

SEACHANGE INTERNATIONAL INC  
Form 10-K/A  
April 06, 2012

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-K/A**

(Amendment No. 1)

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

For the fiscal year ended January 31, 2012

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

Commission File Number: 0-21393

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**SEACHANGE INTERNATIONAL, INC.**

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

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<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>

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

**(Address of principal executive offices, including zip code)**

**(978)-897-0100**

**(Registrant's telephone number, including area code)**

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

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

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

**None**

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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 ☐

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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 29, 2011, 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 \$300,598,856. The number of shares of the registrant's Common Stock outstanding as of the close of business on March 29, 2012 was 32,756,219.

## **EXPLANATORY NOTE**

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended January 31, 2012 (the "Form 10-K") to correct the signature line of the report of Grant Thornton LLP (the "Report") set forth on page 50 of the Form 10-K. The Report had been signed by Grant Thornton LLP, but the conformed signature line was inadvertently omitted from the Report when the Form 10-K was filed.

This Amendment No. 1 to the Form 10-K amends Part II, Item 8 of the Form 10-K to include the conformed signature of Grant Thornton LLP in the Report. Other than adding the conformed signature line to the Report, we have made no other changes to Item 8.

Except as described above, this Amendment No. 1 to the Form 10-K does not amend any other information set forth in the Form 10-K, and we have not updated disclosures contained therein to reflect any events that may have occurred at a date subsequent to the date of the Form 10-K.

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

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheet as of January 31, 2012 and 2011

Consolidated Statement of Operations for the years ended January 31, 2012, 2011 and 2010

Consolidated Statement of Stockholders' Equity and Comprehensive Income (Loss) for the years ended January 31, 2012, 2011 and 2010

Consolidated Statement of Cash Flows for the years ended January 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

Schedule II—Valuation and Qualifying Accounts and Reserves

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of SeaChange International, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of January 31, 2012 and 2011, and the related consolidated statements of operations stockholders’ equity and comprehensive income (loss), and cash flows for each of the three years in the period ended January 31, 2012. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15 (a) (2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SeaChange International, Inc. and subsidiaries as of January 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2012, 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, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 5, 2012 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Boston, Massachusetts

April 5, 2012

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## SEACHANGE INTERNATIONAL, INC.

## CONSOLIDATED BALANCE SHEET

(in thousands, except share data)

	January 31, 2012	January 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$80,585	\$73,145
Restricted cash	1,200	1,332
Marketable securities	7,855	7,340
Accounts receivable, net of allowance for doubtful accounts of \$972 in 2012 and \$995 in 2011, respectively	49,079	48,843
Unbilled receivables	6,066	5,644
Inventories, net	10,218	11,041
Prepaid expenses and other current assets	8,695	6,956
Assets held for sale	646	-
Deferred tax assets	2,065	3,775
Current assets related to discontinued operations	3,110	3,544
Total current assets	169,519	161,620
Property and equipment, net	30,566	34,858
Marketable securities, long-term	4,140	4,379
Investments in affiliates	3,013	2,913
Intangible assets, net	23,761	30,306
Goodwill	63,640	64,679
Other assets	1,515	2,055
Deferred tax assets, long-term	526	2,156
Non-current assets related to discontinued operations	2,355	2,225
Total assets	\$299,035	\$305,191
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$9,362	\$11,249
Other accrued expenses	19,271	16,528
Customer deposits	3,067	3,993
Deferred revenues	31,835	33,713
Deferred tax liabilities	214	183
Current liabilities related to discontinued operations	2,779	3,326
Total current liabilities	66,528	68,992
Deferred revenue, long-term	4,638	6,930
Other liabilities, long-term	8,461	11,231
Distribution and losses in excess of investment	743	1,161
Taxes payable, long-term	3,043	3,013
Deferred tax liabilities, long-term	4,684	4,722



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Total liabilities	88,097	96,049
Commitments and contingencies (Note 10)		
Stockholders Equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 32,534,444 and 31,876,815 shares issued; 32,494,660 and 31,837,031 shares outstanding, respectively	326	319
Additional paid-in capital	213,880	207,121
Treasury stock, at cost 39,784 and 39,784 common shares, respectively	(1 )	(1 )
Accumulated income	6,507	10,521
Accumulated other comprehensive loss	(9,774 )	(8,818 )
Total stockholders' equity	210,938	209,142
Total liabilities and stockholders' equity	\$299,035	\$305,191

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

## SEACHANGE INTERNATIONAL, INC.

## CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)

	Fiscal Year ended January 31,		
	2012	2011	2010
Revenues:			
Products	\$73,157	\$82,155	\$97,005
Services	124,548	119,532	92,935
Total revenues	197,705	201,687	189,940
Cost of revenues:			
Products	22,774	30,256	35,929
Services	76,919	68,576	54,941
Total cost of revenues	99,693	98,832	90,870
Gross profit	98,012	102,855	99,070
Operating expenses:			
Research and development	40,692	44,569	45,104
Selling and marketing	21,619	21,055	22,425
General and administrative	24,116	23,647	20,823
Amortization of intangibles	3,923	3,359	2,826
Acquisition costs	3,312	764	-
Restructuring costs	3,316	6,997	-
Total operating expenses	96,978	100,391	91,178
Income from operations	1,034	2,464	7,892
Interest income	352	307	763
Interest expense	(55 )	(38 )	(156 )
Other expense, net	(655 )	(687 )	(462 )
Gain on sale of investment in affiliates	-	27,071	-
Income before income taxes and equity income (loss) in earnings of affiliates	676	29,117	8,037
Income tax expense (benefit)	2,193	(2,438 )	271
Equity income (loss) in earnings of affiliates, net of tax	233	85	(653 )
(Loss) income from continuing operations	(1,284 )	31,640	7,113
Loss from discontinued operations, net of tax	(2,730 )	(2,172 )	(5,790 )
Net (loss) income	\$(4,014 )	\$29,468	\$1,323
Earnings per share:			
Basic (loss) income per share	\$(0.13 )	\$0.94	\$0.04
Diluted (loss) income per share	\$(0.13 )	\$0.92	\$0.04
Earnings per share from continuing operations:			
Basic (loss) income per share	\$(0.04 )	\$1.01	\$0.23
Diluted (loss) income per share	\$(0.04 )	\$0.99	\$0.23
Loss per share from discontinued operations:			
Basic (loss) income per share	\$(0.09 )	\$(0.07 )	\$(0.19 )
Diluted (loss) income per share	\$(0.09 )	\$(0.07 )	\$(0.19 )
Weighted average common shares outstanding:			

Basic	32,093	31,434	30,860
Diluted	32,093	31,986	31,433

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

## SEACHANGE INTERNATIONAL, INC.

## CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

	Common Stock			Accumulated other comprehensive income (loss)			Treasury Stock		Total	
	Number of	Par	Additional paid-in	Accumulated	Cumulative	Unrealized	Number of	Amount	Stockholder's	Comprehensive
	shares	value	capital	Deficit	translation adjustment	gain/loss on investments	shares		Equity	income (loss)
Balance at January 31, 2009	31,822,838	\$318	\$206,411	\$(18,773)	\$(10,190)	\$459	(873,381 )	(5,989 )	172,236	
Issuance of common stock pursuant to exercise of stock options	47,805	1	483	-	-	-	-	-	484	
Issuance of common stock in connection with the employee stock purchase plan	282,889	3	1,510	-	-	-	-	-	1,513	
Issuance of common stock pursuant to vesting of restricted stock units	409,531	4	(4 )	-	-	-	-	-	-	
Stock-based compensation expense	-	-	3,104	-	-	-	-	-	3,104	
Purchase of treasury shares	-	-	-	-	-	-	(473,415 )	(2,768 )	(2,768 )	
Change in fair value on marketable securities, net of tax	-	-	-	-	-	(262 )	-	-	(262 )	\$(262 )

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Translation adjustment	-	-	-	-	2,292	-	-	-	2,292	2,292
Net income	-	-	-	1,323	-	-	-	-	1,323	1,323
Comprehensive income										\$3,353
Balance at January 31, 2010	32,563,063	326	211,504	(17,450)	(7,898 )	197	(1,346,796)	(8,757 )	177,922	
Issuance of common stock pursuant to exercise of stock options	309,195	4	2,076	-	-		-	-	2,080	
Issuance of common stock in connection with the employee stock purchase plan	135,632	2	658	-	-	-	-	-	660	
Issuance of common stock pursuant to vesting of restricted stock units	353,542	2	(2 )	-	-	-	-	-	-	
Stock-based compensation expense	-	-	1,564	-	-	-	-	-	1,564	
Purchase of treasury shares					-	-	(177,605 )	(1,435 )	(1,435 )	
Retirement of shares	(1,484,617 )	(15 )	(8,679 )	(1,497 )			1,484,617	10,191		
Change in fair value on marketable securities, net of tax	-	-	-	-	-	(77 )	-	-	(77 )	\$(77 )
Translation adjustment	-	-	-	-	(1,040 )	-	-	-	(1,040 )	(1,040 )
Net income	-	-	-	29,468	-	-	-	-	29,468	29,468
Comprehensive income										\$28,351
Balance at January 31, 2011	31,876,815	319	207,121	10,521	(8,938 )	120	(39,784 )	(1 )	209,142	
Issuance of common stock pursuant to exercise of	253,668	3	1,784	-	-	-	-	-	1,787	

stock options										
Issuance of common stock pursuant to vesting of restricted stock units	378,955	4	(4 )	-	-	-	-	-	-	-
Issuance of common stock pursuant to deferred consideration	25,006		204	-	-	-	-	-		204
Liability stock compensation awards reclassified to equity			1,417							1,417
Stock-based compensation expense			3,358	-	-	-	-	-		3,358
Change in fair value on marketable securities, net of tax	-	-	-	-	-	(84 )	-	-	(84 )	\$(84 )
Translation adjustment	-	-	-	-	(872 )	-	-	-	(872 )	(872 )
Net loss	-	-	-	(4,014 )	-	-	-	-	(4,014 )	(4,014 )
Comprehensive loss										\$(4,970 )
Balance at January 31, 2012	32,534,444	\$326	\$213,880	\$6,507	\$(9,810 )	\$36	\$(39,784 )	\$(1 )	\$210,938	

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

## SEACHANGE INTERNATIONAL, INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Year ended January 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net (loss) income	\$(4,014 )	\$29,468	\$1,323
Net loss income from discontinued operations	2,730	2,172	5,790
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets	7,450	8,198	7,995
Amortization of intangibles and capitalized software	6,081	5,345	3,461
Loss on disposal of fixed assets	318	1,283	-
Impairment of assets held for sale	678	-	-
Loss on disposal of inventory	430	2,474	-
Inventory valuation charge	575	556	585
Provision for doubtful accounts receivable	100	2	75
Discounts earned and amortization of premiums on marketable securities	66	62	110
Equity loss (income) in earnings of affiliates	(234 )	(65 )	654
Gain on sale of investment in affiliate	-	(27,071 )	-
Stock-based compensation expense	3,358	2,957	3,105
Deferred income taxes	6,520	(7,074 )	(1,210 )
Change in contingent consideration related to acquisitions	3,031	-	-
Excess tax benefit related to share based compensation expense	-	(4 )	(159 )
Changes in operating assets and liabilities:			
Accounts receivable	(1,965 )	3,689	(4,380 )
Unbilled receivables	(321 )	(1,204 )	654
Inventories	(1,250 )	(2,407 )	(5,711 )
Prepaid expenses and other assets	(3,647 )	767	(3,836 )
Accounts payable	(2,605 )	664	(3,048 )
Accrued expenses	4,555	3,442	(3,232 )
Customer deposits	(926 )	(286 )	2,313
Deferred revenues	(3,957 )	(6,204 )	9,240
Other	255	63	23
Net cash (used in) provided by discontinued operations	(2,843 )	(546 )	(5,153 )
Net cash provided by operating activities from continuing operations	14,385	16,281	8,599
Cash flows from investing activities:			
Purchases of property and equipment	(3,273 )	(3,926 )	(8,806 )
Purchases of marketable securities	(19,944)	(8,382 )	(43,402)
Proceeds from sale and maturity of marketable securities	19,517	7,325	54,091
	(4,935 )	(14,661)	(35,019)

Acquisition of businesses and payment of contingent consideration, net of cash acquired			
Investments in affiliates	-	(1,107 )	(1,824 )
Proceeds from sale of investment in affiliate	-	38,717	-
(Deposit) release of restricted cash	132	(55 )	1,512
Net cash (used in) provided by investing activities of discontinued operations	(130 )	154	451
Net cash (used in) provided by investing activities from continuing operations	(8,633 )	18,065	(32,997)
Cash flows from financing activities:			
Purchase of treasury stock	-	(1,435 )	(2,768 )
Proceeds from issuance of common stock relating to the stock plans	1,787	2,740	1,838
Excess tax benefit related to share based compensation expense	-	4	159
Net cash provided by (used in) financing activities	1,787	1,309	(771 )
Effect of exchange rates on cash	(99 )	(157 )	358
Net increase (decrease) in cash and cash equivalents	7,440	35,498	(24,811)
Cash and cash equivalents, beginning of period	73,145	37,647	62,458
Cash and cash equivalents, end of period	\$80,585	\$73,145	\$37,647
Supplemental disclosure of cash flow information:			
Income taxes paid	\$565	\$3,174	\$554
Interest paid	-	-	41
Supplemental disclosure of non-cash activities:			
Transfer of items originally classified as inventories to equipment	1,402	2,283	2,841

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



**SEACHANGE INTERNATIONAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Business**

We are an industry leader in the delivery of multi-screen video. Our products and services facilitate the aggregation, licensing, management and distribution of video, television programming, and advertising content to cable system operators and telecommunications companies.

**2. Summary of Significant Accounting Policies**

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

*Use of Estimates*

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 revenue recognition, valuation of inventory and accounts receivable, valuation of investments and income taxes, stock-based compensation, goodwill, 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.

*Principles of Consolidation*

We consolidate the financial statements of our wholly-owned subsidiaries and all intercompany 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 variable interest entity 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 (variable interest entity). 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 reviewed our interest in a joint venture in Germany, a partnership in Turkey and equity investment in Hightech ICT. BV. 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 during fiscal 2012. Accordingly, we used the equity method to account for these investments.

#### *Discontinued Operations*

We evaluated our decision to sell the broadcast servers and storage business unit and determined that we met the criteria for classification as held for sale as of January 31, 2012. We have recorded all assets and liabilities as held for sale and all operating results as discontinued operations for fiscal 2012, 2011 and 2010. (see Note 18)

### *Equity Investments*

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

We periodically review indicators of the fair value of our investments in affiliates in order to assess whether available facts or circumstances, both internally and externally, may suggest an other than temporary decline in the value of the investment. The carrying value of an investment in an affiliate may be affected by the 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.

### *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 title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is considered probable. Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities are deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements are recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. 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.

We have historically applied the software revenue recognition rules as prescribed by Accounting Standards Codification (ASC) Subtopic 985-605. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Number 2009-14, "Certain Revenue Arrangements That Include Software Elements," which amended ASC Subtopic 985-605. This ASU removes tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of the software revenue recognition rules. In the case of our hardware products with embedded software, we have determined that the hardware and software components function together to deliver the product's essential functionality, and therefore, the revenue from the sale of these products no longer falls within the scope of the software revenue recognition rules. 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 are similar to that for other tangible products and ASU Number 2009-13, "Multiple-Deliverable Revenue Arrangements," which amended ASC Topic 605 and was also issued in October 2009, which 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. ASU 2009-13 and 2009-14 are effective for revenue arrangements entered into or materially modified in our fiscal year 2012.

Under the software revenue recognition rules, the fee is allocated to the various elements based on 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 to complete the service. These services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple element arrangements that include software development with significant modification or customization and systems sales where vendor-specific objective evidence of the fair value does not exist for the undelivered elements of the arrangement (other than maintenance and technical support), percentage of completion accounting is applied for revenue recognition purposes to the entire arrangement with the exception of maintenance and technical support. All multiple-deliverable revenue arrangements negotiated prior to February 1, 2011 and the sale of all software-only products and associated services have been accounted for under this guidance.

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 our or any competitor's largely interchangeable products or services in stand-alone sales to similarly situated customers. BESP is the price at which the Company would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors. All multiple-deliverable revenue arrangements negotiated after February 1, 2011, excluding the sale of all software-only products and associated services, have been accounted for under this guidance.

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.

Since all of our revenue prior to the adoption of ASU 2009-14 fell within the scope of the software revenue recognition rules and we have only established VSOE for services and revenue in a multiple-deliverable arrangement involving products, revenue was frequently deferred until the last item was delivered. The adoption of ASU 2009-13 and 2009-14 has resulted in earlier revenue recognition in multiple-deliverable arrangements involving our hardware products with embedded software because revenue can be recognized for each of these deliverables based upon their relative selling prices as defined above. The revenue impact, as a result of implementing the software revenue recognition guidance, was an increase of \$3.3 million during fiscal 2012.

Service revenue from content processing provided to our customers is recognized when services are provided, based on contracted rates. Upfront fees received for services are recognized ratably over the period earned, whichever is the longer of the contract term or the estimated customer relationship.

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

#### *Concentration of Credit Risk and Major Customers*

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 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.

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 allowances for specific doubtful accounts and other risk categories of accounts based on estimates of losses resulting from the inability of the Company's customers to make required payments and 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. At January 31, 2012 and 2011, we had an allowance for doubtful accounts of \$972,000 and \$995,000, respectively, to provide for potential credit losses. At January 31, 2012, two separate customers accounted for 16% and 14%, respectively, of our gross accounts receivable balance. For fiscal 2012 and 2011, two customers each accounted for more than 10%, and collectively accounted for 31% and 34%, respectively, of our total revenues. Revenues from these customers were primarily in our Software segment.

#### *Cash Equivalents and 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 of money market funds, corporate debt investments, asset-backed securities, government-sponsored enterprises, and state and municipal obligations. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

All cash equivalents are carried at cost, which approximates fair value. 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 income or loss. The amortization of premiums and accretions of discounts to maturity are computed under the effective interest method and are included in interest income. Interest on securities is recorded as earned and is also included in interest income. Any realized gains or losses would be shown in the accompanying consolidated statements of operations in other income or expense.

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, is due primarily to changes in interest rates, and where the company has the intent and ability to hold the investment for a period of time sufficient to allow a market recovery, 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.



### *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 estimates about future demand, or possible alternative uses and involves significant judgments. For the years ended January 31, 2012, 2011 and 2010, we recorded \$1.0 million, \$3.0 million and \$569,000 in inventory write-downs, respectively, of which \$430,000 and \$2.5 million were recorded in restructuring expense for fiscal 2012 and 2011, 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.

Demonstration equipment consists of systems manufactured by us for use in marketing and selling activities. Property and equipment are recorded at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the respective leases using the straight-line method. Deployed assets consist of movie systems owned and manufactured by 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. Upon retirement or sale, the cost of the assets disposed of, and the related accumulated depreciation, are removed from the accounts, and any resulting gain or loss is included in the determination of net income.

### *Goodwill and Long-Lived Assets*

We recognize the excess of the purchase price over the fair value of the net tangible and intangible assets acquired as goodwill. At the time of acquisition, goodwill is assigned to the operating segment as the applicable reporting unit for the goodwill impairment review. Goodwill is not amortized, but is evaluated for impairment, at the reporting unit level, annually in the third fiscal quarter. Goodwill of a reporting unit also is tested for impairment on an interim basis in addition to the annual evaluation if an event occurs or circumstances change such as declines in sales, earnings or cash flows, decline in 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 goodwill for impairment requires several judgments and assumptions to be made to determine the fair value of the

reporting units, including the method used to determine fair value, discount rates, expected levels of cash flows, revenues and earnings, and the selection of comparable companies used to develop market based assumptions.

We account for business acquisitions in accordance with authoritative guidance which determines and records the fair values of assets acquired, liabilities, contractual contingencies and contingent consideration assumed as of the dates of acquisition. The purchase price allocation process requires management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets and estimated contingent consideration payments.

We also evaluate property and equipment, intangible assets and other long-lived assets on a regular basis for the existence of facts or circumstances, both internal and external that may suggest an asset is not recoverable. If such circumstances exist, 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.

Intangible assets consist of customer contracts, completed technology, in-process research and development, non-competition agreements, patents and trademarks and are respectively assigned to the operating segments. The intangible assets are amortized to cost of sales and operating expenses, as appropriate, on a straight-line or accelerated basis in order to reflect the period that the assets will be consumed. In-process research and development assets as of the acquisition date are recorded as indefinite-lived intangible assets and are subject to impairment testing at least annually. The useful life of the intangible asset recognized will be reconsidered if and when an in-process research and development project is completed or abandoned.

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

Amortization expense is recorded over the period of economic consumption or the life of the agreement, whichever results in the higher expense, starting with the first shipment of the product to a customer. Amortization expense charged to cost of sales was \$2.2 million, \$2.0 million and \$0.6 million for fiscal 2012, 2011 and 2010, respectively.

### *Income Taxes*

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

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

provide for U.S. federal and state income taxes on the undistributed earnings of our non-U.S. subsidiaries that are considered indefinitely reinvested in the operations outside the U.S.

Authoritative guidance as it relates to income tax liabilities states that the minimum threshold a tax position is required to meet before being recognized in the financial statements is “more likely than not” (i.e., a likelihood of occurrence greater than fifty percent). The recognition threshold is met when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by the relevant taxing authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. Derecognition of a tax position that was previously recognized occurs when an entity subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained.

We file annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes reflect the most likely outcome. We adjust these reserves as well as the related interest and penalties, in light of changing facts and circumstances. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. The changes in estimate could have a material impact on our financial position and operating results. In addition, settlement of any particular position could have a material and adverse effect on our cash flows and financial position.

### *Share-based Compensation.*

We account for all employee and non-employee director stock-based compensation awards using the authoritative guidance regarding share-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. Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. Management estimated the volatility based on the historical volatility of our stock. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if circumstances change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what it has recorded in the current period. The estimated fair value of our stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the restricted stock units and Employee Stock Purchase Plan stock units are amortized on a straight line basis.

### *Restructuring*

We record restructuring charges consisting of employee severance, write down of inventory, and the disposal of 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.

### *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 and transactions gains and losses on foreign currency transactions, and any unrealized gains and losses on short-term inter-company transactions are included in other income or expense, net.

For 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 income or expense, net.

The aggregate foreign exchange transaction losses included as other expense, net on the Consolidated Statement of Operations were \$86,000, \$1,100,000 and \$572,000 for fiscal 2012, 2011 and 2010, respectively.

### *Comprehensive Income (Loss)*

We present accumulated other comprehensive income (loss) and total comprehensive income (loss) in the Statement of Stockholders' Equity. At the end of fiscal 2012, our total comprehensive loss of \$5.0 million consists primarily of net loss, cumulative translation adjustments and unrealized gains and losses on marketable securities, net of income tax.

### *Forward Exchange Contracts not Designated as Hedging Instruments*

We may enter into foreign currency forward exchange contracts ("forward exchange contracts") to manage our exposure to the foreign currency exchange risk related to the fixed deferred purchase price associated with the acquisition of eventIS Group B.V. The purpose of our foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuation. We do not enter into derivative financial instruments for trading or speculative purposes. We do not designate these forward exchange contracts as hedging instruments, as such, they do not qualify for hedge accounting treatment. Therefore, the foreign currency forward contracts are recorded at fair value, with the gain or loss on these transactions recorded in the consolidated statements of operations within "other expense, net" in the period in which they occur. As of January 31, 2012, we have no outstanding foreign currency forward exchange contracts. We recorded approximately \$0, \$142,000 and \$87,000 of losses related to its foreign currency forward exchange contract during fiscal 2012, 2011 and 2010, respectively. Our foreign currency forward exchange contract is an over-the-counter instrument. There is an active market for these instruments, and therefore, they are classified as Level 1 in the fair value hierarchy.

### *Advertising Costs*

Advertising costs are charged to expense as incurred. Advertising costs were \$374,000, \$319,000 and \$386,000 for fiscal 2012, 2011 and 2010, 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 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 common stock,

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

For fiscal 2012, 2011 and 2010 respectively, 1.6 million, 2.5 million and 3.6 million of common shares issuable upon the exercise of stock options are anti-dilutive and have been excluded from the diluted earnings per share computation as the exercise prices of these common shares were above the market price of the common stock for the periods indicated. For fiscal 2012, an additional 1.0 million stock awards have been excluded from diluted earnings per share due the net loss. Below is a summary of the shares used in calculating basic and diluted earnings per share for the periods indicated:

	Year ended January 31, 2012	2011	2010
Weighted average shares used in calculating earnings per share—Basic	32,093,125	31,434,398	30,860,194
Dilutive common stock equivalents	-	551,404	573,174
Weighted average shares used in calculating earnings per share—Diluted	32,093,125	31,985,802	31,433,368



## **Impact of Recently Adopted Accounting Guidance**

### *Revenue Recognition for Arrangements with Multiple Deliverables*

In September 2009, the FASB amended the guidance for revenue recognition in multiple-element arrangements. It has been amended to remove from the scope of industry specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product's essential functionality. The guidance now requires an entity to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; and allocates revenue in an arrangement using estimated selling prices of deliverables for these products if a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price. The guidance also eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method for these products. The accounting changes summarized are effective for fiscal years beginning on or after June 15, 2010. We adopted the new guidance in the first quarter of 2011 on a prospective basis. (See Note 2).

## **Recent Accounting Guidance Not Yet Effective**

### *Other Comprehensive Income*

The amendments in ASU 2011-05 revise the manner in which companies present comprehensive income in their financial statements in order to make U.S. GAAP and international standards more consistent. This ASU requires companies to report the components of comprehensive income in either a continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement would present the components of net income, similar to the Company's current Consolidated Statements of Operations, while the second statement would include the components of other comprehensive income, as well as a cumulative total for comprehensive income

In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-12 to defer one provision of ASU 2011-05. The amendments in ASU 2011-12 defer the requirements under ASU 2011-05 to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented. This deferral was prompted by users' concerns that the presentation requirements would be costly to implement and could add unnecessary complexity to financial statements.

Neither of these ASU's changes the items that must be reported in other comprehensive income. Both Updates must be applied retrospectively beginning in the first quarter of 2012. Our adoption date will be February 1, 2012, the beginning of our first quarter for fiscal 2013.

#### *Fair Value Measurement*

In May 2011, the FASB issued amended guidance clarifying how to measure and disclose fair value. This guidance amends the application of the "highest and best use" concept to be used only in the measurement of the fair value of nonfinancial assets, clarifies that the measurement of the fair value of equity-classified financial instruments should be performed from the perspective of a market participant who holds the instrument as an asset, clarifies that an entity that manages a group of financial assets and liabilities on the basis of its net risk exposure to those risks can measure those financial instruments on the basis of its net exposure to those risks, and clarifies when premiums and discounts should be taken into account when measuring fair value. The fair value disclosure requirements also were amended. These provisions are effective for reporting periods beginning on or after December 15, 2011 applied prospectively. Early application is not permitted. We are currently reviewing what effect, if any, this new provision will have on our Consolidated Financial Statements.

#### *Goodwill Impairment Test*

In September 2011, the FASB issued additional guidance on goodwill impairment testing. This guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We anticipate the adoption of this guidance will not have a material impact on our consolidated financial position or results of operations.

### 3. Fair value of Assets and Liabilities

The applicable accounting 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 three-tier fair value hierarchy as described below.

The 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes three levels of inputs that may be used to measure fair value:

- 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 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. We primarily use broker quotes for valuation of our short-term investments.

- 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.

Our financial assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2012 are as follows:

	January 31, 2012	Fair Value Measurements Using	Level 2	Level 3
		Level 1		
		(in thousands)		
Financial assets:				
Cash	\$74,226	\$74,226	-	-
Cash equivalents	6,359	6,359	-	-
Available for sale marketable securities:				
Current marketable securities:				
U.S. government agency issues	7,855	4,311	3,544	-

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Non-current marketable securities:

U.S. government agency issues	4,140	2,111	2,029	-
Total	\$92,580	\$87,007	\$5,573	\$-

Other liabilities:

Acquisition-related consideration	\$12,255	\$-	\$-	\$12,255
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Our financial assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2011 are as follows:

	January 31, 2011	Fair Value Measurements Using Level 1	Level 2	Level 3
		(in thousands)		
Financial assets:				
Cash	\$66,539	\$66,539	-	-
Cash equivalents	6,606	6,606	-	-
Available for sale marketable securities:				
Current marketable securities:				
U.S. government agency issues	7,340	4,605	2,735	-
Non-current marketable securities:				
U.S. government agency issues	4,379	3,358	1,021	-
Total	\$84,864	\$81,108	\$3,756	\$-
Other liabilities:				
Acquisition-related consideration	\$14,410	\$-	\$-	\$14,410

The following tables set forth a reconciliation of assets and liabilities in Level 1 and Level 2. There have been no transfers between fair value measurement levels during the year ended January 31, 2012:

	Level 1 Marketable Securities Year Ended January 31 2012 (in thousands)	Level 2 Marketable Securities Year Ended January 31 2012
Beginning balance	\$ 7,963	\$ 3,756
Purchases	18,368	4,068
Sales and maturities	(19,751 )	(2,251 )
Amortization and unrealized losses	(158 )	-
Ending balance	\$ 6,422	\$ 5,573

The following tables set forth a reconciliation of assets and liabilities measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3):

	Level 3	
	Accrued Contingent	
	Consideration	
	Year Ended January 31	
	2012	
	(in thousands)	
Beginning balance	\$ 14,410	
Additional contingent earnout	3,326	
Contingency payments	(4,992	)
Change in fair value	307	
Translation adjustment	(796	)
Ending balance	\$ 12,255	

We rely on mark to market valuations to record the fair value of our available for sale security assets which are measured under a Level 1 input. These assets are publicly traded equity securities for which market prices are readily observable and recorded. At January 31, 2012, we had \$7.9 million in short-term marketable securities and \$4.1 million in long-term marketable 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, corporate debt investments, asset-backed securities, government-sponsored enterprises, and state and municipal obligations. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. All cash equivalents are carried at cost, which approximates fair value. 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 income or loss. The amortization of premiums and accretions of discounts to maturity are computed under the effective interest method and is included in interest income. Interest on securities is recorded as earned and is also included in interest income. Any realized gains or losses would be shown in the accompanying consolidated statements of operations in other expense, net.

The following is a summary of available-for-sale securities, including the cost basis, aggregate fair value and gross unrealized gains and losses, for cash equivalents, short-and long-term marketable securities portfolio as of January 31, 2012 and 2011:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
January 31, 2012:				
Cash	\$ 74,226	\$ -	\$ -	\$ 74,226
Cash equivalents	6,359	-	-	6,359
Cash and cash equivalents	80,585	-	-	80,585
US government agency issues	6,781	68	-	6,849
Corporate debt securities	1,000	6	-	1,006
Marketable securities—short-term	7,781	74	-	7,855
US government agency issues	4,126	14	-	4,140
Corporate debt securities	-	-	-	-
Marketable securities—long-term	4,126	14	-	4,140
Total cash equivalents and marketable securities	\$ 92,492	\$ 88	\$ -	\$ 92,580
January 31, 2011:				
Cash	\$ 66,539	\$ -	\$ -	\$ 66,539
Cash equivalents	6,606	-	-	6,606
Cash and cash equivalents	73,145	-	-	73,145
US government agency issues	7,245	95	-	7,340
Marketable securities—short-term	7,245	95	-	7,340

US government agency issues	4,308	71	-	4,379
Corporate debt securities	-	-	-	-
Marketable securities—long-term	4,308	71	-	4,379
Total cash equivalents and marketable securities	\$84,698	\$ 166	\$ -	\$ 84,864

During fiscal 2012, 2011 and 2010, available-for-sale securities were sold for total proceeds of \$0, \$519,000, and \$11.6 million, respectively. The gross realized gains and losses for fiscal years 2012, 2011 and 2010 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, 2012 are as follows (in thousands):

	Estimated Fair Value
Maturity of one year or less	\$ 7,855
Maturity between one and five years	4,140
Total	\$ 11,995

We concluded that there were no other than temporary declines in investments recorded as of January 31, 2012, 2011 and 2010. The unrealized holding (losses)/gains, net of tax, on available-for-sale securities in the amount of (\$84,000), (\$77,000) and \$262,000 for the years ended January 31, 2012, 2011 and 2010, respectively, have been included in stockholders' equity as a component of accumulated other comprehensive income or 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. The fair value of cash, cash equivalents and marketable securities at January 31, 2012 and 2011 was \$93.8 million and \$84.9 million, respectively, and approximated fair value.

#### ***Restricted Cash***

Pursuant to certain lease agreements and share purchase agreements, we are required to maintain cash reserves, classified as restricted cash. Current restricted cash totaled \$1.2 million and \$1.3 million at January 31, 2012 and 2011, respectively.

#### ***Foreign Currency Exchange Risk***

We may enter into a foreign exchange forward contract denominated in Euros to hedge against a portion of the foreign currency exchange risk associated with the acquisition of eventIS Group B.V. for the fixed deferred purchase price. The purpose of our foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuations. Authoritative guidance requires companies to recognize all of the derivative financial instruments as either assets or liabilities at fair value in the consolidated balance sheets based upon quoted market prices for

comparable instruments. Our derivative instrument did not meet the criteria for hedge accounting within authoritative guidance. Therefore, the foreign currency forward contracts have been recorded at fair value, with the gain or loss on these transactions recorded in the consolidated statements of operations within “interest and other income, net” in the period in which they occur. We do not use derivative financial instruments for trading or speculative purposes. As of January 31, 2012, we had no outstanding foreign currency forward exchange contracts. During the year ended January 31, 2011, we recorded approximately \$142,000 of losses related to our foreign currency forward exchange contract. Typically, any losses or gains on the forward exchange contracts are offset by re-measurement losses or gains on the underlying balances denominated in non-functional currencies. Our foreign currency exchange contract is an over-the-counter instrument.

### ***Acquisition-Related Consideration***

We determined the fair value of the acquisition-related consideration in connection with the acquisition of eventIS Group B.V. in September 2009 using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Any change in the fair value of the acquisition-related consideration for the deferred fixed purchase price and earnout payments subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the performance goals, will be recognized in earnings in the period the estimated fair value changes. The fair value of the acquisition-related consideration to be distributed directly to the eventIS and VividLogic selling shareholders is \$12.3 million as of January 31, 2012.

**4. Consolidated Balance Sheet Detail**

Inventories consist of the following:

	Year ended January 31,	
	2012	2011
	(in thousands)	
Components and assemblies	\$ 6,402	\$ 5,948
Finished products	3,816	5,093
Total inventories, net	\$ 10,218	\$ 11,041

Property and equipment, net consist of the following:

	Estimated useful life (years)	Year ended January 31,	
		2012	2011
		(in thousands)	
Land		\$3,989	\$4,285
Buildings	20	11,426	13,586
Office furniture and equipment	5	3,153	3,099
Computer equipment, software and demonstration equipment	3	62,084	66,252
Deployed assets	2-7	3,280	3,280
Service and spare components	5	9,003	8,912
Leasehold improvements	1-7	2,643	3,232
Automobiles and trucks	5	211	211
Assets not yet placed in service		366	298
		96,155	103,155
Less - Accumulated depreciation and amortization		(65,589)	(68,297 )
Total property and equipment, net		\$30,566	\$34,858

Depreciation and amortization expense of fixed assets was \$7.5 million, \$8.2 million and \$8.0 million for the years ended January 31, 2012, 2011 and 2010, respectively.

Other accrued expenses consist of the following:

	Year ended January 31, 2012      2011 (in thousands)	
Accrued compensation and commissions	\$5,514	\$3,864
Acquisition-related consideration	3,793	3,179
Accrued content	4,374	3,818
Employee benefits	852	668
Accrued other	4,738	4,999
Total other accrued expenses	\$19,271	\$16,528

## 5. Investments in Affiliates

We periodically review indicators of the fair value of our investments in affiliate companies in order to assess whether available facts or circumstances, both internally and externally, may suggest an other than temporary decline in the fair value of the investment. There were no indications of other than temporary declines in the fair value of investments in affiliates as of January 31, 2012 and 2011, respectively. Our investments in affiliates under the cost method of accounting are as follows:

	Year ended January 31, 2012      2011 (in thousands)	
Minerva	1,000	1,000
Visible World	552	552
Other investments	1,461	1,361
Total investments in affiliates	\$ 3,013	\$ 2,913

*Minerva.* We own 1.3 million shares of preferred stock representing 2.8% of the total capital stock of Minerva Networks, Inc. (“Minerva”), a California based company specializing in software products for the telecommunications and television markets. The preferred shares are convertible to 1.3 million shares of common stock under certain conditions as defined in the Stock Purchase Agreement. We account for this investment under the cost method of accounting.

*Visible World.* We own less than 5% of the common and preferred stock of Visible World and we account for this investment under the cost method of accounting. For fiscal years 2012, 2011 and 2010, we recognized revenues of approximately \$11,000, \$532,000 and \$641,000 respectively, from Visible World.

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

ODG entered into a Service Agreement with the joint venture whereby ODG provides content aggregation, distribution, marketing and administration services to the joint venture under an arm’s length fee structure. For the years ended January 31, 2012, 2011 and 2010, ODG recorded revenues of \$1.8 million, \$1.9 million, and \$1.8, respectively, related to the Service Agreement. ODG’s share of profits from this agreement in proportion to its equity ownership interest is eliminated in consolidation.

ODG recorded its proportionate share of the joint venture’s losses of \$487,000, \$36,000 and \$653,000 for fiscal 2012, 2011 and 2010, respectively. Due to the capital distribution and ODG’s share of the joint venture’s net loss exceeding the book value of its investment in the joint venture, the investment is recorded as a long-term liability of \$743,000 and \$1.2 million at January 31, 2012 and 2011, respectively.

*Casa Systems.* On April 26, 2010, we sold our entire equity investment in Casa Systems, Inc., a Massachusetts based company that specializes in video-on-demand products for the telecommunications and television markets, for \$34.1 million realizing a pre-tax profit of \$25.2 million.

*InSite One.* In the fourth quarter of fiscal 2011, we sold our entire equity investment in InSite One for \$4.6 million in cash realizing a pre-tax profit of \$1.9 million.

## **6. Acquisitions**

### ***eventIS Group B.V.***

On September 1, 2009, we acquired the entire share capital of eventIS Group B.V. (“eventIS”) based in Eindhoven, the Netherlands, which provides video-on-demand and linear broadcast software and related services to cable television and telecommunications companies primarily in Europe. The results of eventIS’s operations have been included in the consolidated financial statements since the acquisition date. We acquired eventIS to expand our VOD solutions into the European market.

*Fair Value of Consideration Transferred*

We have made cash payments to the former shareholder of eventIS under the eventIS Share Purchase Agreement of \$40.5 million in accordance with the eventIS Share Purchase Agreement.

On September 1, 2010, we paid approximately \$1.8 million and issued 75,018 shares (approximate value \$615,000) of restricted stock that will vest annually over three years. The former shareholders of eventIS elected to receive the balance of the restricted stock consideration due in cash and approximately \$273,000 remains to be paid, which will be paid out in equal installments on September 1, 2012 and 2013. We are obligated to make an additional fixed payment on September 1, 2012 in an aggregate amount of \$2.8 million with \$1.7 million payable in cash and \$1.1 million payable by the issuance of restricted shares of our common stock, which will vest in equal installments over three years starting on the first anniversary of the date of issuance. Under the earn-out provisions of the share purchase agreement, a cash payment of \$1.7 million for earnouts achieved in fiscal 2011 and 2012 will be paid in fiscal 2013. Additional earn-out payments may be earned in fiscal 2013 if certain performance goals are met.

*VividLogic, Inc.*

On February 1, 2010, we completed our acquisition of VividLogic, Inc. (“VividLogic”). VividLogic, based in Fremont, California provides in-home infrastructure software for high definition televisions, home gateway, and set-top boxes to cable television service providers, set-top box manufacturers and consumer electronics (CE) suppliers. We acquired VividLogic to expand our in-home solutions. The results of VividLogic’s operations have been included in the consolidated financial statements since the acquisition date.

*Fair Value of Consideration Transferred*

As of January 31, 2012, we had made cash payments totaling \$18.5 million to the former shareholders of VividLogic. We are obligated to make additional fixed payments of \$1.0 million in cash on February 1, 2012 and 2013. In addition, under the share purchase agreement with the former shareholders of VividLogic, in the first quarter of fiscal 2013 we will make a cash earnout payment of \$2.7 million for the earnout earned in fiscal 2012. Additional earn-out payments may be earned over fiscal 2013 if certain performance goals are met.

*Allocation of Consideration Transferred*

The identifiable assets acquired and liabilities assumed in the VividLogic acquisition were recognized and measured as of the acquisition date, February 1, 2010, based on their estimated fair values. The excess of the acquisition date fair value of consideration transferred over the estimated fair value of the net tangible assets and intangible assets acquired was recorded as goodwill.



The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the VividLogic acquisition date.

	February 1, 2010 (in thousands)	
Payment of cash to VividLogic shareholders	\$ 15,470	
Acquisition-related deferred consideration	8,388	
Total acquisition-date fair value	\$ 23,858	
Cash and cash equivalents	\$ 5,932	
Accounts receivable	2,917	
Other assets	1,739	
Deferred tax assets	1,250	
Intangible assets	9,900	
Total identifiable assets acquired	21,738	
Accounts payable and other liabilities	(1,740)	)
Deferred tax liabilities	(3,665)	)
Deferred revenue	(2,500)	)
Total liabilities assumed	(7,905)	)
Goodwill	10,025	
Net assets acquired	\$ 23,858	

### *Intangible Assets*

In determining the fair value of the intangible assets, we considered, among other factors, the intended use of acquired assets, analyses of historical financial performance, and estimates of future performance of VividLogic's products. The fair values of identified intangible assets were calculated using an income approach based on estimates and assumptions provided by VividLogic's and our management. The following table sets forth the components of identified intangible assets associated with the VividLogic acquisition and their estimated useful lives:

	Useful life	Fair Value (in thousands)
Existing technology	5-9 years	\$ 2,200
Non-compete agreements	5 years	700
Customer contracts	9 years	6,200
Trade name	indefinite	200
Backlog	1 year	600

Total intangible assets	\$ 9,900
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We determined the useful life of intangible assets based on the expected future cash flows associated with the respective asset. Existing technology is comprised of products that have reached technological feasibility and are part of VividLogic's product line. Non-compete agreements represent the fair value of the non-compete with the former shareholders and key employees and will be amortized over the respective terms of the agreements. Customer contracts represent the underlying relationships and agreements with VividLogic's installed customer base. Trade name represents the value of the VividLogic name. Backlog represents the discounted value of the orders received from customers but unfulfilled. Amortization of existing technology is included in cost of product revenue, and amortization expense for customer relationships, non-compete and backlog are included in operating expenses. The weighted average life of the remaining amortization expense is approximately eight years.

### *Goodwill*

Of the total VividLogic purchase price of \$23.9 million, \$10.0 million was allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. We determined that the goodwill included the value of VividLogic's work force and expected synergies in global sales and marketing. We consider the acquired business an addition to our Software reporting segment. We made this determination based upon the financial information provided and reviewed by our Chief Executive Officer (the chief operating decision maker) and the similar economic characteristics to our other products in our Software segment. None of the goodwill associated with the VividLogic acquisition is deductible for income tax purposes.

### *Deferred Revenue*

In connection with the allocation of consideration transferred, we recorded the fair value of the customer contract obligations assumed from VividLogic. The fair value of the customer contract obligations was determined using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the service obligations. The estimated costs to fulfill the service obligations were based on the historical direct costs and indirect costs related to VividLogic's contracts with its customers. Direct costs include personnel directly engaged in providing service and support activities, while indirect costs consist of estimated general and administrative expenses based on normalized levels as a percentage of revenue. Profit associated with selling efforts was excluded because VividLogic had concluded the selling efforts on the service contracts prior to the date of our acquisition. The research and development costs associated with the customer contracts have been included in the fair value determination, as these costs were deemed to represent a legal obligation to the customers at the time of acquisition. We recorded \$2.5 million of deferred revenue as of the acquisition date to reflect the fair value of VividLogic's service obligations assumed.

### *Acquisition-related Consideration*

A liability was recognized for the acquisition date fair value of the acquisition-related consideration for the deferred fixed purchase price, the estimated earnout payments and working capital adjustments. Any change in the fair value of the acquisition-related consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the meeting of performance goals, will be recognized in earnings in the period the estimated fair value changes. The fair value estimate for the earnout payment was estimated at \$700,000 and is based on the probability weighted bookings to be achieved over the earnout period. A change in fair value of the acquisition-related consideration could have a material effect on the statement of operations and financial position in the period of the change in estimate. The fair value of the acquisition-related consideration to be distributed directly to the VividLogic shareholders was estimated by us at the acquisition date to be \$8.4 million.

*Acquisition-related Costs*

We recorded transaction costs such as legal, accounting, valuation and other professional services of \$831,000 and \$341,000 during fiscal 2011 and 2010. The transaction costs were expensed and recorded in general and administrative expenses in the Consolidated Statement of Operations.

## 7. Goodwill and Intangible Assets

At January 31, 2012 and 2011, we had goodwill of \$63.6 million and \$64.7 million, respectively. The change in the carrying amount of goodwill for the years ended January 31, 2012 and 2011 are as follows:

	Software	Media Services	Total
Balance at January 31, 2010	\$ 35,696	\$ 19,586	\$ 55,282
VividLogic acquisition	10,025	-	10,025
Cumulative translation adjustment	(464 )	(164 )	(628 )
Balance at January 31, 2011	45,257	19,422	64,679
Cumulative translation adjustment	(842 )	(197 )	(1,039 )
Balance at January 31, 2012	\$ 44,415	\$ 19,225	\$ 63,640

The Goodwill balance excludes \$594,000 of goodwill assigned based on a relative fair value calculation to the divestiture of the broadcast servers and storage business unit that is included in non-current assets related to discontinued operations in the Consolidated Balance Sheet.

As of August 1, 2011, we reviewed the recoverability of goodwill associated with our previously reported three segments, Software, Servers and Storage, and Media Services, and determined that there was no goodwill impairment. Following the divestiture of a portion of the broadcast servers and storage product lines, the Software and VOD server product line was organized in the one business reporting segment. Reportable segments were determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company's management structure. During the fourth quarter of fiscal 2012, we evaluated the impairment analysis and updated for the change in its estimates from August 1, 2011 to January 31, 2012. While no impairment charges resulted from the analyses performed during the fourth quarter of fiscal 2012, impairment charges may occur in the future due to changes in projected revenue growth rates, projected operating margins or estimated discount rates, among other factors.

At January 31, 2012 and 2011, we have recorded net intangible assets of \$ 23.8 million and \$30.3 million respectively, consisting of patents, customer contracts, non-compete agreements, completed technology, in-process research and development and trademarks.

Intangible assets, net, consisted of the following:

		January 31, 2012			January 31, 2011		
	Weighted average remaining life (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
		(in thousands)			(in thousands)		
Finite-lived intangible assets:							
Customer contracts	5.5	\$34,106	\$ (17,131	) \$16,975	\$34,576	\$ (14,291	) \$20,285
Non-compete agreements	1.5	2,673	(1,869	) 804	2,742	(1,104	) 1,638
Completed technology	4.4	12,294	(6,646	) 5,648	11,976	(4,775	) 7,201
Trademarks and other	0.9	2,345	(2,211	) 134	2,384	(1,946	) 438
Total finite-lived intangible assets		\$51,418	\$ (27,857	) \$23,561	\$51,678	\$ (22,116	) \$29,562
Infinite-lived intangible assets:							
In-process research and development	Infinite				544		544
Trade names	Infinite	\$200	\$ -	\$200	\$200	\$ -	\$200
Total intangible assets		\$51,618	\$ (27,857	) \$23,761	\$52,422	\$ (22,116	) \$30,306

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

	Estimated Useful Life and Amortization Basis
Customer contracts	1 - 8 years using economic consumption life basis
Non compete agreements	2 - 3 years economic life of the agreement
Completed technology	4 - 6 years using economic consumption life basis
Trademarks and other	5 years using economic consumption life basis
In-process R & D	indefinite life
Trade names	indefinite life

Amortization expense for intangible assets was \$6.1 million, \$5.4 million and \$3.5 million for fiscal 2012, 2011 and 2010, respectively. In fiscal 2012, 2011 and 2010, \$2.2 million, \$2.0 million, and \$638,000, respectively, were charged to cost of product revenues. In fiscal 2012, 2011 and 2010, \$3.9 million, \$3.4 million and \$2.8 million, respectively, were charged to operating expense. The total amortization expense for each of the next five fiscal years is as follows:

	Amortization Expense (in thousands)
Fiscal 2013	\$ 5,805
Fiscal 2014	4,661
Fiscal 2015	4,324
Fiscal 2016	3,499
Fiscal 2017 and thereafter	5,272
Total Future Amortization	\$ 23,561

Actual amounts may change from such estimated amounts due to fluctuations in foreign currency exchange rates, additional intangible asset acquisitions, potential impairment, accelerated amortization, or other events.

## 8. Restructuring Expenses

During fiscal 2012, the Company continued to take actions to lower its cost structure as it strives to improve its financial performance and incurred restructuring charges totaling \$3.3 million including severance costs of \$2.8 million for the termination of 33 employees, including the departure of the President and the retirement of the Chief Executive Officer, the write-down of \$430,000 of inventory relating to discontinued VOD server product lines and \$270,000 charge for the disposal of fixed assets relating to the New Hampshire facility. During fiscal 2011, we incurred restructuring charges of approximately \$7.0 million related to the termination of 110 employees, incurred an

inventory write-down of approximately \$2.5 million and took a charge related to the disposal of fixed assets of \$1.3 million as part of an overall restructuring plan.

The severance amounts reported as a component of accrued liabilities on the Balance Sheet as of January 31, 2012 were as follows:

(in thousands)	Severance
Accrual balance as of January 31, 2011	\$ 408
Amount charged to expense	2,840
Severance costs paid	(1,023 )
Accrual balance as of January 31, 2012	\$ 2,225

## 9. Lines of Credit

We maintain a revolving line of credit with RBS Citizens (a subsidiary of the Royal Bank of Scotland Group plc) for \$20.0 million which expires on October 31, 2012. Loans made under this revolving line of credit bear interest at a rate per annum equal to the bank's prime rate. Borrowings under this line of credit are collateralized by substantially all of our assets. The loan agreement requires us to comply with certain financial covenants. As of January 31, 2012, we were in compliance with the financial covenants and there were no amounts outstanding under the revolving line of credit.



We are occasionally required to post letters of credit, issued by a financial institution, to secure certain sales contracts. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as we have satisfied the commitment secured by the letter of credit. We are obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. We believe that it is unlikely we will be required to fund a claim under our outstanding letters of credit. As of January 31, 2012 the full amount of the letters of credit of \$1.6 million was supported by our credit facility.

## 10. Commitments and Contingencies

We lease certain of our operating facilities, automobiles and office equipment under non-cancelable operating leases, which expire at various dates through 2015. Rental expense under operating leases was \$3.4 million, \$3.2 million and \$2.6 million for fiscal 2012, 2011 and 2010, respectively. Future commitments under minimum lease payments as of January 31, 2012 are as follows:

	Operating Leases (in thousands)
Fiscal 2013	\$ 2,222
2014	1,027
2015	990
2016	813
2017 and thereafter	569
Minimum lease payments	\$ 5,621

We have non-cancelable purchase commitments for its inventories of approximately \$3.0 million at January 31, 2012 and studio content commitments of \$13.3 million at January 31, 2012.

### *ARRIS Litigation*

On July 31, 2009, ARRIS Group, Inc. (“ARRIS”) filed a contempt motion in the U.S. District Court for the District of Delaware against SeaChange International relating to U.S. Patent No 5,805,804 (the “804 patent”), a patent in which ARRIS has an ownership interest. In its motion, ARRIS is seeking further patent royalties and the enforcement of the permanent injunction entered by the Court on April 6, 2006 against certain SeaChange products. On August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court that its products do not infringe the ‘804 patent and asserting certain equitable defenses. On June 4, 2010, the Court entered an Order staying the declaratory judgment action pending resolution of the contempt proceeding. On September 2, 2011, the Court entered an Order in

which it concluded that a contempt proceeding is the appropriate procedure for resolving the parties' dispute and that further factual and legal determinations would be necessary. On March 1, 2012, the Court conducted a hearing at which the parties submitted additional information. No determinations were made by the Court at the hearing as to liability, and the parties are now scheduled to submit post-hearing briefs. We believe that our products do not infringe on the '804 patent and that we have meritorious defenses against the suit, however, the ultimate resolution of the matter is not reasonably estimable at this time, but could result in a material liability for the Company.

### *Indemnification and Warranties*

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. For example, we have received requests from several of our customers for indemnification of patent litigation claims asserted by Acacia Media Technologies, USA Video Technology Corporation, VTran Media Technologies and Active Video Networks, Inc. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us.

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

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

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

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

## 11. Stockholders' Equity

### *Stock Authorization*

The Board of Directors is authorized to issue from time to time up to an aggregate of 5,000,000 shares of preferred stock, in one or more series. Each such series of preferred stock shall have the number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges to be determined by the Board of Directors, including dividend rights, voting rights, redemption rights and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights. No preferred stock has been issued as of January 31, 2012.

### *Stock Repurchase Program*

On May 26, 2010, our Board of Directors authorized the repurchase of up to \$20.0 million of its common stock, par value \$.01 per share, through a share repurchase program. The repurchase program terminated on January 31, 2012. During the year ended January 31, 2011, we repurchased approximately 178,000 shares at a cost of \$1.4 million at an average purchase price \$8.05. During fiscal 2011, there were 1,484,617 treasury shares retired. During fiscal 2012, we did not repurchase any shares.

On March 28, 2012, our Board of Directors authorized the repurchase of up to \$25.0 million of its common stock, par value \$.01 per share, through a share repurchase program. The repurchase program terminates on January 31, 2013.

For fiscal 2011, approximately 465,446 RSUs were earned by the Company executive officers under the Company's fiscal 2011 performance based plan. These RSUs were not awarded due to the Company not having sufficient RSUs available within the 2005 Plan to satisfy the RSUs earned. The Company recorded a liability totaling \$1.4 million on the Consolidated Balance Sheet as of January 31, 2011 for the estimated fair value of the award. The award was re-measured quarterly until the increase in the RSUs was approved by the shareholders. These shares were awarded at the Company's annual meeting on July 20, 2011.

## 12. Segment Information

Operating segments are defined as components of an enterprise evaluated regularly by our senior management in deciding how to allocate resources and assess performance. Through the third quarter of fiscal 2012, we managed and operated as three segments, Software, Servers and Storage, and Media Services. Following the classification of a portion of the broadcast servers and storage business unit as an asset held for sale, the Software and VOD product line was organized in the one business reporting segment. We have two segments in which senior management decides how to allocate resources and assess performance. Reportable segments were determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company's management structure.

Software segment – This segment includes product revenues from our advertising, back-office including video streamers, and home gateway software solutions, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products.

Media Services segment – This segment includes the operations of the On Demand Group which include content acquisition and preparation services for television and wireless service providers.

Under this revised reporting structure, we further determined that there are significant functions, and therefore costs considered corporate expenses and are not allocated to the reportable segments for the purposes of assessing performance and making operating decisions. These unallocated costs include general and administrative expenses, other than general and administrative expenses related to Media Services, interest and other income, net, taxes and equity income (losses) in affiliates, which are managed separately at the corporate level. The segment data for the fiscal years ended January 31, 2012, 2011, and 2010 has been recast to reflect the realignment of the new segments.

The basis of the assumptions for all such revenues, costs and expenses includes significant judgments and estimations. There are no inter-segment revenues for the periods shown below. We do not separately track all assets by operating segments nor are the segments evaluated under this criterion.

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

SeaChange International, Inc.

Condensed Consolidated Operating Segments - Unaudited

(in thousands)

	Year ended January 31,		
	2012	2011	2010
Software	(in thousands)		
Revenue:			
Products	\$73,157	\$82,155	\$97,005
Services	91,635	91,501	73,141
Total revenue	164,792	173,656	170,146
Gross profit	93,157	98,064	95,786
Operating expenses:			
Research and development	40,692	44,569	45,104
Selling and marketing	21,619	21,055	22,425
General and administrative	2,032	1,465	502
Amortization of intangibles	3,784	3,073	2,246
Acquisition costs	3,312	764	-
Restructuring	2,366	6,085	-
Total operating expenses	73,805	77,011	70,277
Income from operations	\$19,352	\$21,053	\$25,509
Media Services			
Service revenue	\$32,913	\$28,031	\$19,794
Gross profit	4,855	4,791	3,284
Operating expenses:			
Selling and marketing		-	-
General and administrative	3,421	4,026	3,015
Amortization of intangibles	139	286	580
Total operating expenses	3,560	4,312	3,595
Income (loss) from operations	\$1,295	\$479	\$(311 )
Unallocated Corporate			
Operating expenses:			
General and administrative	\$18,663	\$18,156	\$17,306
Restructuring	950	\$912	\$-
Total unallocated corporate expenses	\$19,613	\$19,068	\$17,306
Consolidated income from operations	\$1,034	\$2,464	\$7,892

The following summarizes revenues by customers' geographic locations.

	Year ended January 31, 2012		2011		2010	
	Amount	%	Amount	%	Amount	%
Revenues by customers' geographic locations:	(in thousands, except percentages)					
North America	\$ 107,277	54 %	\$ 118,895	59 %	\$ 130,642	69 %
Europe and Middle East	80,789	41 %	63,127	31 %	41,794	22 %
Latin America	5,578	3 %	10,477	5 %	12,776	7 %
Asia Pacific and other international locations	4,061	2 %	9,188	5 %	4,728	2 %
Total revenues	\$ 197,705		\$ 201,687		\$ 189,940	

Total revenues for the United States for the years ended January 31, 2012, 2011, and 2010, were \$97.3 million, \$108.6.0 million, and \$126.8 million, respectively.



The following summarizes fixed assets, net by geographic locations:

	Year ended January 31,			
	2012		2011	
	\$	%	\$	%
	Amount		Amount	
Fixed assets, net by geographic locations:	(in thousands, except percentages)			
North America	\$15,734	52 %	\$20,233	59 %
United Kingdom	10,478	35 %	10,250	29 %
Europe (excluding UK) and Middle East	997	3 %	835	2 %
Asia Pacific and other international locations	3,357	10 %	3,540	10 %
Total fixed assts by geographic location	\$30,566		\$34,858	

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

We use on a modified prospective basis, 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, restricted stock units and, prior to its termination, employee stock purchases related to the Employee Stock Purchase Plan (“ESPP”) based on estimated fair values. The fair value of our stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards’ vesting period on a graded vesting basis, whereas the restricted stock units and Employee Stock Purchase Plan stock units are amortized on a straight line basis. 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, restricted stock unit awards, and, prior to its termination, shares expected to be purchased under an employee stock purchase plan. The estimated fair value of our stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards’ vesting period on a graded vesting basis, whereas the restricted stock units and ESPP stock units are amortized on a straight line basis.

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

Year ended January 31,  
2012    2011    2010

	(in thousands)		
Stock-based compensation expense by type of award:			
Stock options	\$77	\$(60 )	\$94
Restricted stock units	1,317	766	639
Performance-based restricted stock units	1,964	2,107	1,628
Employee stock purchase plan	-	144	744
Total stock-based compensation	\$3,358	\$2,957	\$3,105

Since additional option grants and restricted stock unit awards are expected to be made each year and options and awards vest over several years, the effects of applying authoritative guidance for recording stock-based compensation for the year ended January 31, 2012 are not indicative of future amounts.

### ***Determining Fair Value***

We record the fair value of stock options, including rights granted under the ESPP prior to its termination, 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 fair value of stock options granted was estimated at the date of grant using the following assumptions:

	Year ended January 31,			
	2012	2011		2010
Expected term (in years)	4-5	4-5		4-5
Expected volatility (range)	52 %	51%-53%		61 %
Weighted average volatility	52 %	53	%	61 %
Risk-free interest rate	0.8 %	1.5%-1.6%		1.2 %
Weighted average interest rate	0.8 %	1.6	%	1.2 %
Expected dividend yield	0 %	0	%	0 %

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

	Year ended January 31,			
	2012	2011		2010
Expected term (in years)	*	0.5		0.5
Weighted average volatility	*	48 %	71	%
Weighted average interest rate	*	0.1 %	0.3	%
Expected dividend yield	*	0 %	0	%

\* No ESPP shares granted in fiscal 2012. The ESPP plan was cancelled in fiscal 2011

### ***Stock Option Plans***

#### ***2011 Compensation and Incentive Plan.***

On July 20, 2011 our stockholders approved the adoption of our 2011 Compensation and Incentive Plan (the “2011 Plan”) under a number shares of common stock equal to 2.8 million plus the number of expired, terminated, surrendered or forfeited awards under the Amended and Restated 2005 Equity Compensation and Incentive Plan (the “2005 Plan”) subsequent to July 20, 2011 were authorized and terminated the Amended and Restated 2005 Equity Compensation and Incentive Plan. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and other equity based non stock option awards as determined by the plan administrator for the purchase of up to an aggregate of 2,800,000 shares of our common stock by officers, employees, consultants and directors of the Company. We may satisfy awards upon the exercise of stock options or

vesting of restricted stock units with newly issued shares or treasury shares. The Board of Directors is responsible for the administration of the 2011 Plan and determining the term of each award, award exercise price, the number of shares for which each award is granted and the rate at which each award vests. As of January 31, 2012, there were 1.9 million shares available for future grant.

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. Restricted stock units and other equity-based non-stock option awards may be granted to any officer, employee, director or consultant at a purchase price per share as determined by the Board of Directors. Awards granted under the 2011 Plan generally vest over three years and expire seven years from the date of the grant.

*Amended and Restated 2005 Equity Compensation and Incentive Plan*

The 2005 plan was terminated upon the adoption of the 2011 Plan on July 20, 2011. No further awards will be granted under the 2005 Plan. The 2005 Plan provided for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and “other” non-stock option awards as determined by the plan administrator for the purchase of up to an aggregate of 2,800,000 shares of our common stock by officers, employees, consultants and directors of the Company. We may satisfy awards upon the exercise of stock options or vesting of restricted stock units with either newly issued shares or treasury shares. The Board of Directors is responsible for the administration of the 2005 Plan and determining the term of each award, award exercise price, number of shares for which each award is granted and the rate at which each award is exercisable.

The following table summarizes the stock option activity (excluding restricted stock units):

	Year ended January 31,				2010	
	2012	2011	2010	2010	2010	2010
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of period	2,382,174	\$ 12.31	3,934,973	\$ 15.41	4,228,237	\$ 15.43
Granted	250,000	6.74	15,000	8.77	60,000	6.23
Exercised	(253,668 )	7.04	(309,195 )	6.71	(47,805 )	6.79
Forfeited/expired/cancelled	(253,135 )	16.11	(1,258,604 )	23.30	(305,459 )	15.38
Outstanding at end of period	2,125,371	\$ 11.83	2,382,174	\$ 12.31	3,934,973	\$ 15.41
Options exercisable at end of period	1,878,707	\$ 12.51	2,367,176	\$ 12.33	3,865,221	\$ 15.56
Weighted average remaining contractual term (in years)		2.10		1.95		3.38

The weighted-average fair valuation at grant date of stock options granted during the years ended January 31, 2012, 2011 and 2010, was \$2.86, \$3.70, and \$3.21, respectively. As of January 31, 2012, the unrecognized stock-based compensation related to the unvested stock options was \$682,000 net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for any future changes in estimated changes in forfeitures. This cost will be recognized over an estimated weighted average amortization period of seventeen months.

The total intrinsic value of options exercised during the years ended January 31, 2012, 2011 and 2010 was approximately \$754,000, \$473,000 and \$60,000, respectively, with intrinsic value defined as the difference between the market price on the date of exercise and the grant date price.

The cash received from employees as a result of employee stock option exercises during fiscal years 2012, 2011 and 2010 was \$1.8 million, \$2.1 million, and \$324,000, respectively.

The following table summarizes information about employee and director stock options outstanding and exercisable as of January 31, 2012:

Options Outstanding		Weighted average	Options Exercisable		Weighted average
Number	Weighted outstanding average		Number	Weighted exercisable average	

		remaining contractual terms (years)	exercise price		exercise price
Range of exercise prices					
\$ 5.85 to 6.88	95,336	0.68	\$ 6.16	95,336	\$ 6.16
6.74 to 6.74	250,000	6.56	6.74	12,500	6.74
6.78 to 7.00	219,002	0.98	6.94	219,002	6.94
7.23 to 10.33	234,465	1.73	9.21	225,298	9.23
10.45 to 12.21	276,346	1.85	11.65	276,346	11.65
12.95 to 13.66	113,273	0.70	13.29	113,273	13.29
13.76 to 13.76	236,976	0.18	13.76	236,976	13.76
14.57 to 15.59	339,691	1.99	15.02	339,694	15.02
15.62 to 17.39	334,682	2.35	16.56	334,682	16.56
17.86 to 28.26	25,600	1.23	22.51	25,600	22.51
	2,125,371	2.10	\$ 11.83	1,878,707	\$ 12.51

***Restricted Stock Units***

Pursuant to the 2011 Plan, we may grant restricted stock units that entitle the recipient to acquire shares of our common stock. Awards of restricted stock units generally vest in equal increments on each of the first three anniversaries of the grant of the award. Stock-based compensation expense associated with the restricted stock units is charged for the market value of 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. As of January 31, 2012 there were 1.9 million RSUs available to be granted. For fiscal 2012, approximately 51,000 RSUs were earned by our executive officers under the Company's fiscal 2012 performance based plan

The following table summarizes the restricted stock unit activity:

	Year ended January 31, 2012		2011		2010	
	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	363,078	\$ 8.00	572,489	\$ 7.94	458,674	\$ 8.99
Awarded	855,143	10.10	223,020	8.12	523,346	6.45
Vested	(381,955)	7.53	(353,542)	8.15	(409,531)	7.22
Forfeited/expired/cancelled	(114,901)	9.73	(78,889 )	7.20	-	-
Nonvested at end of period	721,365	\$ 10.46	363,078	\$ 8.00	572,489	\$ 7.94

As of January 31, 2012 the unrecognized stock-based compensation related to the unvested restricted stock units was \$4.5 million. This cost will be recognized over an estimated weighted average amortization period of 2.1 years. Due to the retirement of our Chief Executive Officer on December 8, 2011, his unvested restricted stock units were accounted for as a modification to the terms and conditions. This modification resulted in the cancellation of unvested restricted awards with a grant date value of \$1.9 million and recognition of stock compensation expense of \$1.3 million.

***Employee Stock Purchase Plan***

In September 1996, our Board of Directors adopted and the stockholders approved an employee stock purchase plan (the “ESPP”), effective January 1, 1997 as amended July 16, 2008, which provided for the issuance of a maximum of 2.2 million shares of common stock to participating employees who meet eligibility requirements. The Plan was terminated on May 31, 2010. The purchase price of the stock was 85% of the lesser of the average market price of the common stock on the first or last business day of each six-month plan period. During fiscal 2011 and 2010, the number of shares of common stock issued under the Employee Stock Purchase Plan were 135,632 and 282,889, respectively. The cash received from employees as a result of the ESPP during fiscal 2011 and 2010 was \$660,000, and \$1.5 million, respectively.

#### 14. Income Taxes

The components of income before income taxes are as follows:

	Year ended January 31,		
	2012	2011	2010
	(in thousands)		
Domestic	\$(13,610)	\$20,769	\$3,192
Foreign	14,286	8,348	4,845
	\$676	\$29,117	\$8,037



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

	Year ended January 31,		
	2012	2011	2010
	(in thousands)		
Current:			
Federal	\$3,429	\$(2,546)	\$(271 )
State	(667 )	(188 )	32
Foreign	(1,565)	(787 )	(1,114)
	1,197	(3,521)	(1,353)
Deferred:			
Federal	(3,183)	4,677	-
State	(348 )	137	-
Foreign	141	1,145	1,082
	(3,390)	5,959	1,082
	\$(2,193)	\$2,438	\$(271 )

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

	Year ended January 31,		
	2012	2011	2010
	(in thousands)		
Statutory U.S. federal tax rate	\$(237 )	\$(10,191)	\$(2,813)
State taxes, net of federal tax benefit	(660 )	(49 )	29
Losses not benefitted	(3,889)	8,633	713
Non-deductible stock compensation expense	68	79	(133 )
Other	(961 )	529	39
Research and development tax credits	291	117	130
Foreign tax rate differential	3,195	3,320	1,764
	\$(2,193)	\$2,438	\$(271 )

Our effective tax rate was (324%), 8%, and 4% in the years ended January 31, 2012, 2011 and 2010, respectively. The income tax expense for fiscal 2012 was primarily due to \$1.0 million of state income taxes and income tax expense of \$1.5 million at foreign subsidiaries in the United Kingdom, the Netherlands, and Ireland.

The components of deferred income taxes are as follows:

	Year ended January 31, 2012      2011 (in thousands)	
Deferred tax assets:		
Accruals and reserves	\$1,890	\$2,593
Deferred revenue	3,255	6,478
Stock-based compensation expense	1,549	1,277
U.S. federal, state and foreign tax credits	4,951	1,586
Net operating loss carryforwards	4,321	3,403
Property and equipment	-	30
Other	29	15
Deferred tax assets	15,995	15,382
Less: Valuation allowance	(12,254)	(6,985 )
Net deferred tax assets	3,741	8,397
Deferred tax liabilities:		
Intangible assets	5,928	7,371
Property and equipment	120	-
Total net deferred tax assets(liabilities)	\$(2,307 )	\$1,026

At January 31, 2012, we had federal, state and foreign net operating loss carryforwards of \$2.6 million, \$27.0 million and \$14.4 million respectively, which can be used to offset future tax liabilities and expire at various dates beginning in fiscal 2016. Utilization of these net operating loss carryforwards may be limited pursuant to provisions of the respective local jurisdiction. At January 31, 2012, we had federal and state research and development credit carryforwards of approximately \$3.1 million and \$848,000 respectively, and state investment tax credit carryforwards of \$178,000. The federal credit carryforwards will expire at various dates beginning in fiscal 2016, if not utilized. Certain state credit carryforwards will expire at various dates beginning in fiscal 2013, while certain other state credit carryforwards may be carried forward indefinitely. Utilization of these credit carryforwards may be limited pursuant to provisions of the respective local jurisdiction. We also have alternative minimum tax credit carryforwards of \$558,000 which are available to reduce future federal regular income taxes over an indefinite period. We have foreign tax credit carryforwards of \$600,000 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 approximately \$12.3 million for such assets, which are comprised principally of net operating loss carryforwards, 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 from \$7.0 million at January 31, 2011 to \$12.3 million at January 31, 2012

At January 31, 2012, we have indefinitely reinvested \$68.3 million of the cumulative undistributed earnings of certain foreign subsidiaries. Approximately \$45.1 million of such earnings would be subject to U.S. taxes if repatriated to the U.S. Through January 31, 2012, 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 U.S. Non-US income taxes are, however, provided on those foreign subsidiaries' undistributed earnings with the exception of ZQ Interactive, LTD based in the British Virgin Islands. 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 year ended January 31, 2012, we recognized an additional tax expense for unrecognized tax benefits of \$431,000. None of the amounts included in the balance of unrecognized tax benefits at January 31, 2012 of \$6.5 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, excluding interest of \$721,000 is as follows (in thousands):

	Year ended January 31, 2012    2011 (in thousands)	
Balance of gross unrecognized tax benefits, beginning of period	\$7,283	\$6,985
Increases due to acquisitions	-	1,200
Gross amounts of increases in unrecognized tax benefits as a result of		
Gross amounts of increases in unrecognized tax benefits as a result of tax positions taken in the current period	431	404
Decrease due to expiration of statute of limitation	(319 )	(188 )
Decrease due to settlement	(876 )	(1,094)
Effect of currency translation	(55 )	(24 )
Balance of gross unrecognized tax benefits, end of period	\$6,464	\$7,283

We and our subsidiaries 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 2008. 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.

## 15. Employee Benefit Plan

We sponsor a 401(k) retirement savings plan (the "Plan"). Participation in the Plan is available to full-time employees who meet eligibility requirements. Eligible employees may contribute up to 25% of their annual salary, subject to certain limitations. We matched contributions up to 50% of the first 6% of compensation. During fiscal 2012, 2011 and 2010, we contributed \$1.2 million, \$1.3 million and \$1.4 million, respectively. We also contribute to various retirement plans in its international subsidiaries, of which the amounts will vary, according to the local plans specific to each foreign location.

## 16. Related Party

On September 1, 2009, we completed our acquisition of eventIS from a holding company in which Erwin van Dommelen held a 31.5% interest. Subsequent to the acquisition Mr. van Dommelen was appointed President of SeaChange's Software segment in March 2010. On closing the transaction, we made cash payments to the holding company totaling \$37.0 million and issued \$1.1 million of restricted shares. We have made and are obligated to make additional fixed and variable earnout payments to the holding company of deferred purchase price under the eventIS share purchase agreement. See note 6 for payment details.

**17. Quarterly Results of Operations—Unaudited**

The following table sets forth certain unaudited quarterly results of operations for fiscal 2012 and 2011. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the quarterly information when read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The quarterly operating results are not necessarily indicative of future results of operations.

	Three months ended							
	April 30, 2010	July 31, 2010	October 31, 2010	January 31, 2011	April 30, 2011	July 31, 2011	October 31, 2011	January 31, 2012
Revenue	\$51,882	\$45,587	\$46,335	\$57,883	\$49,072	\$46,158	\$50,778	\$51,697
Gross profit	26,550	22,448	22,285	31,572	23,542	23,023	25,137	26,310
Operating expenses	30,095	22,700	24,694	22,902	23,833	22,283	24,598	26,264
Net income (loss) from continuing operations	21,395	3,194	(4,163 )	11,214	255	846	1,179	(3,564 )
Net (loss) income from discontinued operations	(1,122 )	314	(1,128 )	(236 )	(639 )	(59 )	(771 )	(1,261 )
Net income (loss)	20,273	3,508	(5,291 )	10,978	(384 )	787	408	(4,825 )
Earnings per share from continuing operations:								
Basic (loss) income per share	0.68	0.10	(0.13 )	0.36	0.01	0.03	0.04	(0.11 )
Diluted (loss) income per share	0.67	0.10	(0.13 )	0.36	0.01	0.03	0.04	(0.11 )
Loss per share from discontinued operations:								
Basic loss per share	(0.04 )	0.01	(0.04 )	(0.01 )	(0.02 )	(0.00 )	(0.02 )	(0.04 )
Diluted loss per share	(0.04 )	0.01	(0.04 )	(0.01 )	(0.02 )	(0.00 )	(0.02 )	(0.04 )
Earnings per share:								
Basic income (loss) per share	0.65	0.11	(0.17 )	0.35	(0.01 )	0.02	0.01	(0.15 )
Diluted income (loss) per share	0.64	0.11	(0.17 )	0.34	(0.01 )	0.02	0.01	(0.15 )

**18. Subsequent Events**

During the fourth quarter of fiscal 2012, we initiated the sale of the broadcast servers and storage business unit. On March 21, 2012, we entered into an asset sale agreement to sell a portion of our broadcast servers and storage business

unit to a company located in China. As such we have reflected the results of the associated sale as discontinued operations in our financial statements.

The following table details selected financial information for the former Servers and Storage business unit:

	Fiscal Year ended January 31, 2012      2011      2010 (in thousands)		
Revenues:			
Products	\$6,159	\$9,524	\$4,936
Services	5,720	5,516	6,789
Total revenues	\$11,879	\$15,040	\$11,725
Loss from discontinued operations			
Loss from discontinued operations, before tax	\$2,630	\$2,072	\$5,690
Income tax expense	(100 )	(100 )	(100 )
Loss from discontinued operations, after tax	\$2,730	\$2,172	\$5,790

The major classes of assets and liabilities related to discontinued operations are as follows:

	January 31, 2012	January 31, 2011
Assets	(in thousands)	
Current assets:		
Inventories, net	\$2,940	\$3,352
Prepaid expenses and other current assets	170	192
Current assets related to discontinued operations	3,110	3,544
Non current assets:		
Goodwill	594	594
Other assets	108	108
Property and equipment, net	1,597	1,523
Non-current assets related to discontinued operations	\$2,299	\$2,225
Liabilities		
Deferred revenues	\$2,779	\$3,226
Current liabilities related to discontinued operations	\$2,779	\$3,226



**Schedule II****SEACHANGE INTERNATIONAL, INC.****VALUATION OF QUALIFYING ACCOUNTS AND RESERVES****Years ended January 31, 2012, 2011 and 2010**

	Balance at beginning of period (in thousands)	Charged to costs and expenses	Deductions and write-offs	Other Adjustments	Balance at end of period
Accounts Receivable Allowance:					
Year ended January 31, 2012	\$995	\$ 100	\$ (123 )	\$ -	\$ 972
Year ended January 31, 2011	\$852	\$ 147	\$ (4 )	\$ -	\$ 995
Year ended January 31, 2010	853	75	(76 )	-	852

	Balance at beginning of period (in thousands)	Additions	Deletions	Adjustments	Balance at end of period
Deferred Tax Assets Valuation Allowance:					
Year ended January 31, 2012	\$6,985	\$ 5,269		\$ -	\$12,254
Year ended January 31, 2011	\$14,903	\$ -	\$ (7,918 )	\$ -	\$6,985
Year ended January 31, 2010	15,692	-	(789 )	-	14,903

## **SIGNATURES**

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

Dated: April 6, 2012

SEACHANGE INTERNATIONAL, INC.

By: /s/ Raghu Rau  
Raghu Rau  
Chief Executive Officer and Director

## EXHIBIT INDEX

### Exhibit No. Description

23.1*	Consent of Grant Thornton LLP.
31.1*	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

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\* Provided herewith.

Pursuant to Rule 406T of Regulation S-T, these interactive data files shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.