

SEACHANGE INTERNATIONAL INC
Form 10-Q
June 05, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware **04-3197974**
(State or other jurisdiction of **(IRS Employer**
incorporation or organization) **Identification No.)**
50 Nagog Park, Acton, MA 01720
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code: (978) 897-0100

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Edgar Filing: SEACHANGE INTERNATIONAL INC - Form 10-Q

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock on June 2, 2015 was 33,308,575.

Table of Contents

SEACHANGE INTERNATIONAL, INC.

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (interim periods unaudited)</u>	
<u>Consolidated Balance Sheets at April 30, 2015 and January 31, 2015</u>	3
<u>Consolidated Statements of Operations and Comprehensive Loss for the three months ended April 30, 2015 and April 30, 2014</u>	4
<u>Consolidated Statements of Cash Flows for the three months ended April 30, 2015 and April 30, 2014</u>	5
<u>Notes to Consolidated Financial Statements</u>	6 - 17
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17 - 27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 6. <u>Exhibits</u>	29
<u>SIGNATURES</u>	30

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

	April 30, 2015 (Unaudited)	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 72,971	\$ 90,019
Restricted cash		1,073
Marketable securities	3,507	7,516
Accounts and other receivables, net of allowance for doubtful accounts of \$451 and \$400 at April 30, 2015 and January 31, 2015, respectively	16,989	24,962
Unbilled receivables	9,380	6,588
Inventories, net	2,918	2,864
Prepaid expenses and other current assets	4,152	3,026
Total current assets	109,917	136,048
Property and equipment, net	15,349	15,869
Marketable securities, long-term	8,783	6,793
Investments in affiliates	3,081	3,051
Intangible assets, net	12,862	7,314
Goodwill	58,134	41,008
Other assets	1,621	2,268
Total assets	\$ 209,747	\$ 212,351
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 5,199	\$ 5,129
Deferred stock consideration	6,739	
Other accrued expenses	10,889	12,507
Deferred revenues	15,804	17,398
Total current liabilities	38,631	35,034
Deferred revenue, long-term	1,538	1,690
Other liabilities, long-term	1,855	1,493
Taxes payable, long-term	1,975	1,993
Deferred tax liabilities, long-term	1,073	1,090

Total liabilities	45,072	41,300
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 33,379,641 shares issued and 33,339,857 outstanding at April 30, 2015, and 32,733,636 shares issued and 32,693,852 outstanding at January 31, 2015	334	327
Additional paid-in capital	223,382	219,651
Treasury stock, at cost; 39,784 common shares	(1)	(1)
Accumulated loss	(52,997)	(43,172)
Accumulated other comprehensive loss	(6,043)	(5,754)
Total stockholders' equity	164,675	171,051
Total liabilities and stockholders' equity	\$ 209,747	\$ 212,351

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

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

	Three Months Ended April 30,	
	2015	2014
Revenues:		
Products	\$ 3,164	\$ 5,058
Services	20,013	19,279
Total revenues	23,177	24,337
Cost of revenues:		
Products	1,677	1,544
Services	11,203	11,595
Amortization of intangible assets	181	270
Stock-based compensation expense		37
Total cost of revenues	13,061	13,446
Gross profit	10,116	10,891
Operating expenses:		
Research and development	9,533	10,928
Selling and marketing	3,668	3,438
General and administrative	3,887	4,016
Amortization of intangible assets	941	1,509
Stock-based compensation expense	711	559
Earn-outs and change in fair value of earn-outs	502	
Professional fees - other	128	102
Severance and other restructuring costs	212	474
Total operating expenses	19,582	21,026
Loss from operations	(9,466)	(10,135)
Other (expense) income, net	(229)	415
Loss before income taxes and equity income in earnings of affiliates	(9,695)	(9,720)
Income tax provision (benefit)	147	(234)
Equity income in earnings of affiliates, net of tax	17	19
Net loss	\$ (9,825)	\$ (9,467)

Net loss	\$ (9,825)	\$ (9,467)
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustment	(277)	520
Unrealized (loss) gain on marketable securities	(12)	5
Comprehensive loss	\$ (10,114)	\$ (8,942)
Net loss per share:		
Basic	\$ (0.29)	\$ (0.29)
Diluted	\$ (0.29)	\$ (0.29)
Weighted average common shares outstanding:		
Basic	33,328	32,985
Diluted	33,328	32,985

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

Table of Contents

SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Three Months Ended April 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$ (9,825)	\$ (9,467)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	870	995
Amortization of intangible assets	1,122	1,779
Fair value of acquisition related contingent consideration	502	
Stock-based compensation expense	711	596
Other	89	11
Changes in operating assets and liabilities, excluding impact of acquisition:		
Accounts receivable	7,822	4,855
Unbilled receivables	(2,864)	40
Inventories	(148)	244
Prepaid expenses and other assets	(1,091)	(1,793)
Accounts payable	119	771
Accrued expenses	(2,118)	(3,731)
Deferred revenues	(1,467)	277
Other	(465)	141
Total cash used in operating activities	(6,743)	(5,282)
Cash flows from investing activities:		
Purchases of property and equipment	(282)	(371)
Capitalized internal use software	(749)	
Purchases of marketable securities	(2,033)	(1,543)
Proceeds from sale and maturity of marketable securities	4,034	538
Investment in affiliate		(2,000)
Cash paid for acquisition of business, net of cash acquired	(11,686)	
Total cash used in investing activities	(10,716)	(3,376)
Cash flows from financing activities:		
Repurchases of common stock		(3,504)
Total cash used in financing activities		(3,504)
Effect of exchange rate changes on cash	411	(315)

Edgar Filing: SEACHANGE INTERNATIONAL INC - Form 10-Q

Net decrease in cash and cash equivalents	(17,048)	(12,477)
Cash and cash equivalents, beginning of period	90,019	115,734
Cash and cash equivalents, end of period	\$ 72,971	\$ 103,257
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 183	\$ 248
Interest paid	\$	\$ 2
Supplemental disclosure of non-cash investing activities:		
Transfer of items originally classified as inventories to equipment	\$ 80	\$ 123

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

Table of Contents

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Business and Basis of Presentation

The Company

SeaChange International, Inc. and its consolidated subsidiaries (collectively SeaChange , we , or the Company) is an industry leader in the delivery of multiscreen video. Our products and services facilitate the aggregation, licensing, management and distribution of video and television advertising content to cable television system operators, telecommunications and media companies.

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of SeaChange International, Inc. and its subsidiaries (SeaChange or the Company) and are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reports as well as rules and regulations of the Securities and Exchange Commission (SEC). All intercompany transactions and balances have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared under U.S. GAAP have been condensed or omitted pursuant to such regulations. However, we believe that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying financial statements include all adjustments necessary to present a fair presentation of the consolidated financial statements for the periods shown. These consolidated financial statements should be read in conjunction with our most recently audited financial statements and related footnotes included in our Annual Report on Form 10-K (Form 10-K) as filed with the SEC. The balance sheet data as of January 31, 2015 that is included in this Quarterly Report on Form 10-Q (Form 10-Q) was derived from our audited financial statements.

The preparation of these financial statements in conformity with U.S. GAAP, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Interim results are not necessarily indicative of the operating results for the full fiscal year or any future periods and actual results may differ from our estimates. During the three months ended April 30, 2015, there have been no material changes to our significant accounting policies that were described in our fiscal 2015 Form 10-K, as filed with the SEC.

2. 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 of the contingent consideration obligations related to our business acquisitions are valued using Level 3 inputs.

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 assets 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.

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 April 30, 2015 and January 31, 2015:

	Fair Value at April 30, 2015 Using			
	April 30,	Quoted	Significant	Significant
	2015	Prices in	Other	Unobservable
		Active	Observable	Inputs
		Markets for	Inputs	(Level 3)
		Identical Assets	(Level 2)	
		(Level 1)		
		(Amounts in thousands)		
Financial assets:				
Money market accounts (a)	\$ 3,615	\$ 3,615	\$	\$
Available for sale marketable securities:				
Current marketable securities:				
U.S. treasury notes and bonds - conventional	1,500	1,500		
U.S. government agency issues	2,007		2,007	
Non-current marketable securities:				
U.S. treasury notes and bonds - conventional	6,279	6,279		
U.S. government agency issues	2,504		2,504	
Total	\$ 15,905	\$ 11,394	\$ 4,511	\$
Financial liabilities:				
Contingent consideration (b)	\$ 1,017	\$	\$	\$ 1,017

Fair Value at January 31, 2015 Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
--	---	--	--

Financial assets: