

SEACHANGE INTERNATIONAL INC

Form 10-Q

December 10, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock on December 8, 2015 was 33,694,410.

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

	October 31, 2015 (Unaudited)	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 58,030	\$ 90,019
Restricted cash		1,073
Marketable securities	4,508	7,516
Accounts and other receivables, net of allowance for doubtful accounts of \$454 and \$400 at October 31, 2015 and January 31, 2015, respectively	23,893	24,962
Unbilled receivables	12,166	6,588
Inventories, net	2,024	2,864
Prepaid expenses and other current assets	3,137	3,026
Total current assets	103,758	136,048
Property and equipment, net	14,673	15,869
Marketable securities, long-term	8,266	6,793
Investments in affiliates	2,530	3,051
Intangible assets, net	10,533	7,314
Goodwill	57,747	41,008
Other assets	3,202	2,268
Total assets	\$ 200,709	\$ 212,351
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 6,092	\$ 5,129
Deferred stock consideration	4,789	
Other accrued expenses	17,045	12,507
Deferred revenues	14,946	17,398
Total current liabilities	42,872	35,034
Deferred revenue, long-term	1,203	1,690
Other liabilities, long-term	2,217	1,493
Taxes payable, long-term	1,384	1,993

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Deferred tax liabilities, long-term	61	1,090
Total liabilities	47,737	41,300
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 33,713,982 shares issued and 33,674,076 outstanding at October 31, 2015, and 32,733,636 shares issued and 32,693,852 outstanding at January 31, 2015	337	327
Additional paid-in capital	227,511	219,651
Treasury stock, at cost; 39,906 common shares	(1)	(1)
Accumulated loss	(68,589)	(43,172)
Accumulated other comprehensive loss	(6,286)	(5,754)
Total stockholders' equity	152,972	171,051
Total liabilities and stockholders' equity	\$ 200,709	\$ 212,351

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

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Revenues:				
Products	\$ 6,195	\$ 7,311	\$ 16,314	\$ 21,109
Services	22,552	22,659	63,481	63,047
Total revenues	28,747	29,970	79,795	84,156
Cost of revenues:				
Products	1,528	2,779	4,766	6,188
Services	10,963	12,094	33,829	35,970
Provision for loss contract	9,162		9,162	
Amortization of intangible assets	184	258	557	795
Stock-based compensation expense	33	46	61	132
Total cost of revenues	21,870	15,177	48,375	43,085
Gross profit	6,877	14,793	31,420	41,071
Operating expenses:				
Research and development	8,273	9,932	26,176	31,729
Selling and marketing	3,965	3,447	11,263	10,509
General and administrative	3,648	3,841	11,446	11,895
Amortization of intangible assets	1,038	994	3,003	3,325
Stock-based compensation expense	1,104	1,136	2,943	2,447
Earn-outs and change in fair value of earn-outs	492		1,475	
Professional fees - other	1	124	145	477
Severance and other restructuring costs	197	1,186	1,026	1,878
Total operating expenses	18,718	20,660	57,477	62,260
Loss from operations	(11,841)	(5,867)	(26,057)	(21,189)
Other income (expenses), net	38	(676)	(390)	(594)
Loss before income taxes and equity income in earnings of affiliates	(11,803)	(6,543)	(26,447)	(21,783)
Income tax benefit	(1,228)	(348)	(1,003)	(415)
Equity income in earnings of affiliates, net of tax	10		27	19

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Loss from continuing operations	(10,565)	(6,195)	(25,417)	(21,349)
(Loss) income from discontinued operations, net of tax		(114)		5
Net loss	\$ (10,565)	\$ (6,309)	\$ (25,417)	\$ (21,344)
Net loss	\$ (10,565)	\$ (6,309)	\$ (25,417)	\$ (21,344)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	114	(1,476)	(510)	(1,561)
Unrealized (loss) gain on marketable securities	(7)	6	(22)	(6)
Comprehensive loss	\$ (10,458)	\$ (7,779)	\$ (25,949)	\$ (22,911)
Net loss per share:				
Basic	\$ (0.31)	\$ (0.19)	\$ (0.76)	\$ (0.65)
Diluted	\$ (0.31)	\$ (0.19)	\$ (0.76)	\$ (0.65)
Net loss per share from continuing operations:				
Basic	\$ (0.31)	\$ (0.19)	\$ (0.76)	\$ (0.65)
Diluted	\$ (0.31)	\$ (0.19)	\$ (0.76)	\$ (0.65)
Net (loss) income per share from discontinued operations:				
Basic	\$	\$ (0.00)	\$	\$ 0.00
Diluted	\$	\$ (0.00)	\$	\$ 0.00
Weighted average common shares outstanding:				
Basic	33,636	32,628	33,440	32,805
Diluted	33,636	32,628	33,440	32,805

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

Table of Contents**SEACHANGE INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Unaudited, amounts in thousands)*

	Nine Months Ended October 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$ (25,417)	\$ (21,344)
Net income from discontinued operations		(5)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	2,554	2,809
Provision for loss contract	9,162	
Amortization of intangible assets	3,560	4,120
Fair value of acquisition-related contingent consideration	1,475	
Stock-based compensation expense	3,004	2,579
Other	(834)	342
Changes in operating assets and liabilities, excluding impact of acquisition:		
Accounts receivable	895	6,640
Unbilled receivables	(5,743)	(976)
Inventories	(1,207)	1,853
Prepaid expenses and other assets	(158)	(465)
Accounts payable	718	(1,235)
Accrued expenses	(4,056)	(1,882)
Deferred revenues	(2,770)	(4,600)
Other	(625)	489
Net cash used in operating activities from continuing operations	(19,442)	(11,675)
Net cash provided by operating activities from discontinued operations		5
Total cash used in operating activities	(19,442)	(11,670)
Cash flows from investing activities:		
Purchases of property and equipment	(1,140)	(1,470)
Investment in capitalized software	(2,030)	
Purchases of marketable securities	(3,005)	(7,160)
Proceeds from sale and maturity of marketable securities	4,503	5,633
Proceeds from sale of equity investments		235
Proceeds from (purchase of) cost method investments, net	453	(2,000)
Cash paid for acquisition of business, net of cash acquired	(11,686)	
Total cash used in investing activities	(12,905)	(4,762)
Cash flows from financing activities:		

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Proceeds from issuance of common stock relating to stock option exercises	88	
Repurchases of common stock		(5,504)
Total cash provided by (used in) financing activities	88	(5,504)
Effect of exchange rate changes on cash	270	774
Net decrease in cash and cash equivalents	(31,989)	(21,162)
Cash and cash equivalents, beginning of period	90,019	115,734
Cash and cash equivalents, end of period	\$ 58,030	\$ 94,572
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 495	\$ 648
Supplemental disclosure of non-cash investing and financing activities:		
Transfer of items originally classified as inventories to equipment	\$ 342	\$ 552
Fair value of common stock issued for acquisition of TLL	\$ 3,025	\$
Fair value of common stock issued for deferred stock consideration obligation	\$ 1,753	\$

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

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Business and Basis of Presentation

The Company

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

Basis of Presentation

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

The preparation of these financial statements in conformity with U.S. GAAP, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Interim results are not necessarily indicative of the operating results for the full fiscal year or any future periods and actual results may differ from our estimates. During the three and nine months ended October 31, 2015, there have been no material changes to our significant accounting policies that were described in our fiscal 2015 Form 10-K, as filed with the SEC.

Note to Update Third Fiscal Quarter Earnings Release

On December 3, 2015, we issued a press release containing our financial results for the three and nine months ended October 31, 2015, which we furnished as an exhibit to a Current Report on Form 8-K. Subsequent to December 3, 2015, we identified a revision to the inventories and accrued expenses line items of our consolidated statements of cash flow to correct the treatment of a non-cash transaction related to the recording of the provision for loss contract. There was no impact to the net cash used in operating activities from continuing operations for the nine months ended October 31, 2015. Below are the line items on the consolidated statements of cash flow that have been adjusted (amounts in thousands):

	December 3, 2015	Q3 Fiscal 2016	
	Press Release	Form 10-Q	Change
Inventories	\$ 472	\$ (1,207)	\$ 1,679
Accrued expenses	\$ (5,735)	\$ (4,056)	\$ (1,679)

2. Significant Accounting Policies

Revenue Recognition

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

persuasive evidence of an arrangement exists;

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

fees are fixed or determinable; and

collection of the related receivable is considered probable.

Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities is deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements is recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. The percentage of completion method requires that adjustments or re-evaluations to estimated project revenues and costs be recognized on a project-to-date cumulative basis, as changes to the estimates are identified. Revisions to project estimates are made as additional information becomes known, including information that becomes available subsequent to the date of the consolidated financial statements up through the date such consolidated financial statements are filed with the SEC. If the final estimated profit to complete a long-term contract indicates a loss, a provision is recorded immediately for the total loss anticipated. 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.

During the three months ended October 31, 2015, we recorded a \$9.2 million provision for loss contract as a result of delays of customer acceptance relating to a fixed-price customer contract on a multi-year arrangement which included multiple vendors. During the period after October 31, 2015, we agreed with the customer on the replacement of certain third-party vendors and a change in the timeline for the completion of the project. As the system integrator on the project, we are subject to any costs overruns or increases with these vendors resulting in delays or acceptance by our customer.

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

Under the software revenue recognition rules, the fee is allocated to the various elements based on vendor-specific objective evidence (VSOE) of fair value. Under this method, the total arrangement value is allocated first to undelivered elements based on their fair values, with the remainder being allocated to the delivered elements. Where fair value of undelivered service elements has not been established, the total arrangement value is recognized over the period during which the services are performed. The amounts allocated to undelivered elements, which may include project management, training, installation, maintenance and technical support and certain hardware and software components, are based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation, training and project management revenue is based upon standard hourly billing rates and the estimated time necessary to complete the service. These services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple-element arrangements that include software development with significant modification or customization and systems sales where VSOE of the fair value does not exist for the undelivered elements of the arrangement (other than maintenance and technical support), percentage of completion accounting is applied for revenue recognition purposes to the entire arrangement with the exception of maintenance and technical support.

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

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

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

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

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

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

3. Fair Value Measurements

Definition and Hierarchy

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

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

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

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

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

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

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

Fair Value Measurements of Assets and Liabilities

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

		Fair Value at October 31, 2015 Using		
		Quoted Prices in Active Markets for October 31, 2015	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	October 31, 2015	Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
	(Amounts in thousands)			
Financial assets:				
Money market accounts (a)	\$ 3,129	\$ 3,129	\$	\$
Available for sale marketable securities:				
Current marketable securities:				
U.S. treasury notes and bonds - conventional	2,004	2,004		
U.S. government agency issues	2,504		2,504	
Non-current marketable securities:				
U.S. treasury notes and bonds - conventional	6,765	6,765		
U.S. government agency issues	1,501		1,501	
Total	\$ 15,903	\$ 11,898	\$ 4,005	\$
Financial liabilities:				
Contingent consideration (b)	\$ 1,979	\$	\$	\$ 1,979

We determine the appropriate classification of debt investment securities at the time of purchase and reevaluate such designation as of each balance sheet date. Our investment portfolio consists of money market funds, U.S. treasury notes and bonds, and U.S. government agency notes and bonds as of October 31, 2015 and January 31, 2015. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. All cash equivalents are carried at cost, which approximates fair value. Our marketable securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, reported in stockholders' equity as a component of accumulated other comprehensive loss. The amortization of premiums and accretion of discounts to maturity are computed under the effective interest method and are included in other income (expenses), net, in our consolidated statements of operations and comprehensive loss. Interest on securities is recorded as earned and is also included in other income (expenses), net. Any realized gains or losses would be shown in the accompanying consolidated statements of operations and comprehensive loss in other income (expenses), net. We provide fair value measurement disclosures of available-for-sale securities in accordance with one of three levels of fair value measurement mentioned above.

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

	Amortized Cost	Gross Unrealized Gains (Amounts in thousands)	Gross Unrealized Losses	Estimated Fair Value
October 31, 2015:				
Cash	\$ 54,901	\$	\$	\$ 54,901
Cash equivalents	3,129			3,129
Cash and cash equivalents	58,030			58,030
U.S. treasury notes and bonds - short-term	2,003	1		2,004
U.S. treasury notes and bonds - long-term	6,761	4		6,765
U.S. government agency issues - short-term	2,502	2		2,504
U.S. government agency issues - long-term	1,487	14		1,501
Total cash, cash equivalents and marketable securities	\$ 70,783	\$ 21	\$	\$ 70,804
January 31, 2015:				
Cash	\$ 88,444	\$	\$	\$ 88,444
Cash equivalents	1,575			1,575
Cash and cash equivalents	90,019			90,019
U.S. treasury notes and bonds - short-term	1,500	1		1,501
U.S. treasury notes and bonds - long-term	4,268	18		4,286
U.S. government agency issues - short-term	6,008	7		6,015
U.S. government agency issues - long-term	2,490	17		2,507
Total cash, cash equivalents and marketable securities	\$ 104,285	\$ 43	\$	\$ 104,328

The following is a schedule of the contractual maturities of available-for-sale investments as of October 31, 2015 (amounts in thousands):

	Estimated Fair Value
Maturity of one year or less	\$ 4,508
Maturity between one and five years	8,266

Total	\$ 12,774
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Cash, Cash Equivalents and Marketable Securities

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

Restricted Cash

In December 2014, in conjunction with our acquisition of TLL, LLC (Timeline Labs) (see Note 4), we entered into an agreement to fund a \$2.5 million escrow from which Timeline Labs could make withdrawals for working capital purposes in advance of the February 2, 2015 acquisition date. The unused portion of \$1.1 million as of January 31, 2015 was classified as restricted cash in our consolidated balance sheet. On February 2, 2015 this amount was retained by the Company.

The fair value of cash, cash equivalents, restricted cash and marketable securities at October 31, 2015 and January 31, 2015 was \$70.8 million and \$105.4 million, respectively.

Table of Contents***Contingent Consideration***

We determined the fair value of the contingent consideration in connection with the acquisition of Timeline Labs on February 2, 2015 using a method that incorporates the Black-Scholes valuation model to establish the value of the shares of our common stock in addition to an evaluation of the probability of achievement. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. As of October 31, 2015, \$1.2 million represents our current portion of this obligation and is included in other accrued expenses in our consolidated balance sheet and \$0.8 million represents our noncurrent portion and is included in other liabilities, long-term on our consolidated balance sheet. Any change in the fair value of the contingent consideration subsequent to the acquisition date, such as changes in our estimates of the performance goals, will be recognized in earnings in the period the estimated fair value changes. For contingent consideration arrangements which contain an employment requirement, and as a result are considered compensation expense, we will recognize a liability once the requisite service period has been completed.

4. Acquisition of TLL, LLC

On February 2, 2015, pursuant to an Agreement and Plan of Merger (the Merger Agreement), dated as of December 22, 2014, we acquired 100% of the member interests in TLL, LLC (Timeline Labs), a privately-owned California-based software-as-a-service (SaaS) company that enables local broadcasters, national news organizations and other media companies and brands to analyze social media messages in real-time, find and broadcast social trends, and measure viewing audience engagement across television, mobile and personal computers.

We accounted for the acquisition of Timeline Labs as a business combination and the financial results of Timeline Labs have been included in our consolidated financial statements as of the date of acquisition. Under the acquisition method of accounting, the purchase price was allocated to SeaChange's net tangible and intangible assets based upon their fair values as of February 2, 2015.

We have not disclosed the amount of revenues and earnings of Timeline Labs since the acquisition date, nor have we included pro forma financial information, as those amounts are not significant to our consolidated financial statements.

The preliminary allocation of the purchase price is as follows (amounts in thousands):

Fair value of consideration:	
Cash, net of cash acquired	\$ 14,186
Closing stock consideration	3,019
Deferred stock consideration	6,543
Contingent consideration	504
Total purchase price	\$ 24,252
Fair value of assets acquired and liabilities assumed:	
Current assets	249
Other long-term assets	108
Finite-life intangible assets	6,720

Goodwill	17,246
Current liabilities	(71)
Allocated purchase price	\$ 24,252

Fair Value of Consideration Transferred

Upon completion of the acquisition, the Company made cash consideration payments to the former members of Timeline Labs in the amount of \$14.2 million (Closing Cash Consideration), which included \$0.2 million of preliminary working capital adjustments. The Closing Cash Consideration included \$1.4 million applied from an escrow that was funded by the Company in the fourth quarter of fiscal 2015. Also upon completion of the acquisition, the Company issued 344,055 shares of common stock to the former members of Timeline Labs and deposited 173,265 shares of common stock into escrow.

The Company is also obligated to issue shares of common stock at the six-month and twelve-month anniversaries of the acquisition date. On August 3, 2015 we issued 260,537 shares of our common stock with a value of \$1.8 million to the former members of Timeline Labs, in satisfaction of the six-month deferred stock consideration obligation to the former members of Timeline Labs pursuant to the Merger Agreement. The acquisition date fair value of the estimated shares for the twelve-month anniversary date is \$4.8 million and is classified in the consolidated balance sheet as a current liability as of October 31, 2015.

Table of Contents***Contingent Consideration***

A former holder of a specified series of interest of Timeline Labs is eligible to receive additional earn-out consideration, consisting of shares of our common stock, if defined performance criteria are achieved for fiscal 2016 and 2017 without a requirement to remain as an employee of the Company. As of October 31, 2015, we have included a liability of \$0.5 million in our consolidated balance sheet, which represents the fair value of the estimated shares at full achievement of the defined performance criteria. Any changes to this liability will be included in our consolidated statements of operations and comprehensive loss in the period which the change occurs. There were no changes to this liability for the three and nine months ended October 31, 2015.

Additionally, the former holders of a specified series of interests of Timeline Labs are eligible to receive additional earn-out compensation, consisting of shares of our common stock, if defined performance criteria are achieved for fiscal 2016 and 2017, provided, that if such person was an employee of Timeline Labs as of the closing date, such person must remain an employee as of the date that all earn-out consideration would be paid, with any forfeited amounts to be reallocated to other eligible persons. As of October 31, 2015, we estimated the fair value of the aggregate liability of the employee portion of contingent consideration to be \$2.6 million which we will be recognizing as the requisite service period is completed. As of October 31, 2015, we have included a liability of \$1.5 million in our consolidated balance sheet, which represents the fair value of the estimated shares at full achievement of the defined performance criteria. For the three and nine months ended October 31, 2015, we recorded charges of \$0.5 million and \$1.5 million, respectively, associated with this arrangement, based on the completion of the requisite service period, that has been included in the earn-outs and change in fair value of earn-outs in our consolidated statements of operations and comprehensive loss.

Intangible Assets

In determining the fair value of the intangible assets, the Company considered, among other factors, the intended use of the assets, the estimates of future performance of Timeline Labs' products and analyses of historical financial performance. The fair values of identified intangible assets were calculated using an income-based approach based on estimates and assumptions provided by Timeline Labs and the Company's management.

The following table sets forth the components of the identified intangible assets associated with the Timeline Labs acquisition and their estimated useful lives:

	Useful life	Fair Value (Amounts in thousands)
Tradenname	7 years	\$ 620
Customer contracts	7 years	4,760
Non-compete agreements	2 years	170
Existing technology	5 years	1,170
		\$ 6,720

Acquired Goodwill

The preliminary purchase price allocation is subject to our final determination of fair value. We recorded the \$17.2 million excess of the purchase price over the fair value of the identified tangible and intangible assets as goodwill,

primarily due to expected synergies between the combined companies and expanded market opportunities. The goodwill is deductible for tax purposes.

Acquisition-related Costs

In connection with the acquisition, we incurred approximately \$0.1 million in acquisition-related costs, including legal, accounting and other professional services for the nine months ended October 31, 2015. The acquisition costs were expensed as incurred and included in professional fees other, in our consolidated statements of operations and comprehensive loss.

Table of Contents**5. Inventories**

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

	October 31, 2015	January 31, 2015
	(Amounts in thousands)	
Components and assemblies	\$ 1,282	\$ 1,487
Finished products	742	1,377
Total inventory	\$ 2,024	\$ 2,864

6. Goodwill and Intangible Assets***Goodwill***

Changes in the carrying amount of goodwill for the nine months ended October 31, 2015 were as follows:

	Goodwill	
	(Amounts in thousands)	
Balance at January 31, 2015	\$	41,008
Acquisition of Timeline Labs		17,246
Cumulative translation adjustment		(507)
Balance at October 31, 2015	\$	57,747

During the third quarter of fiscal 2016, we completed our annual testing for impairment of goodwill and, based on those tests, concluded that the estimated fair value of our goodwill exceeds the carrying value and therefore no impairment existed as of August 1, 2015. See *Critical Accounting Policies and Significant Judgment and Estimates*

Goodwill, in Part I, Item 2 of this Form 10-Q for more information. While no impairment charges resulted from our annual test, impairment charges may occur in the future as a result of changes in projected growth and other factors. As of October 31, 2015, no triggering events have occurred that would indicate a potential impairment of goodwill exists.

Intangible Assets

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

Weighted average remaining life	As of October 31, 2015			As of January 31, 2015		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net

(Years)

(Amounts in thousands)

Finite-life intangible assets:							
Customer contracts	6.3	\$ 34,889	\$ (26,620)	\$ 8,269	\$ 30,397	\$ (24,160)	\$ 6,237
Non-compete agreements	2.0	2,561	(2,455)	106	2,433	(2,433)	
Completed technology	5.1	11,336	(9,732)	1,604	10,307	(9,230)	1,077
Trademarks, patents and other	7.1	7,694	(7,140)	554	7,082	(7,082)	
Total finite-life intangible assets		\$ 56,480	\$ (45,947)	\$ 10,533	\$ 50,219	\$ (42,905)	\$ 7,314

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As of October 31, 2015, the estimated future amortization expense for our finite-life intangible assets for the remainder of fiscal 2016, the four succeeding fiscal years and thereafter is as follows (amounts in thousands):

Fiscal Year Ended January 31,	Estimated Amortization Expense
2016 (for the remaining three months)	\$ 1,128
2017	3,191
2018	2,337
2019	1,649
2020	1,076
2021 and thereafter	1,152
Total	\$ 10,533

7. Commitments and Contingencies***Indemnification and Warranties***

We provide indemnification, to the extent permitted by law, to our officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee or agent is, or was, serving at our request in such capacity. With respect to acquisitions, we provide indemnification to, or assume indemnification obligations for, the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies' governing documents. As a matter of practice, we have maintained directors' and officers' liability insurance including coverage for directors and officers of acquired companies.

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. From time to time, we also indemnify customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of our products and services or resulting from the acts or omissions of us, our employees, authorized agents or subcontractors. From time to time we have received requests from customers for indemnification of patent litigation claims. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us. There are no current pending legal proceedings, in the opinion of management that would have a material adverse effect on our financial position, results from operations and cash flows. There is no assurance that future legal proceedings arising from ordinary course of business or otherwise, will not have a material adverse effect on our financial position, results from operations or cash flows.

We warrant that our products, including software products, will substantially perform in accordance with our standard published specifications in effect at the time of delivery. In addition, we provide maintenance support to our customers and therefore allocate a portion of the product purchase price to the initial warranty period and recognize revenue on a straight line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. When we enter into arrangements that include revenue for extended warranties beyond the standard duration, the revenue is deferred and recognized on a straight line basis over the contract period. Related

costs are expensed as incurred.

Revolving Line of Credit/Demand Note Payable

We have a letter agreement with JP Morgan Chase Bank, N.A. (JP Morgan) for a demand discretionary line of credit and a Demand Promissory Note in the aggregate amount of \$20.0 million, which expires on February 26, 2016. Borrowings under the line of credit will be used to finance working capital needs and for general corporate purposes. We currently do not have any borrowings and as a result, are not subject to any financial covenants under this line.

8. Severance and Other Restructuring Costs

During the three and nine months ended October 31, 2015, we incurred restructuring charges of \$0.2 million and \$1.0 million, respectively, primarily from severance costs for terminated employees as a result of our restructuring plan initiated in January 2015.

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The following table shows the change in balances of our accrued severance reported as a component of other accrued expenses on the consolidated balance sheet as of October 31, 2015 (amounts in thousands):

Accrual balance as of January 31, 2015	\$ 2,021
Severance and other restructuring charges incurred	1,026
Severance costs paid	(2,898)
Other adjustments	(132)
Accrual balance as of October 31, 2015	\$ 17

9. Stock Repurchase Program

On September 4, 2013, our Board of Directors authorized the repurchase of up to \$25.0 million of our common stock through a share repurchase program, which we increased to \$40.0 million on May 31, 2014 in connection with an extension of the termination date to April 30, 2015. Under this program, we used \$5.5 million of cash in connection with the repurchase of 591,520 shares of our common stock (an average price of \$9.31 per share).

10. Stock Incentive Plans***2011 Compensation and Incentive Plan***

In July 2011, our stockholders approved the adoption of our 2011 Compensation and Incentive Plan (the 2011 Plan). Under the 2011 Plan, as amended in July 2013, the number of authorized shares of common stock is equal to 5,300,000 shares plus the number of shares that expired, terminated, surrendered or forfeited awards subsequent to July 20, 2011 under the Amended and Restated 2005 Equity Compensation and Incentive Plan (the 2005 Plan). Following approval of the 2011 Plan, we terminated the 2005 Plan. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units (RSUs), deferred stock units (DSUs) and other equity based non-stock option awards as determined by the plan administrator to officers, employees, consultants, and directors of the Company.

Effective February 1, 2014, SeaChange gave its non-employee members of the Board of Directors the option to receive DSUs in lieu of RSUs, beginning with the annual grant for fiscal 2015. The number of units subject to the DSUs is determined as of the grant date and shall fully vest one year from the grant date. The shares underlying the DSUs are not vested and issued until the earlier of the director ceasing to be a member of the Board of Directors (provided such time is subsequent to the first day of the succeeding fiscal year) or immediately prior to a change in control. Commencing with fiscal 2016, we changed the policy regarding the timing of the equity grant from the first day of the applicable fiscal year to the date of our annual meeting of stockholders. To facilitate the transition, a partial year grant was made to our non-employee directors, effective February 1, 2015, and a full year grant was made to our non-employee directors, effective July 15, 2015.

We may satisfy awards upon the exercise of stock options, vesting of RSUs, or the issuance of DSUs with newly issued shares or treasury shares. The Board of Directors is responsible for the administration of the 2011 Plan and determining the terms of each award, award exercise price, the number of shares for which each award is granted and the rate at which each award vests. In certain instances the Board of Directors may elect to modify the terms of an

award.

Option awards may be granted to employees at an exercise price per share of not less than 100% of the fair market value per common share on the date of the grant. RSUs, DSUs and other equity-based non-stock option awards may be granted to any officer, employee, director, or consultant at a purchase price per share as determined by the Board of Directors. Option awards granted under the 2011 Plan generally vest over a period of three years and expire ten years from the date of the grant.

We have granted market-based options to newly appointed officers. These stock options have an exercise price equal to our closing stock price on the date of grant and will vest in approximately equal increments based upon the closing price of SeaChange's common stock. We record the fair value of these stock options using the Monte Carlo simulation model, since the stock option vesting is variable depending on the closing price of our traded common stock. The model simulated the daily trading price of the market-based stock options' expected terms to determine if the vesting conditions would be triggered during the term. As a result, the fair value was estimated to be \$2.4 million for these stock options which will be expensed over the next 2.0 years.

Table of Contents***2015 Employee Stock Purchase Plan***

In July 2015 we adopted the 2015 Employee Stock Purchase Plan (the "ESPP"). The purpose of the ESPP is to provide eligible employees, including executive officers of SeaChange, with the opportunity to purchase shares of our common stock at a discount through accumulated payroll deductions of up to 15%, but not less than one percent of their eligible compensation, subject to any plan limitations. Offering periods typically commence on October 1st and April 1st and end on March 31st and September 30th with the last trading day being the exercise date for the offering period. The first offering period under the ESPP will commence October 1, 2015. On each purchase date, eligible employees will purchase our stock at a price per share equal to 85% of the closing price of our common stock on the exercise date, but no less than par value. The maximum number of shares of our common stock which will be authorized for sale under the ESPP is 1,150,000 shares. Stock-based compensation expense related to the ESPP was immaterial for the three and nine months ended October 31, 2015.

11. Accumulated Other Comprehensive Loss

The following shows the changes in the components of accumulated other comprehensive loss for the nine months ended October 31, 2015:

	Foreign Currency Translation Adjustment	Changes in Fair Value of Available for Sale Investments	Total
	(Amounts in thousands)		
Balance at January 31, 2015	\$ (5,797)	\$ 43	\$ (5,754)
Other comprehensive loss	(510)	(22)	(532)
Balance at October 31, 2015	\$ (6,307)	\$ 21	\$ (6,286)

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

12. Segment Information, Significant Customers and Geographic Information***Segment Information***

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

Significant Customers

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

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2015	2014	2015	2014
Customer A	30%	17%	25%	17%
Customer B	N/A	18%	12%	19%

Table of Contents**Geographic Information**

The following table summarizes revenues by customers geographic locations for the periods presented:

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2015		2014		2015		2014	
	Amount	%	Amount	%	Amount	%	Amount	%
(Amounts in thousands, except percentages)								
Revenues by customers geographic locations:								
North America(1)	\$ 14,659	51%	\$ 15,673	52%	\$ 44,447	56%	\$ 49,170	58%
Europe and Middle East	12,322	43%	10,272	34%	29,979	37%	26,970	32%
Latin America	1,433	5%	1,475	5%	3,884	5%	4,653	6%
Asia Pacific and other international locations	333	1%	2,550	9%	1,485	2%	3,363	4%
Total	\$ 28,747		\$ 29,970		\$ 79,795		\$ 84,156	

- (1) Includes total revenues for the United States for the periods shown as follows (amounts in thousands, except percentage data):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
U.S. Revenue	\$ 11,880	\$ 14,608	\$ 35,609	\$ 46,055
% of total revenues	41.3%	48.7%	44.6%	54.7%

13. Income Taxes

We recorded an income tax benefit from continuing operations of \$1.2 million and \$1.0 million for the three and nine months ended October 31, 2015, respectively. Our effective tax rate is lower than the U.S. federal statutory rate as we did not record tax benefits on our year-to-date losses in certain jurisdictions, including the United States, where we continue to maintain a full valuation allowance against deferred tax assets. The tax benefit for the nine months ended October 31, 2015 includes a reduction of uncertain tax positions relating to the expiration of the statute of limitations. We make adjustments to our unrecognized tax benefits when: i) facts and circumstances regarding a tax position change, causing a change in management's judgment regarding that tax position; ii) a tax position is effectively settled with a tax authority; and/or iii) the statute of limitations expires regarding a tax position.

The Company reviews all available evidence to evaluate the recovery of deferred tax assets, including the recent history of losses in all tax jurisdictions, as well as its ability to generate income in future periods. As of October 31, 2015, due to the uncertainty related to the ultimate use of certain deferred income tax assets, the Company has recorded a valuation allowance on certain of its deferred tax assets.

Our effective tax rate in fiscal 2016 and in future periods may fluctuate on a quarterly basis as a result of changes in our jurisdictional forecasts where losses cannot be benefitted due to the existence of valuation allowances on our deferred tax assets, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof.

We file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. We are no longer subject to U.S. federal examinations before fiscal 2010. However, the taxing authorities still have the ability to review the propriety of certain tax attributes created in closed years if such tax attributes are utilized in an open tax year. Presently, we are under audit with the IRS for fiscal years 2010 through 2013.

In August 2015, the IRS issued a proposed tax adjustment for the fiscal 2010 and 2012 tax years which we are presently reviewing. If the Company is unsuccessful in defending its position, this adjustment would be offset by the Company's net operating losses (NOLs) generated in the fiscal 2013 tax year. In order to process the potential offset, the IRS has expanded the audit to include the fiscal 2013 tax year. The proposed tax adjustments could reduce our federal NOL carryforwards from \$37.1 million to \$34.2 million.

Table of Contents**14. Net Loss Per Share**

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

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

	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2015	2014	2015	2014
Net loss from continuing operations	\$ (10,565)	\$ (6,195)	\$ (25,417)	\$ (21,349)
Net income from discontinued operations		(114)		5
Net loss	\$ (10,565)	\$ (6,309)	\$ (25,417)	\$ (21,344)
Weighted average shares used in computing net loss per share - basic and diluted	33,636	32,628	33,440	32,805
Net loss per share - basic and diluted:				
Loss from continuing operations	\$ (0.31)	\$ (0.19)	\$ (0.76)	\$ (0.65)
Income from discontinued operations		(0.00)		0.00
Net loss per share - basic and diluted	\$ (0.31)	\$ (0.19)	\$ (0.76)	\$ (0.65)

The number of common shares used in the computation of diluted net loss per share for the three and nine months ended October 31, 2015 and 2014 does not include the effect of the following potentially outstanding common shares because the effect would have been anti-dilutive (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2015	2014	2015	2014
Stock options	1,791	1,007	1,503	318
Restricted stock units	169	247	176	206
Deferred stock units	30	16	20	6
Total	1,990	1,270	1,699	530

15. Recent Accounting Standard Updates

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

Table of Contents*Balance Sheet Classification of Deferred Taxes*

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 eliminates the current requirement for companies to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, companies will be required to classify all deferred tax assets and liabilities as non-current. ASU 2015-17 is effective for us in the first quarter of fiscal 2018 but early adoption is permitted. Besides presentation on our consolidated balance sheets, we do not expect the adoption of ASU 2015-17 to have a significant impact on our consolidated financial statements.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period of a business combination in the reporting period in which the adjustment amounts are determined rather than retrospectively. ASU 2015-16 is effective for us in the first quarter of our fiscal 2017, although early adoption is permitted. We do not expect the adoption of ASU 2015-16 to have a significant impact on our consolidated financial statements.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. ASU 2015-11 requires inventory that is recorded using the first-in, first-out method to be measured at the lower of cost or net realizable value. ASU 2015-11 will be effective retrospectively for the Company beginning in the first quarter of fiscal 2018, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

Intangibles-Goodwill and Other-Internal-Use Software

In April 2015, the FASB issued ASU 2015-05, *Intangibles-Goodwill and Other-Internal-Use Software Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*. This guidance is intended to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement, primarily to determine whether the arrangement includes a sale or license of software. ASU 2015-05 is effective for us beginning in fiscal 2017. Early adoption is permitted. Upon adoption, an entity has the option to apply the provisions of ASU 2015-05 either prospectively to all arrangements entered into or materially modified, or retrospectively. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. ASU 2015-02 is intended to improve guidance for limited partnerships, limited liability corporations and securitization structures. The guidance places more emphasis on risk of loss when determining a controlling financial interest, reduces the frequency of the application of related-party guidance when determining a controlling financial interest in a VIE and changes consolidation conclusions for public and private companies that typically make use of limited partnerships or VIEs. This guidance is effective for us beginning in fiscal 2017. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

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

In June 2014, the FASB issued ASU 2014-12, *Compensation Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 requires that a performance target which affects vesting and that could be achieved after the requisite service period be treated as a performance condition by applying existing guidance in Topic 718 as it relates to awards with performance conditions. The amendment also specifies the period over which compensation costs should be recognized. The amendment is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2015. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and the International Financial Reporting Standards. This guidance supersedes previously issued guidance on revenue recognition and gives a five step process an entity should follow so that the entity recognizes revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of this guidance to annual reporting periods beginning after December 15, 2017, which would be our fiscal 2019 reporting period. It must be applied either retrospectively during each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of the initial application. Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q contains or incorporates forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which involve risks and uncertainties. The following information should be read in conjunction with the unaudited consolidated financial information and the notes thereto included in this Form 10-Q. You should not place undue reliance on these forward-looking statements. Actual events or results may differ materially due to competitive factors and other factors referred to in Part I, Item 1A. Risk Factors in our Form 10-K for our fiscal year ended January 31, 2015 and elsewhere in this Form 10-Q. These factors may cause our actual results to differ materially from any forward-looking statement. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate, and management's beliefs and assumptions. We undertake no obligation to update or revise the statements in light of future developments. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on our behalf. Words such as expect, anticipate, intend, plan, believe, could, estimate, may, variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict.

Business Overview

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

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

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

On February 2, 2015, we acquired Timeline Labs, a California-based SaaS company that enables local broadcasters, national news organizations and other media companies and brands to analyze social media messages in real-time, find and broadcast social trends, and measure viewing audience engagements across television, mobile and personal computers.

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

Budgetary approvals by our customers for capital purchases;

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

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

Declines in sales of legacy products; and

Uncertainty caused by potential consolidation in the industry.

In addition, many customers may delay or reduce capital expenditures. This, together with other factors, could result in the reductions in sales of our products, longer sales cycles, difficulties in collection of accounts receivable, a longer period of time before we may recognize revenue attributable to a sale, changes in cost estimates in long-term contracts which could result in a loss provision, gross margin deterioration, slower adoption of new technologies, a delay in the transition to SaaS, and an increase in price competition.

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In January 2015, we initiated a global restructuring plan to streamline our activities, primarily with an employee headcount reduction of 10%, now that our next generation software products have been brought to market and are being deployed around the globe. The reduction in workforce was implemented immediately in the United States and, to comply with non-U.S. legal requirements, is being implemented on an international basis throughout fiscal 2016. We have incurred \$2.4 million of restructuring charges since we initiated this plan. We expect this initiative to yield approximately \$11 million in annualized cost savings.

Results of Operations

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

Revenues

The following table summarizes information about our revenues for the three and nine months ended October 31, 2015 and 2014:

	Three Months Ended October 31,		Increase/ (Decrease)		Nine Months Ended October 31,		Increase/ (Decrease)	
	2015	2014	\$ Amount	% Change	2015	2014	\$ Amount	% Change
(Amounts in thousands, except for percentage data)								
Revenues:								
Product	\$ 6,195	\$ 7,311	\$ (1,116)	(15.3%)	\$ 16,314	\$ 21,109	\$ (4,795)	(22.7%)
Service	22,552	22,659	(107)	(0.5%)	63,481	63,047	434	0.7%
Total revenues	28,747	29,970	(1,223)	(4.1%)	79,795	84,156	(4,361)	(5.2%)
Cost of product revenues								
Cost of product revenues	1,712	3,037	(1,325)	(43.6%)	5,323	6,983	(1,660)	(23.8%)
Cost of service revenues								
Cost of service revenues	10,996	12,140	(1,144)	(9.4%)	33,890	36,102	(2,212)	(6.1%)
Provision for loss contract								
Provision for loss contract	9,162		9,162	100.0%	9,162		9,162	100.0%
Total cost of revenues	21,870	15,177	6,693	44.1%	48,375	43,085	5,290	12.3%
Gross profit	\$ 6,877	\$ 14,793	\$ (7,916)	(53.5%)	\$ 31,420	\$ 41,071	\$ (9,651)	(23.5%)
Gross product profit margin								
Gross product profit margin	72.4%	58.5%		13.9%	67.4%	66.9%		0.5%
Gross service profit margin								
Gross service profit margin	10.6%	46.4%		(35.8%)	32.2%	42.7%		(10.5%)
	23.9%	49.4%		(25.5%)	39.4%	48.8%		(9.4%)

Gross profit
margin

Product Revenue. The decrease in product revenue for the three and nine months ended October 31, 2015 of \$1.1 million, or 15%, and \$4.8 million, or 23%, respectively, was primarily due to lower revenue from our legacy products in fiscal 2016.

Service Revenue. Service revenue remained relatively flat for the three months ended October 31, 2015, as compared to the same period of fiscal 2015. Service revenue increased \$0.4 million, or 1%, for the nine months ended October 31, 2015, as compared to the same periods of fiscal 2015 due primarily to higher professional service revenues offset by a decrease in our legacy product support revenues in fiscal 2016.

For the three and nine months ended October 31, 2015 one customer accounted for 30% and 25% of our total revenues, respectively. For the three and nine months ended October 31, 2014, two customers accounted for 35% and 36% of our total revenues, respectively. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers.

International sales accounted for 59% and 51% of total revenues in the three months ended October 31, 2015 and 2014, respectively. For the nine months ended October 31, 2015 and 2014, international sales accounted for 55% and 45% of total revenues. The increase in international sales for the three and nine months ended October 31, 2015, as compared to the same prior periods is primarily due to revenue from our Canadian and European customers recorded in fiscal 2016.

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

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Our gross profit margin increased six percentage points for the three months ended and two percentage points for the nine months ended October 31, 2015, as compared to the same periods of the prior fiscal year, excluding the provision for loss contract recorded in fiscal 2016. During the three months ended October 31, 2015 product margin increased 14 percentage points due to the mix of higher software product revenues and service margins increased five percentage points relating to lower headcount and contract labor costs, excluding the provision for loss contract. Including the provision for loss contract, service margins decreased 36%. The two percentage point increase in gross profit margins for the nine months is due to lower contract labor costs.

During the three months ended October 31, 2015, we recorded a \$9.2 million provision for loss contract as a result of delays of customer acceptance relating to a fixed-price customer contract on a multi-year arrangement which included multiple vendors. During the period after October 31, 2015, we agreed with the customer on the replacement of certain third-party vendors and a change in the timeline of this project, which is estimated to be completed in June 2017. As the system integrator on the project, we are subject to any costs overruns or increases with these vendors resulting in delays or acceptance by our customer.

Contract accounting requires judgment relative to assessing risks, estimating the revenue and costs and making assumptions for the length of time to complete a contract. Any changes to these assumptions and estimates could result in further losses in the future.

Operating Expenses*Research and Development*

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

	Three Months Ended		Increase/ Increase/		Nine Months		Increase/ Increase/	
	October 31, 2015	2014	(Decrease) \$ Amount	(Decrease) % Change	Ended October 31, 2015	2014	(Decrease) \$ Amount	(Decrease) % Change
	(Amounts in thousands, except for percentage data)							
Research and development expenses	\$ 8,273	\$ 9,932	\$ (1,659)	(16.7%)	\$ 26,176	\$ 31,729	\$ (5,553)	(17.5%)
% of total revenues	28.8%	33.1%			32.8%	37.7%		

Research and development expenses consist primarily of employee costs, which include salaries, benefits and related payroll taxes, in addition to depreciation of development and test equipment and an allocation of related facility expenses. During the three and nine months ended October 31, 2015, research and development costs decreased \$1.7 million and \$5.6 million, respectively, as compared to the same period of fiscal 2015, primarily due to lower employee-related costs and contract labor, a direct result of the reduction in workforce in January 2015. These decreases are partially offset by an increase in research and development costs from our operations of Timeline Labs commencing in February 2015.

Selling and Marketing

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

	Three Months Ended		Increase/ Increase/		Nine Months Ended		Increase/ Increase/	
	October 31,	October 31,	(Decrease)	(Decrease)	October 31,	October 31,	(Decrease)	(Decrease)
	2015	2014	\$ Amount	% Change	2015	2014	\$ Amount	% Change
(Amounts in thousands, except for percentage data)								
Selling and marketing expenses	\$ 3,965	\$ 3,447	\$ 518	15.0%	\$ 11,263	\$ 10,509	\$ 754	7.2%
% of total revenues	13.8%	11.5%			14.1%	12.5%		

Selling and marketing expenses consist primarily of payroll costs, which include salaries and related payroll taxes, benefits and commissions, travel expenses and certain promotional expenses. Selling and marketing expenses increased \$0.5 million for the three months and \$0.8 million for the nine months ended October 31, 2015, as we began incurring selling and marketing expenses from our operation of Timeline Labs acquisition in February 2015.

General and Administrative

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

	Three Months Ended		Increase/ Increase/		Nine Months Ended		Increase/ Increase/	
	October 31,	October 31,	(Decrease)	(Decrease)	October 31,	October 31,	(Decrease)	(Decrease)
	2015	2014	\$ Amount	% Change	2015	2014	\$ Amount	% Change
(Amounts in thousands, except for percentage data)								
General and administrative expenses	\$ 3,648	\$ 3,841	\$ (193)	(5.0%)	\$ 11,446	\$ 11,895	\$ (449)	(3.8%)
% of total revenues	12.7%	12.8%			14.3%	14.1%		

General and administrative expenses consist primarily of employee costs, which include salaries and related payroll taxes and benefit-related costs, legal and accounting services and an allocation of related facilities expenses. General and administrative expenses remained relatively flat for the three months ended and decreased \$0.4 million for the nine months ended October 31, 2015, when compared to the same periods of fiscal 2015 due to the reduction in workforce in January 2015.

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

	Three Months Ended		Increase/Increase/ (Decrease)(Decrease)		Nine Months Ended		Increase/ Increase/ (Decrease)(Decrease)	
	October 31, 2015	2014	\$ Amount	% Change	October 31, 2015	2014	\$ Amount	% Change
(Amounts in thousands, except for percentage data)								
Amortization of intangible assets	\$ 1,222	\$ 1,252	\$ (30)	(2.4%)	\$ 3,560	\$ 4,120	\$ (560)	(13.6%)
% of total revenues	4.3%	4.2%			4.5%	4.9%		

Amortization expense relates to the costs of acquired intangible assets and capitalized internally-developed software costs. Amortization expense on certain intangible assets is based on the future economic value of the related intangible assets which is generally higher in the earlier years of the assets' lives.

Stock-based Compensation Expense

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

	Three Months Ended		Increase/Increase/ (Decrease)(Decrease)		Nine Months Ended		Increase/ Increase/ (Decrease)(Decrease)	
	October 31, 2015	2014	\$ Amount	% Change	October 31, 2015	2014	\$ Amount	% Change
(Amounts in thousands, except for percentage data)								
Stock-based compensation expense	\$ 1,137	\$ 1,182	\$ (45)	(3.8%)	\$ 3,004	\$ 2,579	\$ 425	16.5%
% of total revenues	4.0%	3.9%			3.8%	3.1%		

Stock-based compensation expense is related to the issuance of stock grants to our employees, executives and members of our Board of Directors. Stock-based compensation expense remained relatively flat during the three months ended October 31, 2015 and increased \$0.4 million during the nine months ended October 31, 2015, as compared to the same periods of fiscal 2014 due to stock compensation expense recorded on market-based stock options and long-term incentive awards granted to our CEO and COO based on their respective appointments.

Severance and Other Restructuring Costs

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

	Three Months Ended		Increase/ Increase/ (Decrease)(Decrease)		Nine Months Ended		Increase/ Increase/ (Decrease)(Decrease)	
	October 31, 2015	2014	\$ Amount	% Change	October 31, 2015	2014	\$ Amount	% Change

	\$ Amount				\$ Amount			
	(Amounts in thousands, except for percentage data)							
Severance and other restructuring costs	\$ 197	\$ 1,186	\$ (989)	(83.4%)	\$ 1,026	\$ 1,878	\$ (852)	(45.4%)
% of total revenues	0.7%	4.0%			1.3%	2.2%		

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Severance and other restructuring costs decreased \$1.0 million for the three months ended and \$0.9 million for the nine months ended October 31, 2015, as compared to the same periods of 2014, primarily due to the separation agreement with our former CEO, who left in October 2014.

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

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

	Three Months Ended		Increase/	Increase/	Nine Months Ended		Increase/	Increase/
	October 31,	October 31,	(Decrease)	(Decrease)	October 31,	October 31,	(Decrease)	(Decrease)
	2015	2014	\$ Amount	% Change	2015	2014	\$ Amount	% Change
(Amounts in thousands, except for percentage data)								
Earn-outs and change in fair value of earn-outs	\$ 492	\$	\$ 492	100.0%	\$ 1,475	\$	\$ 1,475	100.0%
% of total revenues	1.7%	0.0%			1.8%	0.0%		

Earn-out costs include management's estimate of contingent consideration to be paid to the former members of Timeline Labs upon achievement of certain performance criteria and completion of the requisite service period. Any changes to the contingent consideration, resulting from changes in probability of achievement of the performance criteria or changes to the fair value are included in earn-outs and changes in fair value of earn-outs in our consolidated statements of operations and comprehensive loss in the period which the change occurs.

Other Income (Expenses), Net

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

	Three Months Ended		Increase/	Increase/	Nine Months Ended		Increase/	Increase/
	October 31,	October 31,	(Decrease)	(Decrease)	October 31,	October 31,	(Decrease)	(Decrease)
	2015	2014	\$ Amount	% Change	2015	2014	\$ Amount	% Change
(Amounts in thousands, except for percentage data)								
Loss on sale of equity investment	\$ (12)	\$	\$ (12)	100.0%	\$ (12)	\$	\$ (12)	100.0%
Interest income, net	23	38	(15)	(39.5%)	101	168	(67)	(39.9%)
Foreign exchange gain (loss)	23	(717)	740	>(100%)	(519)	(765)	246	(32.2%)
Miscellaneous income	4	3	1	33.3%	40	3	37	>100%
	\$ 38	\$ (676)	\$ 714		\$ (390)	\$ (594)	\$ 204	

For the three and nine months ended October 31, 2015, foreign exchange losses decreased by \$0.7 million and increased by \$0.2 million, respectively, as compared to the same periods of fiscal 2015, primarily due to the changes in foreign currency exchange resulting from the conversion of the U.S. dollar to other foreign currencies, primarily the Euro, year over year.

Income Tax Benefit

	Three Months Ended		Increase/ Increase/		Nine Months Ended		Increase/ Increase/	
	October 31,	October 31,	(Decrease)(Decrease)	(Decrease)(Decrease)	October 31,	October 31,	(Decrease)(Decrease)	(Decrease)(Decrease)
	2015	2014	\$ Amount	% Change	2015	2014	\$ Amount	% Change
	(Amounts in thousands, except for percentage data)							
Income tax benefit	\$ (1,228)	\$ (348)	\$ (880)	>100%	\$ (1,003)	\$ (415)	\$ (588)	>100%
% of total revenues	(4.3%)	(1.2%)			(1.3%)	(0.5%)		

We recorded an income tax benefit from continuing operations of \$1.2 million and \$1.0 million for the three and nine months ended October 31, 2015. Our effective tax rate is lower than the U.S. federal statutory rate as we did not record tax benefits on our year-to-date losses in certain jurisdictions, including the United States, where we continue to maintain a full valuation allowance against deferred tax assets. The tax benefit for the nine months ended October 31, 2015 includes a reduction of uncertain tax positions relating to the expiration of the statute of limitations. We make adjustments to our unrecognized tax benefits when: i) facts and circumstances regarding a tax position change, causing a change in management's judgment regarding that tax position; ii) a tax position is effectively settled with a tax authority; and/or iii) the statute of limitations expires regarding a tax position.

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The Company reviews all available evidence to evaluate the recovery of deferred tax assets, including the recent history of losses in all tax jurisdictions, as well as its ability to generate income in future periods. As of October 31, 2015, due to the uncertainty related to the ultimate use of certain deferred income tax assets, the Company has recorded a valuation allowance on certain of its deferred tax assets.

Our effective tax rate in fiscal 2016 and in future periods may fluctuate on a quarterly basis as a result of changes in our jurisdictional forecasts where losses cannot be benefitted due to the existence of valuation allowances on our deferred tax assets, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof.

We file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. We are no longer subject to U.S. federal examinations before fiscal 2010. However, the taxing authorities still have the ability to review the propriety of certain tax attributes created in closed years if such tax attributes are utilized in an open tax year. Presently, we are under audit with the IRS for the fiscal years 2010 through 2013.

In August 2015, the IRS issued a proposed tax adjustment for the fiscal 2010 and 2012 tax years which we are presently reviewing. If the Company is unsuccessful in defending its position, this adjustment would be offset by the Company's net operating losses (NOL) generated in the fiscal 2013 tax year. In order to process the potential offset, the IRS has expanded the audit to include the fiscal 2013 tax year. The proposed tax adjustments could reduce our federal NOL carryforwards from \$37.1 million to \$34.2 million.

Non-GAAP Measures.

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

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

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The following table includes the reconciliations of our U.S. GAAP loss from operations, the most directly comparable U.S. GAAP financial measure, to our non-GAAP income (loss) from operations and the reconciliation of our U.S. GAAP loss from operations to our adjusted EBITDA for the three and nine months ended October 31, 2015 and 2014 (amounts in thousands, except per share and percentage data):

	Three Months Ended October 31, 2015			Three Months Ended October 31, 2014		
	GAAP As Reported	Adjustments	Non-GAAP	GAAP As Reported	Adjustments	Non-GAAP
Revenues:						
Products	\$ 6,195	\$	\$ 6,195	\$ 7,311	\$	\$ 7,311
Services	22,552		22,552	22,659		22,659
Total revenues	28,747		28,747	29,970		29,970
Cost of revenues:						
Products	1,528		1,528	2,779		2,779
Services	10,963		10,963	12,094		12,094
Provision for loss contract	9,162	(9,162)				
Amortization of intangible assets	184	(184)		258	(258)	
Stock-based compensation	33	(33)		46	(46)	
Total cost of revenues	21,870	(9,379)	12,491	15,177	(304)	14,873
Gross profit	6,877	9,379	16,256	14,793	304	15,097
Gross profit percentage	23.9%	32.6%	56.5%	49.4%	1.0%	50.4%
Operating expenses:						
Research and development	8,273		8,273	9,932		9,932
Selling and marketing	3,965		3,965	3,447		3,447
General and administrative	3,648		3,648	3,841		3,841
Amortization of intangible assets	1,038	(1,038)		994	(994)	
Stock-based compensation expense	1,104	(1,104)		1,136	(1,136)	
Earn-outs and change in fair value of earn-outs	492	(492)				
Professional fees: other	1	(1)		124	(124)	
Severance and other restructuring costs	197	(197)		1,186	(1,186)	
Total operating expenses	18,718	(2,832)	15,886	20,660	(3,440)	17,220
(Loss) income from operations	\$ (11,841)	\$ 12,211	\$ 370	\$ (5,867)	\$ 3,744	\$ (2,123)

(Loss) income from operations percentage	(41.2%)	42.4%	1.3%	(19.6%)	12.5%	(7.1%)
Weighted average common shares outstanding:						
Basic	33,636	33,636	33,636	32,628	32,628	32,628
Diluted	33,636	33,835	33,835	32,628	32,854	32,628
Non-GAAP operating income (loss) per share:						
Basic	\$ (0.35)	\$ 0.36	\$ 0.01	\$ (0.19)	\$ 0.12	\$ (0.07)
Diluted	\$ (0.35)	\$ 0.36	\$ 0.01	\$ (0.19)	\$ 0.12	\$ (0.07)
Adjusted EBITDA:						
Loss from operations			\$ (11,841)			\$ (5,867)
Depreciation expense			851			891
Provision for loss contract			9,162			
Amortization of intangible assets			1,222			1,252
Stock-based compensation expense			1,137			1,182
Earn-outs and changes in fair value			492			
Professional fees: other			1			124
Severance and other restructuring			197			1,186
Adjusted EBITDA			\$ 1,221			\$ (1,232)
Adjusted EBITDA %			4.2%			(4.1%)

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	Nine Months Ended October 31, 2015			Nine Months Ended October 31, 2014		
	GAAP As Reported	Adjustments	Non-GAAP	GAAP As Reported	Adjustments	Non-GAAP
Revenues:						
Products	\$ 16,314	\$	\$ 16,314	\$ 21,109	\$	\$ 21,109
Services	63,481		63,481	63,047		63,047
Total revenues	79,795		79,795	84,156		84,156
Cost of revenues:						
Products	4,766		4,766	6,188		6,188
Services	33,829		33,829	35,970		35,970
Provision for loss contract	9,162	(9,162)				
Amortization of intangible assets	557	(557)		795	(795)	
Stock-based compensation	61	(61)		132	(132)	
Total cost of revenues	48,375	(9,780)	38,595	43,085	(927)	42,158
Gross profit	31,420	9,780	41,200	41,071	927	41,998
Gross profit percentage	39.4%	12.3%	51.6%	48.8%	1.1%	49.9%
Operating expenses:						
Research and development	26,176		26,176	31,729		31,729
Selling and marketing	11,263		11,263	10,509		10,509
General and administrative	11,446		11,446	11,895		11,895
Amortization of intangible assets	3,003	(3,003)		3,325	(3,325)	
Stock-based compensation expense	2,943	(2,943)		2,447	(2,447)	
Earn-outs and change in fair value of earn-outs	1,475	(1,475)				
Professional fees: other	145	(145)		477	(477)	
Severance and other restructuring costs	1,026	(1,026)		1,878	(1,878)	
Total operating expenses	57,477	(8,592)	48,885	62,260	(8,127)	54,133
(Loss) income from operations	\$ (26,057)	\$ 18,372	\$ (7,685)	\$ (21,189)	\$ 9,054	\$ (12,135)
(Loss) income from operations percentage	(32.7%)	23.0%	(9.6%)	(25.2%)	10.7%	(14.4%)
Weighted average common shares outstanding:						
Basic	33,440	33,440	33,440	32,805	32,805	32,805

Diluted	33,440	33,615	33,440	32,805	33,031	32,805
Non-GAAP operating loss per share:						
Basic	\$ (0.78)	\$ 0.55	\$ (0.23)	\$ (0.65)	\$ 0.28	\$ (0.37)
Diluted	\$ (0.78)	\$ 0.55	\$ (0.23)	\$ (0.65)	\$ 0.28	\$ (0.37)
Adjusted EBITDA:						
Loss from operations			\$ (26,057)			\$ (21,189)
Depreciation expense			2,554			2,809
Provision for loss contract			9,162			
Amortization of intangible assets			3,560			4,120
Stock-based compensation expense			3,004			2,579
Earn-outs and changes in fair value			1,475			
Professional fees: other			145			477
Severance and other restructuring			1,026			1,878
Adjusted EBITDA			\$ (5,131)			\$ (9,326)
Adjusted EBITDA %			(6.4%)			(11.1%)

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

Provision for Loss Contract. We entered into a fixed-price customer contract on a multi-year arrangement, which included multiple vendors. As the system integrator on the project, we are subject to any cost overruns or increases with these vendors resulting in delays or acceptance by our customer. Delays of customer acceptance on this project require us to recognize a loss on this project in the period the determination is made. As a result, we have recorded an estimated charge of \$9.2 million for the third quarter of fiscal 2016. We believe that the exclusion of this expense allows a comparison of operating results that would otherwise impair comparability between periods.

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

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

	Nine Months Ended		Increase/ (Decrease)
	October 31,		\$ Amount
	2015	2014	
	(Amounts in thousands)		
Total cash used in operating activities	\$ (19,442)	\$ (11,670)	\$ (7,772)
Total cash used in investing activities	(12,905)	(4,762)	(8,143)
Total cash provided by (used in) financing activities	88	(5,504)	5,592
Effect of exchange rate changes on cash	270	774	(504)
Net decrease in cash and cash equivalents	\$ (31,989)	\$ (21,162)	\$ (10,827)

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Historically, we have financed our operations and capital expenditures primarily with cash on-hand. Cash, cash equivalents, restricted cash, and marketable securities decreased from \$105.4 million at January 31, 2015 to \$70.8 million at October 31, 2015.

We have a letter agreement with JP Morgan Chase Bank, N.A. (JP Morgan) for a demand discretionary line of credit and a Demand Promissory Note in the aggregate amount of \$20.0 million, which expires on February 26, 2016. Borrowings under the line of credit will be used to finance working capital needs and for general corporate purposes. We currently do not have any borrowings and as a result, are not subject to any financial covenants under this line.

Operating Activities

Below are key line items affecting cash from operating activities:

	Nine Months Ended		Increase/ (Decrease)
	October 31,	2014	\$ Amount
	2015		
	(Amounts in thousands)		
Net loss	\$ (25,417)	\$ (21,349)	\$ (4,068)
Adjustments to reconcile net loss to cash used in operating activities	18,921	9,850	9,071
Net loss including adjustments	(6,496)	(11,499)	5,003
(Increase) decrease in receivables	(4,848)	5,664	(10,512)
(Increase) decrease in inventory	(1,207)	1,853	(3,060)
Increase in prepaid expenses and other current assets	(158)	(465)	307
Increase (decrease) in accounts payable	718	(1,235)	1,953
Decrease in accrued expenses	(4,056)	(1,882)	(2,174)
Decrease in deferred revenues	(2,770)	(4,600)	1,830
All other - net	(625)	489	(1,114)
Net cash used in operating activities from continuing operations	(19,442)	(11,675)	(7,767)
Net cash provided by operating activities from discontinued operations		5	(5)
	\$ (19,442)	\$ (11,670)	\$ (7,772)

We used net cash in continuing operating activities of \$19.4 million for the nine months ended October 31, 2015. This cash used in operating activities was primarily the result of our net loss including adjustments of \$6.5 million and changes in working capital, which include a decrease in accrued expenses of \$4.1 million, primarily related to severance and restructuring charges, \$4.8 million in higher receivables and a decrease in deferred revenues of \$2.8 million.

Investing Activities

Cash flows from investing activities are as follows:

	Nine Months Ended		Increase/ (Decrease)
	October 31,		\$ Amount
	2015	2014	
	(Amounts in thousands)		
Purchases of property and equipment	\$ (1,140)	\$ (1,470)	\$ 330
Investment in capitalized software	(2,030)		(2,030)
Purchases of marketable securities	(3,005)	(7,160)	4,155
Proceeds from sale and maturity of marketable securities	4,503	5,633	(1,130)
Proceeds from sale of equity investments		235	(235)
Proceeds from (purchase of) cost method investments, net	453	(2,000)	2,453
Cash paid for acquisition of business, net of cash acquired	(11,686)		(11,686)
Net cash used in investing activities	\$ (12,905)	\$ (4,762)	\$ (8,143)

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We used \$12.9 million in cash related to investing activities from continuing operations primarily due to the use of \$11.7 million for the acquisition of Timeline Labs, the purchase of capital assets of \$1.1 million and the capitalization of costs related to our internal-use software of \$2.0 million, offset by \$1.5 million cash provided by the proceeds from sale of marketable securities, net of purchases.

Financing Activities

Cash flows from financing activities are as follows:

	Nine Months Ended October 31,		Increase/ (Decrease)
	2015	2014	\$ Amount
	(Amounts in thousands)		
Proceeds from issuance of common stock relating to stock options exercises	\$ 88	\$	\$ 88
Repurchases of our common stock		(5,504)	5,504
Net cash provided by (used in) financing activities	\$ 88	\$ (5,504)	\$ 5,592

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

Effect of exchange rate changes increased cash and cash equivalents by \$0.3 million for the nine months ended October 31, 2015, primarily due to the translation of European subsidiaries' cash balances, which use the Euro as their functional currency, to U.S. dollars.

We believe that existing funds combined with available borrowings under the line of credit are adequate to satisfy our working capital, potential acquisitions and capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months. However, if our expectations are incorrect, we may need to raise additional funds to fund our operations, to take advantage of unanticipated strategic opportunities or to strengthen our financial position.

In addition, we actively review potential acquisitions that would complement our existing product offerings, enhance our technical capabilities or expand our marketing and sales presence. Any future transaction of this nature could require potentially significant amounts of capital or could require us to issue our stock and dilute existing stockholders. If adequate funds are not available, or are not available on acceptable terms, we may not be able to take advantage of market opportunities, to develop new products or to otherwise respond to competitive pressures.

Effects of Inflation

Management believes that financial results have not been significantly impacted by inflation and price changes in materials we use in manufacturing our products.

Contractual Obligations

There have been no significant changes outside the ordinary course of our business in our contractual obligations disclosed in our Form 10-K for the fiscal year ended January 31, 2015, with the exception of certain payment obligations resulting from our February 2, 2015 acquisition of Timeline Labs. The consideration payments include i) contingent consideration payable in shares of our common stock, and subject to the achievement of certain performance criteria, on the 12- and 24-month anniversaries of the acquisition date with a fair value of the obligation of \$2.6 million and ii) deferred stock consideration payable in shares of our common stock on the 12-month anniversary of the acquisition date with a fair value of \$4.8 million.

Critical Accounting Policies and Significant Judgment and Estimates

The accounting and financial reporting policies of SeaChange are in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to revenue recognition, allowance for doubtful accounts, acquired intangible assets and goodwill, stock-based compensation, impairment of long-lived assets and accounting for income taxes. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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Revenue Recognition

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

persuasive evidence of an arrangement exists;

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

fees are fixed or determinable; and

collection of the related receivable is considered probable.

Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities is deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements is recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. The percentage of completion method requires that adjustments or re-evaluations to estimated project revenues and costs be recognized on a project-to-date cumulative basis, as changes to the estimates are identified. Revisions to project estimates are made as additional information becomes known, including information that becomes available subsequent to the date of the consolidated financial statements up through the date such consolidated financial statements are filed with the SEC. If the final estimated profit to complete a long-term contract indicates a loss, a provision is recorded immediately for the total loss anticipated. 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.

During the three months ended October 31, 2015, we recorded a \$9.2 million provision for loss contract as a result of delays of customer acceptance relating to a fixed-price customer contract on a multi-year arrangement which included multiple vendors. During the period after October 31, 2015, we agreed with the customer on the replacement of certain third-party vendors and a change in the timeline of this project, which is estimated to be completed in June 2017. As the system integrator on the project, we are subject to any costs overruns or increases with these vendors resulting in delays or acceptance by our customer.

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

arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction's economics.

Under the software revenue recognition rules, the fee is allocated to the various elements based on vendor-specific objective evidence (VSOE) of fair value. Under this method, the total arrangement value is allocated first to undelivered elements based on their fair values, with the remainder being allocated to the delivered elements. Where fair value of undelivered service elements has not been established, the total arrangement value is recognized over the period during which the services are performed. The amounts allocated to undelivered elements, which may include project management, training, installation, maintenance and technical support and certain hardware and software components, are based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation, training and project management revenue is based upon standard hourly billing rates and the estimated time necessary to complete the service. These services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple-element arrangements that include software development with significant modification or customization and systems sales where VSOE of the fair value does not exist for the undelivered elements of the arrangement (other than maintenance and technical support), percentage of completion accounting is applied for revenue recognition purposes to the entire arrangement with the exception of maintenance and technical support.

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

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

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

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

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

Goodwill

In connection with acquisitions of operating entities, we recognize the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination as goodwill. Goodwill is not amortized, but is evaluated for impairment annually in our third quarter beginning August 1st, or more frequently if indicators are present or changes in circumstances suggest that an impairment may exist.

The process of evaluating goodwill for impairment requires several judgments and assumptions to be made to determine the fair value, including the method used to determine fair value, discount rates, expected levels of cash flows, revenues and earnings, and the selection of comparable companies used to develop market-based assumptions. We may employ the three generally accepted approaches for valuing businesses: the market approach, the income approach, and the asset-based (cost) approach to arrive at the fair value. The choice of which approach and methods to use in a particular situation depends on the facts and circumstances.

We chose to use the market approach and the income approach to determine the fair value. The market approach provides value indications through a comparison with guideline public companies or guideline transactions. The valuation multiple is an expression of what investors believe to be a reasonable valuation relative to a measure of financial information such as revenues, earnings or cash flows. The income approach provides value indications through an analysis of its projected earnings, discounted to present value. We employed a weighted-average cost of capital rate. The estimated weighted-average cost of capital was based on the risk-free interest rate and other factors such as equity risk premiums and the ratio of total debt to equity capital. In performing the annual impairment test, we took steps to ensure appropriate and reasonable cash flow projections and assumptions were used.

Our projections for the next five years included increased operating expenses in line with the expected revenue growth based on current market and economic conditions and our historical knowledge. Historical growth rates served as only one input to the projected future growth used in the goodwill impairment analysis. These historical growth rates were adjusted based on other inputs regarding anticipated customer contracts. The forecasts have incorporated any changes to the revenue and operating expense through the second quarter of fiscal 2016. We estimated the operating expenses based on a rate consistent with the current experience and estimated revenue growth over the next five years. A failure to execute as forecasted over the next five years could have an adverse effect on our annual impairment test. Future adverse changes in market conditions or poor operating results could result in losses, thereby possibly requiring an impairment charge in the future.

We determined based on Step 1 of our annual impairment test, that the fair value of our reporting unit exceeded its carrying value, which was \$57.6 million at August 1, 2015. In aggregate, there was excess fair value over and above

the carrying value of the net assets ranging from \$45.8 million to \$59.1 million, or 28.5% to 36.9% of the carrying value of our net assets.

Key data points included in the calculation of market capitalization of \$229.8 million as of August 1, 2015 were as follows:

Shares outstanding as of August 1, 2015 were 33,358,674; and

\$6.89 closing price as of August 1, 2015.

Accordingly, since no impairment indicators existed as of August 1, 2015, our annual impairment test date, and the implied fair value of our goodwill exceeded the carrying value of our net assets, we determined that our goodwill was not at risk of failing Step 1 and was appropriately stated in our consolidated financial statements as of August 1, 2015.

To validate our conclusions and determine the reasonableness of our annual impairment test, we performed the following:

Reconciled our estimated enterprise value to market capitalization comparing the calculated fair value to our market capitalization as of August 1, 2015, our annual impairment test date;

Prepared a fair value calculation using two market approach methodologies (the guideline public companies method and the guideline transaction method) and one income approach methodology (discounted cash flow method);

Reviewed our historical operating performance for the current fiscal year;

Performed a sensitivity analysis on key assumptions such as weighted-average cost of capital and terminal growth rates; and

Reviewed market participant assumptions.

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We also monitor economic, legal and other factors as a whole between annual impairment tests to ensure that there are no indicators that make it more likely than not that there has been a decline in our fair value below our carrying value. Specifically, we monitor industry trends, our market capitalization, recent and forecasted financial performance and the timing and nature of any restructuring activities. We also believe that there are no indicators of impairment as of October 31, 2015. If these estimates or the related assumptions change, we may be required to record non-cash impairment charges in the future.

Recent Accounting Standard Updates

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

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 eliminates the current requirement for companies to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, companies will be required to classify all deferred tax assets and liabilities as non-current. ASU 2015-17 is effective for us in the first quarter of fiscal 2018 but early adoption is permitted. Besides presentation on our consolidated balance sheets, we do not expect the adoption of ASU 2015-17 to have a significant impact on our consolidated financial statements.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period of a business combination in the reporting period in which the adjustment amounts are determined rather than retrospectively. ASU 2015-16 is effective for us in the first quarter of our fiscal 2017, although early adoption is permitted. We do not expect the adoption of ASU 2015-16 to have a significant impact on our consolidated financial statements.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. ASU 2015-11 requires inventory that is recorded using the first-in, first-out method to be measured at the lower of cost or net realizable value. ASU 2015-11 will be effective retrospectively for the Company beginning in the first quarter of fiscal 2018, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

Intangibles-Goodwill and Other-Internal-Use Software

In April 2015, the FASB issued ASU 2015-05, *Intangibles-Goodwill and Other-Internal-Use Software Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. This amendment provides guidance to help entities to determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. ASU 2015-05 is effective for us beginning in fiscal 2017. Early adoption is permitted. Upon adoption, an entity has the option to apply the provisions of ASU 2015-05 either prospectively to all arrangements entered into or materially modified, or retrospectively. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. ASU 2015-02 is intended to improve guidance for limited partnerships, limited liability corporations and securitization structures. The guidance places more emphasis on risk of loss when determining a controlling financial interest, reduces the frequency of the application of related-party guidance when determining a controlling financial interest in a VIE and changes consolidation conclusions for public and private companies that typically make use of limited partnerships or VIEs. This guidance is effective for us beginning in fiscal 2017. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

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

In June 2014, the FASB issued ASU 2014-12, *Compensation Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 requires that a performance target which affects vesting and that could be achieved after the requisite service period be treated as a performance condition by applying existing guidance in Topic 718 as it relates to awards with performance conditions. The amendment also specifies the period over which compensation costs should be recognized. The amendment is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

Table of Contents*Revenue from Contracts with Customers*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and the International Financial Reporting Standards. This guidance supersedes previously issued guidance on revenue recognition and gives a five step process an entity should follow so that the entity recognizes revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of this guidance to annual reporting periods beginning after December 15, 2017, which would be our fiscal 2019 reporting period. It must be applied either retrospectively during each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of the initial application. Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk*Foreign Currency Exchange Risk*

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Our foreign currency exchange exposure is primarily associated with product sales arrangements or settlement of intercompany payables and receivables among subsidiaries and their parent company, and/or investment/equity contingency considerations denominated in the local currency where the functional currency of the foreign subsidiary is the U.S. dollar.

Our principal currency exposures relate primarily to the U.S. dollar, the Euro and the Philippine peso. All foreign currency gains and losses are included in other income (expenses), net, in the accompanying consolidated statements of operations and comprehensive loss. For the nine months ended October 31, 2015, we recorded approximately \$0.5 million in losses due to the international subsidiary translations and cash settlements of revenues and expenses.

In addition, because a substantial portion of our earnings are generated by our foreign subsidiaries whose functional currency are other than the U.S. dollar, our earnings could be materially impacted by movements in foreign currency exchange rates upon the translation of the subsidiary's earnings into the U.S. dollar. If the U.S. dollar had strengthened by 10% compared to the Euro, our total revenues would have decreased by \$0.9 million and \$2.3 million for the three and nine months ended October 31, 2015, respectively. Operations would have increased \$0.6 million and \$0.4 million for the three and nine months ended October 31, 2015, respectively.

Interest Rate Risk

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

to changes in interest rates.

ITEM 4. Controls and Procedures

Evaluation of disclosure controls and procedures. We evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Form 10-Q. Jay A. Samit, our Chief Executive Officer, and Anthony C. Dias, our Chief Financial Officer, reviewed and participated in this evaluation. Based upon that evaluation, Messrs. Samit and Dias concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report and as of the date of the evaluation.

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Changes in internal control over financial reporting. As a result of the evaluation completed by us, and in which Messrs. Samit and Dias participated, we have concluded that there were no changes during the fiscal quarter ended October 31, 2015 in our internal control over financial reporting, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. From time to time, we also indemnify customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of our products and services or resulting from the acts or omissions of us, our employees, authorized agents or subcontractors. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us.

ITEM 1A. Risk Factors

The following risk factors reflect material changes from the risk factors previously disclosed in Part I, Item 1A. Risk Factors in our Form 10-K for the fiscal year ended January 31, 2015, which included a discussion of some of the factors that have affected our business, financial conditions, and results of operations in the past and which could affect the future. In addition to our other disclosures set forth or incorporated by reference in the Form 10-K, the following risk factors could also affect our financial condition and results of operations.

We use estimates in accounting for our contracts. Changes in our estimates could adversely affect our future financial results.

Contract accounting requires judgment relative to assessing risks, estimating revenues and costs and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions have to be made regarding the length of time to complete the contract because costs also include estimated third-party vendor and contract labor costs. Penalties related to performance on contracts are considered in estimating sales and profit, and are recorded when there is sufficient information for us to assess anticipated performance. Third-party vendors assertions are also assessed and considered in estimating costs and margin.

Because of the significance of the judgments and estimation processes described above, it is likely that materially different sales and profit amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future period financial performance.

Our ability to deliver products and services that satisfy customer requirements is heavily dependent on the performance of our third-party vendors.

We rely on other companies to provide products and to perform some of the services that we provide to our customers. If one or more of our third-party vendors experience delivery delays or other performance problems, we may be unable to meet commitments to our customers. In addition, if one or more of the products which we depend on becomes unavailable or is available only at very high prices, we may be unable to deliver one or more of our products

in a timely fashion or at budgeted costs. In some instances, we depend upon a single source of supply. Any service disruption from one of these third-party vendors, either due to circumstances beyond the supplier's control or as a result of performance problems or financial difficulties, could have a material adverse effect on our ability to meet commitments to our customers or increase our operating costs.

We enter into fixed-price contracts, which could subject us to losses if we have cost overruns.

While firm fixed-price contracts enable us to benefit from performance improvements, cost reductions and efficiencies, they also subject us to the risk of reduced margins or incurring losses if we are unable to achieve estimated costs and revenues. If our estimated costs exceed our estimated revenues, we will recognize a loss which can significantly affect our reported results. The long-term nature of many of our contracts makes the process of estimating costs and revenues on fixed-price contracts inherently risky. Fixed-price development contracts are generally subject to more uncertainty than fixed-price production contracts. Many of these development programs have highly complex designs. If we fail to meet the terms specified in those contracts, our margin could be reduced. In addition, technical or quality issues that arise during development could lead to schedule delays and higher costs to complete, which could result in a material charge or otherwise adversely affect our financial condition.

ITEM 6. Exhibits

(a) Exhibits

See the Exhibit Index following the signature page to this Form 10-Q.

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SIGNATURES

Pursuant to the requirements 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: December 10, 2015

SEACHANGE INTERNATIONAL, INC.

by: /s/ ANTHONY C. DIAS
Anthony C. Dias
*Chief Financial Officer, Senior Vice
President,

Finance and Administration and

Treasurer*

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Index to Exhibits

No.	Description
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 (filed herewith).
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 (filed herewith).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
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