of Directors is responsible for the administration of the 2011 Plan and determining the terms of each award, award exercise price, the number of shares for which each award is granted and the rate at which each award vests. In certain instances the Board of Directors may elect to modify the terms of an award. As of January 31, 2015, there were 2,484,004 shares available for future grant under the 2011 Plan.

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. RSUs, DSUs 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 the Board of Directors. Option awards granted under the 2011 Plan generally vest over a period of three years and expire ten years from the date of the grant.

***Stock-based Compensation***

We use the provisions of the authoritative guidance which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, RSUs and DSUs based on estimated fair values. The fair value of our stock-based options and performance-based RSUs, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the RSUs are amortized on a straight-line basis. We have applied the provisions of authoritative guidance allowing the use of a simplified method, in developing an estimate of the expected term of plain vanilla share options.

Stock-based compensation includes expense charges for all stock-based awards to employees and directors. Such awards include option grants, RSU and DSU awards. The estimated fair value of our stock-based options and performance-based RSUs, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the RSUs and DSUs are amortized on a straight-line basis.

The effect of recording stock-based compensation was as follows:

<b>For the Fiscal Years Ended January 31,</b>		
<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>(Amounts in thousands)</b>		

Stock-based compensation expense by type of award:			
Stock options	\$ 1,036	\$ 453	\$ 3,586
Restricted stock units	1,607	1,907	2,218
Deferred stock units	500		
Performance-based restricted stock units	77	599	125
Total stock-based compensation	\$ 3,220	\$ 2,959	\$ 5,929

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Since additional option grants and RSU awards are expected to be made each year and options and awards vest over several years, the effects of applying authoritative guidance for recording stock-based compensation for the year ended January 31, 2015 are not indicative of future amounts.

***Determining Fair Value******Stock Options***

We record the fair value of most stock options 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 option's 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. The expected stock price volatility was established using a blended volatility, which is an average of the historical volatility of our common stock over a period of time equal to the expected term of the stock option, and the average volatility of our common stock over the most recent one-year and two-year periods. The risk-free interest rate is based upon the U.S. treasury bond yield at the grant date, using a remaining term equal to the expected life. The expected dividend yield is 0%, as we have not paid cash dividends on our common stock since our inception.

The fair value of stock options granted was estimated at the date of grant using the following assumptions:

	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Expected term (in years)	6.5	5-7	3-7
Expected volatility (range)	46%	44-46%	49-52%
Weighted average volatility	46%	45%	52%
Risk-free interest rate	1.7%	0.7-0.9%	0.7-1.2%
Weighted average interest rate	1.7%	0.8%	1.2%
Expected dividend yield	0%	0%	0%

***Market-Based Options***

When market-based vesting is used on stock options ( Market Condition Options ) we use the Monte Carlo simulation model. The model simulates daily trading prices of the Market Condition Options' expected term to determine if vesting conditions would be triggered during that term.

We appointed a new CEO on October 20, 2014, at which time he was granted 500,000 stock options to purchase the Company's common stock. These stock options have an exercise price equal to our closing stock price on October 20, 2014, and will vest in approximately equal increments based upon the closing price of our common stock, but in no case earlier than six months from the date of grant. We recorded the fair value of these stock options using the Monte Carlo simulation model, since the stock option vesting is variable depending on the closing price of our traded common stock. Key input assumptions used to estimate the fair value of the Market Condition Options include exercise price, volatility, risk-free rate, the required rate of return on equity, annual turnover rate and the expected term to exercise. These assumptions are included in the table above for fiscal 2015. No other options were granted during this fiscal year. The model simulated the daily trading price of the Market Condition Options' expected term to determine if the vesting conditions would be triggered during the term. As a result, the fair value of these stock options was estimated at \$1.7 million. We have incurred stock compensation expense of \$0.3 million for the period from the date of grant to and including January 31, 2015.



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The following table summarizes the stock option activity (excluding RSUs and DSUs):

	For the Fiscal Years Ended January 31,					
	2015		2014		2013	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of period	1,502,176	\$ 9.77	1,917,448	\$ 10.35	2,125,371	\$ 11.83
Granted	500,000	\$ 7.23	12,500	\$ 10.10	892,500	\$ 8.21
Exercised		\$	(118,528)	\$ 9.10	(304,550)	\$ 7.19
Forfeited/expired/cancelled	(375,755)	\$ 15.06	(309,244)	\$ 13.78	(795,873)	\$ 13.11
Outstanding at end of period	1,626,421	\$ 7.77	1,502,176	\$ 9.77	1,917,448	\$ 10.35
Options exercisable at end of period	1,108,115	\$ 8.02	1,440,521	\$ 9.90	937,444	\$ 12.78
Weighted average remaining contractual term (in years)		4.72		3.93		1.86

The weighted-average fair valuation at grant date of stock options granted during the years ended January 31, 2015, 2014 and 2013, was \$3.39, \$1.53, and \$3.78, respectively. As of January 31, 2015, the unrecognized stock-based compensation related to the unvested stock options was approximately \$1.4 million, 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 1.6 years.

Intrinsic value is defined as the difference between the market price on the date of exercise and the grant date price. The aggregate intrinsic value for options outstanding was \$0.1 million, \$4.5 million and \$1.4 million as of January 31, 2015, 2014 and 2013, respectively. The aggregate intrinsic value of vested shares and share options expected to vest as of January 31, 2015, 2014 and 2013 was \$0.1 million, \$4.4 million and \$1.3 million, respectively. There were no stock options exercised in fiscal 2015. The total intrinsic value of options exercised during the years ended January 31, 2014 and 2013 was \$0.3 million and \$0.5 million, respectively.

The cash received from employees as a result of employee stock option exercises during fiscal years 2014 and 2013 was \$1.1 million and \$2.2 million, respectively.

The following table summarizes information about employee and director stock options outstanding and exercisable as of January 31, 2015:

Options Outstanding			Options Exercisable	
Number outstanding	Weighted average remaining contractual terms	Weighted average exercise price	Number exercisable	Weighted average exercise price

(years)

<b>Range of exercise prices</b>					
\$6.74 to \$6.74	224,421	3.96	\$ 6.74	207,781	\$ 6.74
\$7.00 to \$7.48	501,000	6.10	\$ 7.23	1,000	\$ 7.00
\$7.49 to \$7.49	1,000	0.35	\$ 7.49	1,000	\$ 7.49
\$7.72 to \$7.72	4,500	0.44	\$ 7.72	4,500	\$ 7.72
\$8.15 to \$8.15	5,000	4.42	\$ 8.15	3,334	\$ 8.15
\$8.22 to \$8.22	875,000	4.24	\$ 8.22	875,000	\$ 8.22
\$11.56 to \$11.56	2,000	0.19	\$ 11.56	2,000	\$ 11.56
\$12.95 to \$12.95	2,000	0.17	\$ 12.95	2,000	\$ 12.95
\$13.66 to \$13.66	6,500	0.09	\$ 13.66	6,500	\$ 13.66
\$16.56 to \$16.56	5,000	0.01	\$ 16.56	5,000	\$ 16.56
	1,626,421	4.72	\$ 7.77	1,108,115	\$ 8.02

**Table of Contents*****Restricted Stock Units and Deferred Stock Units***

Pursuant to the 2011 Plan, we may grant RSUs and DSUs that entitle the recipient to acquire shares of our common stock. Awards of RSUs generally vest in equal increments on each of the first three anniversaries of the grant of the award. DSUs generally vest on the first anniversary of the grant. Stock-based compensation expense associated with the RSUs and DSUs is charged for the market value of our 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 following table summarizes the RSU and DSU activity:

	For the Fiscal Years Ended January 31,					
	2015		2014		2013	
	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value
Nonvested at beginning of period	446,468	\$ 9.81	552,980	\$ 10.51	721,365	\$ 10.46
Awarded	314,057	\$ 8.60	146,411	\$ 11.15	375,317	\$ 8.62
Vested	(287,485)	\$ 9.83	(205,928)	\$ 12.61	(348,346)	\$ 8.73
Forfeited/expired/cancelled	(37,734)	\$ 10.01	(46,995)	\$ 9.93	(195,356)	\$ 9.87
Nonvested at end of period	435,306	\$ 8.91	446,468	\$ 9.81	552,980	\$ 10.51

As of January 31, 2015, the unrecognized stock-based compensation related to the unvested RSUs and DSUs was \$2.2 million. This cost will be recognized over an estimated weighted average amortization period of 2.3 years.

**10. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss consisted of the following:

	Foreign Currency Translation Adjustment	Changes in Fair Value of Available-for-Sale Investments	Accumulated Other Comprehensive Loss
Balance at January 31, 2013	\$ (1,856)	\$ 30	\$ (1,826)
Other comprehensive loss	(294)	(12)	(306)
Balance at January 31, 2014	(2,150)	18	(2,132)
Other comprehensive loss	(3,647)	25	(3,622)



Balance at January 31, 2015	\$ (5,797)	\$ 43	\$ (5,754)
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Unrealized holding gains (losses) on securities available for sale are not material for the periods presented.

Comprehensive loss consists of net loss and other comprehensive loss, which includes foreign currency translation adjustments and changes in unrealized gains and losses on marketable securities. For purposes of comprehensive loss disclosures, we do not record tax expense or benefits for the net changes in the foreign currency translation adjustments, as we intend to permanently reinvest all undistributed earnings of our foreign subsidiaries.

**Table of Contents****11. Segment Information, Significant Customers and Geographic Information****Segment Information**

Our operations are organized into one reportable segment. Operating segments are defined as components of an enterprise evaluated regularly by the Company's senior management in deciding how to allocate resources and assess performance. Our reportable segment was determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company's management structure.

**Significant Customers**

The following table summarizes revenues by significant customers where such revenue exceeded 10% of total revenues for the indicated period:

	For Fiscal Years Ended January 31,		
	2015	2014	2013
Customer A	17%	15%	18%
Customer B	15%	24%	21%
Customer C	N/A	10%	N/A

**Geographic Information**

The following summarizes revenues by customers' geographic locations:

	For the Fiscal Years Ended January 31,					
	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
(Amounts in thousands, except percentages)						
Revenues by customers' geographic locations:						
North America(1)	\$ 64,755	56%	\$ 77,105	53%	\$ 94,155	60%
Europe and Middle East	39,387	34%	53,105	36%	49,824	32%
Latin America	6,829	6%	13,156	9%	11,777	7%
Asia Pacific	4,464	4%	2,953	2%	1,432	1%
Total revenues	\$ 115,435		\$ 146,319		\$ 157,188	

(1) Includes total revenues for the United States for the periods shown as follows:

	For the Fiscal Years Ended January 31,		
	2015	2014	2013
(Amounts in thousands)			
U.S. Revenue	\$ 59,819	\$ 66,903	\$ 85,256

% of total revenue 51.8% 45.7% 54.2%

The following summarizes long-lived assets by geographic locations:

	January 31,			
	2015		2014	
	Amount	%	Amount	%
(Amounts in thousands, except percentages)				
Long-lived assets by geographic locations(1):				
North America	\$ 21,214	74%	\$ 20,714	62%
Europe and Middle East	6,028	22%	11,097	33%
Asia Pacific	1,260	4%	1,461	5%
<b>Total long-lived assets by geographic location</b>	<b>\$ 28,502</b>		<b>\$ 33,272</b>	

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(1) Excludes marketable securities, long-term and goodwill.

**12. Income Taxes**

The components of loss from continuing operations before income taxes are as follows:

	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>(Amounts in thousands)</b>		
Domestic	\$ (25,920)	\$ (15,049)	\$ (15,680)
Foreign	(2,694)	12,833	11,133
	<b>\$ (28,614)</b>	<b>\$ (2,216)</b>	<b>\$ (4,547)</b>

The components of the income tax (benefit) provision from continuing operations are as follows:

	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>(Amounts in thousands)</b>		
<b>Current:</b>			
Federal	\$	\$ 11	\$
State	(762)	50	231
Foreign	24	692	(1,305)
<b>Total</b>	<b>(738)</b>	<b>753</b>	<b>(1,074)</b>
<b>Deferred:</b>			
Federal			
State			(348)
Foreign	(368)	(698)	(133)
<b>Total</b>	<b>(368)</b>	<b>(698)</b>	<b>(481)</b>
<b>Income tax (benefit) provision</b>	<b>\$ (1,106)</b>	<b>\$ 55</b>	<b>\$ (1,555)</b>

The income tax (benefit) provision for continuing operations computed using the federal statutory income tax rate differs from our effective tax rate primarily due to the following:

	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>(Amounts in thousands)</b>		
Statutory U.S. federal tax rate	\$ (10,014)	\$ (774)	\$ (952)

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State taxes, net of federal tax benefit	(779)	33	81
Income (losses) not benefitted	8,913	92	(1,068)
Non-deductible stock compensation expense		15	142
Other(1)	(74)	694	858
Innovation box	(68)	260	(779)
Foreign tax rate differential	916	(265)	163
	\$ (1,106)	\$ 55	\$ (1,555)

- (1) Within the other line item in the table above, other non-deductible expenses were not material in fiscal 2015 and were \$0.3 million and \$1.1 million for the fiscal years ended January 31, 2014 and 2013, respectively. These expenses have been aggregated with various adjustments related to differences in prior year U.S. and foreign tax provisions and the actual returns filed.

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Our effective tax rate was a (benefit)/provision of (4%) and 3% for the fiscal years ended January 31, 2015 and 2014, respectively, and an effective tax rate benefit of (34%) for the fiscal year ended January 31, 2013.

The components of deferred income taxes are as follows:

	<b>January 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(Amounts in thousands)</b>	
Deferred tax assets:		
Accruals and reserves	\$ 1,783	\$ 2,009
Deferred revenue	761	1,881
Stock-based compensation expense	3,005	2,775
U.S. federal, state and foreign tax credits	7,670	6,616
Loss carryforwards	18,298	9,071
Deferred tax assets	31,517	22,352
Less: Valuation allowance	(30,369)	(20,789)
Net deferred tax assets	1,148	1,563
Deferred tax liabilities:		
Intangible assets	1,267	2,823
Other	74	74
Property and equipment	869	283
Total net deferred tax liabilities	\$ (1,062)	\$ (1,617)

At January 31, 2015, we had federal, state and foreign net operating loss carry forwards of \$37.1 million, \$65.8 million and \$2.1 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 carry forwards may be limited pursuant to provisions of the respective local jurisdiction. At January 31, 2015, we had a federal capital loss carry forward of \$10.8 million. This loss can only be utilized to offset capital gains and it expires in fiscal 2018. In addition, at January 31, 2015, we had federal and state research and development credit carry forwards of \$3.8 million and \$1.8 million respectively, and state investment tax credit carry forwards of \$0.3 million. The federal credit carry forwards will expire at various dates beginning in fiscal 2016, if not utilized. Certain state credit carry forwards will expire at various dates, while certain other credit carry forwards may be carried forward indefinitely. Utilization of these credit carry forwards may be limited pursuant to provisions of the respective local jurisdiction. We also have alternative minimum tax credit carry forwards of \$0.6 million which are available to reduce future federal regular income taxes over an indefinite period. We have foreign tax credit carry forwards of \$2.0 million which are available to reduce future federal regular income taxes.

We review quarterly the adequacy of the valuation allowance for deferred tax assets. We have evaluated the positive and negative evidence bearing upon the realizability of our deferred tax assets and have established a valuation allowance of \$30.4 million for such assets, which are comprised principally of net operating loss carry forwards, research and development credits, deferred revenue, inventory and stock-based compensation. If we 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 valuation allowance increased \$9.6 million from \$20.8 million at January 31, 2014.

At January 31, 2015, we have indefinitely reinvested \$83.7 million of the cumulative undistributed earnings of certain foreign subsidiaries. Approximately \$48 million of such earnings would be subject to U.S. taxes if repatriated to the United States. Through January 31, 2015, we have not provided deferred income taxes on the undistributed earnings of our foreign subsidiaries because such earnings are considered to be indefinitely reinvested outside the United States. Non-U.S. current and deferred income taxes have been provided in connection with our foreign subsidiaries continuing operations with the exception of a subsidiary in the British

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Virgin Islands, which operates in a zero rate jurisdiction. Determination of the potential deferred income tax liability on these undistributed earnings is not practicable because such liability, if any, is dependent on circumstances existing if, and when, remittance occurs.

For the fiscal year ended January 31, 2015, we recognized incremental tax benefits of \$0.5 million. This incremental tax benefit is primarily due to \$0.3 million of tax benefit recorded for the expiration of the statute of limitations and \$0.3 million for the effect of foreign translation, offset by \$0.1 million in tax expense due to the increase in uncertain tax positions. None of the amounts included in the balance of unrecognized tax benefits at January 31, 2015 of \$5.5 million are related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. We recognize 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 is as follows:

	<b>For the Fiscal Years Ended January 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(Amounts in thousands)</b>	
Balance of gross unrecognized tax benefits, beginning of period	\$ 6,035	\$ 9,364
Gross amounts of increases in unrecognized tax benefits as a result of tax positions taken in the current period	96	445
Decrease due to expiration of statute of limitation	(275)	(439)
Gross decrease in prior period positions		(3,379)
Effect of currency translation	(329)	44
Balance of gross unrecognized tax benefits, end of period	\$ 5,527	\$ 6,035

We file income tax returns in U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. We are no longer subject to U.S. federal examinations before fiscal 2010. However, the taxing authorities still have the ability to review the propriety of certain tax attributes created in closed years if such tax attributes are utilized in an open tax year, such as our federal research and development credit carryovers. Presently, we are undergoing an IRS audit for the fiscal years 2010, 2011 and 2012.

**13. Employee Benefit Plans**

We sponsor a 401(k) retirement savings plan (the Plan) that covers substantially all domestic employees of SeaChange. The Plan allows employees to contribute gross salary through payroll deductions up to the legally mandated limit based on their jurisdiction. Participation in the Plan is available to full-time employees who meet eligibility requirements. We also contribute to various retirement plans for our employees outside the United States of which the amounts will vary, according to the local plans specific to each foreign location. During fiscal 2015, 2014 and 2013, we contributed \$1.7 million, \$1.7 million and \$1.4 million, respectively.

We have a statutory pension benefit obligation covering current employees in the Philippines. We recorded a total of approximately \$39,000 and \$33,000 in interest costs in fiscal 2015 and fiscal 2014, respectively, and \$0.2 million in service costs in both fiscal years relating to this obligation. We also recorded an actuarial loss of \$0.4 million to this



obligation in fiscal 2015, while no actuarial gain (loss) was recorded in fiscal 2014. The total unfunded projected benefit obligation was \$1.2 million and \$0.7 million as of January 31, 2015 and 2014, respectively, and recorded in other liabilities, long-term, in our consolidated balance sheets. We do not anticipate to begin paying this obligation until fiscal 2020 and estimate \$0.3 million in benefit payments through fiscal 2025. We used projected discount rates of 4.2% and 5.9% for fiscal 2015 and 2014, respectively, and a

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compensation increase rate of 7%, in the calculation of our benefit obligation and periodic benefit costs. During fiscal years 2015, 2014 and 2013, we recorded \$0.5 million, \$0.2 million and \$0.2 million, respectively, in periodic benefit costs for this obligation.

**14. Net Loss Per Share**

Net loss per share is presented in accordance with authoritative guidance which requires the presentation of basic and diluted earnings per share. Basic net loss per share is computed by dividing earnings available to common shareholders by the weighted average shares of common stock outstanding during the period. For the purposes of calculating diluted net loss per share, the denominator includes both the weighted average number of shares of common stock outstanding during the period and the weighted average number of shares of potential dilutive shares of common stock, such as stock options, RSUs and DSUs, calculated using the treasury stock method. Basic and diluted net loss per share was the same for all the periods presented as the impact of potential dilutive shares outstanding was anti-dilutive.

The following table sets forth our computation of basic and diluted net loss per common share (amounts in thousands, except per share data):

	<b>For the Fiscal Years Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net loss from continuing operations	\$ (27,489)	\$ (2,227)	\$ (2,799)
Net income (loss) from discontinued operations	5	(803)	(16,366)
<b>Net loss</b>	<b>\$ (27,484)</b>	<b>\$ (3,030)</b>	<b>\$ (19,165)</b>
Weighted average shares used in computing net loss per share basic	32,772	32,718	32,494
Effect of dilutive shares:			
Stock options			
Restricted stock units			
Deferred stock units			
<b>Dilutive potential common shares</b>			
Weighted average shares used in computing net loss per share diluted	32,772	32,718	32,494
Net loss per share basic:			
Loss from continuing operations	\$ (0.84)	\$ (0.07)	\$ (0.09)
Loss income from discontinued operations	0.00	(0.02)	(0.50)
<b>Net loss per share basic</b>	<b>\$ (0.84)</b>	<b>\$ (0.09)</b>	<b>\$ (0.59)</b>
Net loss per share diluted:			
Loss from continuing operations	\$ (0.84)	\$ (0.07)	\$ (0.09)

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Loss from discontinued operations	0.00	(0.02)	(0.50)
Net loss per share diluted	\$ (0.84)	\$ (0.09)	\$ (0.59)

The number of common shares used in the computation of diluted net loss per share for the periods presented does not include the effect of the following potentially outstanding common shares because the effect would have been anti-dilutive (amounts in thousands):

	<b>For the Fiscal Year Ended January 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Stock options	1,586	913	1,707
Restricted stock units	217	473	529
Deferred stock units	11		
Total	1,814	1,386	2,236

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The following table sets forth certain unaudited quarterly results of operations for fiscal 2015 and fiscal 2014. 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 Form 10-K. The quarterly operating results are not necessarily indicative of future results of operations.

	<b>Fiscal Year Ended January 31, 2015</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
	<b>(Amounts in thousands, except per share data)</b>			
Revenue	\$ 24,337	\$ 29,849	\$ 29,970	\$ 31,279
Gross profit	10,891	15,387	14,793	16,036
Operating expenses	21,026	20,574	20,660	21,300
Net loss from continuing operations	(9,467)	(5,687)	(6,195)	(6,140)
Net income (loss) from discontinued operations (1)		119	(114)	
Net loss	(9,467)	(5,568)	(6,309)	(6,140)
Net loss per share from continuing operations (2):				
Basic loss per share	\$ (0.29)	\$ (0.17)	\$ (0.19)	\$ (0.19)
Diluted loss per share	\$ (0.29)	\$ (0.17)	\$ (0.19)	\$ (0.19)
Income (loss) per share from discontinued operations (2):				
Basic income (loss) per share	\$	\$ 0.00	\$ (0.00)	\$
Diluted income (loss) per share	\$	\$ 0.00	\$ (0.00)	\$
Loss per share (2):				
Basic loss per share	\$ (0.29)	\$ (0.17)	\$ (0.19)	\$ (0.19)
Diluted loss per share	\$ (0.29)	\$ (0.17)	\$ (0.19)	\$ (0.19)

	<b>Fiscal Year Ended January 31, 2014</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
	<b>(Amounts in thousands, except per share data)</b>			
Revenue	\$ 35,552	\$ 37,380	\$ 37,771	\$ 35,616
Gross profit	19,084	21,362	20,888	17,865
Operating expenses	20,900	20,827		