SEACHANGE INTERNATIONAL INC
Form 10-K
April 05, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2012

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

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3197974**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

50 Nagog Park, Acton, MA 01720

(Address of principal executive offices, including zip code)

(978)-897-0100

(Registrant's telephone number, including area code)

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

Common Stock, $.01 par value

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K. ¨

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of July 29, 2011, the aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price for the registrant's Common Stock on the NASDAQ Global Select Market on such date was $300,598,856. The number of shares of the registrant's Common Stock outstanding as of the close of business on March 29, 2012 was 32,756,219.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement (which is expected to be filed within 120 days after the Company's fiscal year end) relating to the registrant's Annual Meeting of Stockholders to be held on or about July 18, 2012 to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

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

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

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

The following discussion should be read in conjunctions with our "Management Discussion and Analysis of Financial Condition and Results of Operations," and our financial statements and footnotes contained in this Annual Report.

ITEM 1. Business

SeaChange International, Inc., a Delaware corporation founded on July 9, 1993, is an industry leader in the delivery of multi-screen video. Our products and services facilitate the aggregation, licensing, management and distribution of video, television programming and advertising content. We sell our products and services worldwide primarily to cable system operators, including Cablevision Systems, Comcast Cable Communications Management, LLC, Cox

Communications, Inc, Virgin Media, Limited, and Rogers Communications, Inc; and telecommunications companies, including AT&T Services, Inc, Telekom Austria Group, Turk Telekom and Verizon Communications, Inc.

Our products and services are designed to enable our customers to reduce capital expenditures and operating expenses, reduce subscriber turnover and access new revenue generating opportunities from subscribers, advertisers and electronic commerce initiatives. Using our products and services, we believe our customers can increase their revenues by offering additional services such as on-demand television programming on a variety of devices, including cellular telephones, personal computers (PCs) and tablets. This capability allows the operator to offer programming incorporating the ability for subscribers to pause, rewind and fast-forward on-demand content. Our products also allow our customers to insert advertising into broadcast and on-demand programming. Our advertising products allow our customers to target advertising to specific subscribers in a particular geographic and/or demographic market. In addition, our systems enable broadband system operators to offer other interactive television services that allow subscribers to customize and/or dynamically interact with their television, enhancing their viewing experience.

The primary thrust of our business has been to enable the delivery of video assets in the evolving “on-demand” television environment. Through acquisitions and partnerships we have expanded our capabilities, products and services to address the needs of video content owners, broadcasters, and content aggregators, and to address the delivery of content to devices other than the television, such as mobile phones, tablets and PCs. Traditionally, our products and services included hardware and software for content management and delivery systems, middleware that drives set top box applications, advertising systems that help pay for content and services that involve the acquisition and distribution of video content. As the industry is evolving, we are evaluating our non-core assets and focusing on higher margin, recurring revenue generating software products. We believe that our strategy of expanding into adjacent product lines will position us to further support and maintain our existing customer base. By providing our customers more technologically advanced software platforms, they can further reduce their infrastructure costs and improve reliability. Additionally we are positioned to take advantage of new customers entering the on-demand marketplace allowing us to serve adjacent markets, such as telecommunications.

Our core technologies provide a foundation for products and services that can be deployed in next generation video delivery systems capable of increased levels of subscriber interactivity. We have received several awards for technological excellence, including Emmy Awards for our patented MediaCluster ® technology and for our role in the growth of video-on-demand.

Fiscal 2012 was a transition year for us. During fiscal 2012, we were engaged in an evaluation of strategic alternatives regarding the future direction of the Company and as announced last quarter, the Board of Directors decided that it is in the best interest of shareholders to continue as a standalone publicly traded company. In addition, during our fourth quarter of fiscal 2012, we announced a restructuring plan that will reduce our operating costs in excess of $5.0 million in annualized cost savings that will be realized in fiscal 2013. We also experienced leadership changes at the senior management level, but we have made swift replacements with the addition of a new Chief Executive Officer and Chief Financial Officer and the elimination of the position of President of the company. In fiscal year 2013, the Company will continue to focus on significantly improving and streamlining its operations while continuing to transform into a pure play software company, which we use to mean a company primarily focused on software solutions. We are also continuing to evaluate alternatives for certain non-core businesses. On March 21, 2012, we signed a definitive asset sale agreement to divest certain portions of our broadcast server and storage business, while retaining video streaming and related hardware. This transaction is expected to close in the near future once customary regulatory approvals are received. Accordingly, our broadcast server and storage business unit is reflected in our financial statements as a discontinued operation. This divesture will allow us to focus on our core software and services operations including, our next generation back office, home gateway software and advertising solutions.

With the divestiture of a portion of our broadcast servers and storage business, our operations are now realigned into two business segments, the software segment and the media services segment. The software segment includes product revenues from our Back Office including video streamers, Home Gateway and Advertising products as well as related services such as professional services, installation, training, project management, product maintenance, and technical support. Our media services segment is comprised of the operations of On-Demand Group (ODG) whose activities include content acquisition and preparation services for television and wireless service providers. Financial information about our business segments is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements.

Software

Our Software business segment is comprised of three distinct product groups: back office products including video streamers, advertising products and in-home gateway products. Our revenue sources from the Software segment consists of:

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

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Back-Office Products:

In 2006, we began selling our SeaChange Axiom® on-demand back office software independent of our hardware while offering subscription services in an effort to increase market share and generate a more predictable recurring revenue stream. Additionally, by porting our software to other third party hardware platforms, we increased our market share with opportunities at competitive vendors' installations. In 2008, we saw the need to move video to mobile devices, such as cellular telephones, PCs and tablets, and purchased Mobix Interactive Limited, a United Kingdom based company that had developed software and services allowing mobile service operators to offer video products. To further enhance our back office product offerings, in September 2009, we acquired a private software company, eventIS Group B.V. ("eventIS"), in Eindhoven, the Netherlands, who was a leading provider of video-on-demand back office software products supporting operators primarily in Europe. Their software complemented and extended the capabilities of our video-on-demand software products.

The integration of the software from eventIS and Mobix with our legacy Axiom product has become the basis for our next generation back office software platform, Adrenalin. Adrenalin is backward compatible with Axiom and is modular, allowing our installed base to gradually adopt new functionality and features to support multi-screen video distribution. The purpose of back office software is to allow operators to centralize video distribution systems thereby reducing dependence on hardware and ultimately controlling operating expenses. The software automates and streamlines functionality in four crucial areas:

- Ingest of content including custom workflow, transcoding, encryption and distribution.
- Content Management including data analysis and management of metadata.
- Business management such as advertising placement, contract rights and subscriber entitlements, cloud-based monitoring and management and recommendation of social media applications.
- Publishing and purchasing, which allows content to be formatted for viewing on any device as well as in High Definition or 3D formats.

According to SNL Kagan, a leading research firm for the television industry, there are 80 million cable television subscribers in Europe compared to 70 million in the United States. However, unlike in the U.S., digital cable penetration rates are quite low. Penetration rates growth in Europe are expected to rise with the increased investments in video-on-demand products and services from European cable television providers and we believe that through our acquisitions and development of next generation back office product offerings, we have positioned ourselves to capitalize on that penetration rate.

Advertising Products:

As more content moves to mobile devices, the ability to generate additional revenue by inserting personalized, targeted advertising on these devices becomes crucial to operators in offsetting content rights costs and reducing subscriber fees for viewing the content. Our Infusion Advanced Advertising Platform is the foundation for the new breed of linear video advertising operations. Infusion scales to support operators' migration to consolidated regional and national advertising systems that are managed from increasingly web-centric and virtualized datacenters. Infusion supports dynamic targeted advertising across multiple screens. This translates into more advertising spots available for sale by the operators. Advertisers can now reach their audiences in video being viewed on cell phones, tablets, PCs and TVs while targeting those ads to the particular viewer.

With our AdPulse advertising software platform, ads and content are maintained in separate databases. They are ingested, managed and updated separately allowing for fast and easy refresh, simple rotation of ad copy and targeting by geographic, demographic and viewing characteristics. Because the ads are tracked separately from the content, the data provided includes detailed ad viewing and trick-mode (fast forward, rewind, and pause) usage leading to easier analysis of reach and effectiveness.

Video-on-demand, digital video recorders (DVRs) and over-the-top services, which we use to mean the delivery of content without the service provider being involved in the control or distribution of the content itself, are also changing the way audiences view programming. Therefore, our next generation advertising product strategy is creating new opportunities for our customers to capture local, regional and national advertising revenue from linear, targeted linear and targeted dynamic on-demand advertising.

Home Gateway Products:

In February 2010, we acquired VividLogic Inc (“VividLogic”), a private software company located in San Mateo, California. VividLogic’s products and services have enabled us to expand our software product portfolio to participate more competitively in the home gateway market, which we use to mean the market for the porting of video distribution to home devices.

As the state of video consumption evolves, we are using the VividLogic platform to produce software that ports to any gateway hardware and acts as a hub for all video distribution to devices throughout the home. Our Nucleus™ software product is a hybrid gateway, standards-based solution supporting both QAM and IP-delivered video. Nucleus delivers a unified user experience across all platforms throughout the home. The Nucleus Engine provides full control over set-top box functionality including channel changes, VOD/DVR playback and trick mode such as fast forward or rewind. It enables media sharing including photos, audio/MP3, video files and recorded assets. The Nucleus Presentation Manager supports next generation user interfaces (UI) including our own Nitro User Interface. It supports applications and widgets such as smartphone and tablet remote control.

Media Services

Through the acquisition of On Demand Group (ODG) in fiscal 2006, we expanded our media content services, which consists of content aggregation and distribution. In Europe, ODG is a leader in the development and deployment of Pay TV services. This segment specializes in aggregating content for video-on-demand and Pay-Per-View platforms, and provides marketing, promotional and production services to cable operators and telecommunications providers throughout Europe, the Middle East and, more recently, Latin America. In addition, ODG also specializes in branded service creation and end-to-end management of such services, such as with its 'TV on-demand' service which it developed to run on mobile, cable and telecommunication network operators in these regions.

ODG also sources, acquires, packages, and markets video-on-demand services by providing access to content from local and Hollywood studio providers in multiple formats including music videos, television programs and feature length movies. Through ODG, we have a content rights management system and a content preparation center for incorporating video content for VOD services from the major content suppliers around the world.

Strategy

Our strategy is to maintain and expand our installed customer base while increasing our revenue base with new customers, especially in the telecommunications industry, delivering exceptional customer service, positioning ourselves as an industry leader in the delivery of multi-screen video through our transformation to a pure play software company, while continually focusing on our customer's critical needs and problems.

We plan to execute this strategy by:

- Growing revenues through the introduction of our next generation software platforms, such as Adrenalin for back office, Infusion and AdPulse for our advertising product line and the expansion of our home gateway product line;
- Reducing our overall cost structure and further streamlining our operations;
- Divesting of business units or product offerings that are not core or profitable to our business; and
- Acquiring or investing in businesses that will enhance our product offerings and be accretive to our business

Research and Product Development

We believe that our success will depend on our ability to develop and introduce timely new integrated solutions and enhancements to our existing products that meet changing customer requirements in our current and future customer base as well as new markets. We have made and will continue to make substantial investments in our products and new technologies. Our current research and development activities are focused on developing next generation back office software, gateway software and advertising solutions in the multi-screen video market. Our direct sales and marketing groups closely monitor changes in customer needs, changes in the marketplace and emerging industry standards to help us focus our research and development efforts to address our customer's needs, help solve their problems, and lower their operating and capital costs. Our lead engineers are deeply involved in industry standards bodies such as the NCTA and the SCTE where they help define the direction of the next generation of products and standards. Our research and development efforts are performed at our Acton, MA headquarters, Milpitas, CA and Eindhoven, the Netherlands.

During fiscal 2012, we have realigned our research and development efforts to focus on the next generation networks and video delivery platforms which are vital to our customer’s success. We are achieving this by reducing or ending our investment on certain legacy product lines, evaluating divestiture of non-core business units and assets while reallocating resources to our three fundamental software products: Adrenalin for the back office, Nucleus the new Home Gateway software for the delivery of video and applications throughout the home and next generation advertising products such as Infusion and AdPulse.

As of January 31, 2012, we had a research and development staff of 427 employees, representing 37% of our total employee workforce. As of January 31, 2011 and 2010, we had a research and development staff of 469 and 502 which represented 39% and 41% of our total workforce, respectively. Upon completion of our divestiture of our former broadcast servers and storage business unit, our research and development staff will be reduced by approximately 99 employees with many of them moving to the acquiring entity.

Selling and Marketing

We sell and market our products worldwide through a direct sales organization, independent agents and distributors. Direct and indirect sales activities are primarily conducted from our Massachusetts headquarters and our European facility in Eindhoven, as well as through sales representatives deployed in different regions of the globe. We also market certain of our products to systems integrators and value-added resellers. Our sales cycle tends to be long, in some instances twelve to twenty-four months, and purchase orders are typically in excess of one million dollars. As a result our revenues are sometimes difficult to predict as to what quarter or fiscal year our revenues may be realized.

In light of the complexity of our digital video products, we primarily utilize a direct sales process. Working closely with customers to understand and define their needs enables us to obtain better information regarding market requirements, enhance our expertise in our customers' industries, and more effectively and precisely convey to customers how our solutions address the customer's specific needs. In addition to the direct sales process, customer references and visits by potential customers to sites where our products are in place are often critical in the sales process.

We use several marketing programs to focus on our targeted markets to support the sale and distribution of our products. We attend and exhibit our products at a limited number of prominent industry trade shows and conferences and we present our technology at seminars and smaller conferences to promote the awareness of our products. We also publish articles in trade and technical journals.

Our Media Services segment based in London uses a direct sales force to market and sell its services to customers throughout Europe, Middle East, and Latin America. This group is highly specialized in providing content and marketing solutions for cable, telecommunications and mobile operators who want to offer pay video services but do not have the capabilities in-house to license, format and market the content.

As of January 31, 2012, we had a marketing and sales staff of 77 employees, representing 7% of our total employee workforce. As of January 31, 2011 and 2010, we had a marketing and sales staff of 94 and 93 people representing 8% of our total workforce for both of these years, respectively. Upon completion of our divestiture of our former broadcast servers and storage business unit, our sales and marketing staff will be reduced by approximately 15 employees.

Manufacturing and Quality Control

Our hardware manufacturing operation consists primarily of component and subassembly procurement, systems integration and final assembly, testing and quality control of the complete systems. We rely on independent contractors to manufacture components and subassemblies to our specifications.

In May of 2009, we announced that we had achieved TL9000 certification across multiple locations. The QuEST Forum, a consortium of telecommunications suppliers and service providers, developed the TL9000 standard using the framework of the ISO 9000 international standard as a basis to pursue a goal of global telecommunications quality and industry-wide performance excellence. We continue to maintain this certification for quality management systems.

As of January 31, 2012, 2011, and 2010, we had a manufacturing staff of approximately 27, 29, and 31 people respectively, representing approximately 2% of our total workforce.

Our Customers

We currently sell our products primarily to cable system operators, broadcast and telecommunications companies and mobile communications providers. Our customer base is highly concentrated among a limited number of large customers, primarily due to the fact that the cable and telecommunications industries in the United States are dominated by a limited number of large companies. A significant portion of our revenues across each of our segments in any given fiscal period have been derived from substantial orders placed by these large organizations. For the year ended January 31, 2012, Comcast and Virgin Media comprised 20% and 11%, respectively, of our total revenues. For the year ended January 31, 2011, Comcast and Virgin Media comprised 22% and 12%, respectively, of our total revenues. We expect that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues in the near future, even as we intend to penetrate new markets and customers. As a result of this customer concentration, our business, financial condition and results of operations could be materially adversely affected by the failure of anticipated orders to materialize and by deferrals or cancellations of orders as a result of changes in customer requirements or new product announcements or introductions. In addition, the concentration of customers may cause variations in revenue, expenses and operating results on a quarterly basis due to seasonality of orders or the timing and relative size of orders received and shipped during a fiscal quarter.

We do not believe that our backlog at any particular time is meaningful as an indicator of our future level of sales for any particular period. Because of the nature of our products and our use of standard components, substantially the entire backlog at the end of a quarter can be manufactured and shipped to the customer before the end of the following quarter. However, because of the requirements of particular customers, these orders may not be shipped or, if shipped, the related revenues may not be recognized in the ensuing quarter. Therefore, there is no direct correlation between the backlog at the end of any quarter and our total sales for the following quarter or other periods.

Competition

The markets in which we compete are characterized by intense competition, with a large number of suppliers providing different types of products to different segments of the markets. In new markets for our products, we compete principally based on price. In markets in which we have an established presence, we compete principally on the basis of the breadth of our products' features and benefits, including the flexibility, scalability, professional quality, ease of use, reliability and cost effectiveness of our products, and our reputation and the depth of our expertise, customer service and support. While we believe that we currently compete favorably overall with respect to these factors and that our ability to provide integrated solutions to manage, store and distribute digital video differentiates us from our competitors, in the future we may not be able to continue to compete successfully with respect to these factors.

In the market for multi-screen video-on-demand, we compete with various companies offering video software and server platforms such as Concurrent Computer Corp., Arris Group Inc. (through its 2007 acquisition of C-Cor Corporation), Cisco Systems, Inc., Motorola Mobility Inc., and Ericsson Inc.

In the media home gateway market we compete with set top box manufacturers and gateway vendors who offer proprietary software and hardware solutions. However, because our software has been integrated with the two largest chip manufactures, Intel and Broadcom, we believe we obtain a competitive advantage when these chips are designed into the networks by the operators.

Our Media Services business unit is unique in that the principal competition it faces is from service provider customers who decide to take the licensing and marketing of content in-house and would not have a need for the services we provide. However, it has been our experience that most operators outside of North America do not wish to deal with the complexities of negotiating content rights contracts and license agreements.

In the digital advertisement insertion market, we generally compete with Arris Group Inc. We expect the competition in each of the markets in which we operate to intensify in the future as existing and new competitors with significant market presence and financial resources, including computer hardware and software companies and television equipment manufacturers enter these rapidly evolving markets.

Many of our current and prospective competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources. As a result, these competitors may be able to devote greater resources to the development, promotion, sale and support of their products. Moreover, these companies may introduce additional products that are competitive with ours or enter into strategic relationships to offer complete solutions, and in the future our products may not be able to compete effectively with these products.

Proprietary Rights

Our success and our ability to compete are dependent, in part, upon our proprietary rights. We have been granted nineteen U.S. patents and have filed foreign patent applications related thereto for various technologies developed and used in our products. In addition, we rely on a combination of contractual rights, trademark laws, trade secrets and copyright laws to establish and protect our proprietary rights in our products. It is possible that in the future not all of these patent applications will be issued or that, if issued, the validity of these patents would not be upheld. It is also possible that the steps taken by us to protect our intellectual property will be inadequate to prevent misappropriation of our technology or that our competitors will independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries in which our products are or may be distributed do not protect our proprietary rights to the same extent as do the laws of the United States. We have been involved, and continue to be involved, in significant intellectual property litigation, and we may be a party to litigation in the future to enforce our intellectual property rights or as a result of an allegation that we infringe others' intellectual property.

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Employees

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

Country	January 31, 2012 (1)	2011	2010
United States	449	521	618
China	0	117	154
Philippines	193	235	164
United Kingdom	172	170	122
Netherlands	87	79	66
Other International	82	87	99
Total employees by country	983	1,209	1,223

(1) FY12 in the above table does not include 170 employees that are included in the divestiture of our broadcast servers and storage business unit.

Executive Officers

Executive officers of the Company as of March 31, 2012 and their biographical information as set forth below:

Raghu Rau

Chief Executive Officer, and Board member. Mr. Rau became the Chief Executive officer on November 30, 2011; has served as a Director of the Company since July 15, 2010; Mr. Rau currently also serves on the Board of Aviat Networks, Inc.. Since 2010, Mr. Rau has also served as a director of Microtune, Inc., the receiver solutions company. From 1992 to 2008, he held a number of positions with Motorola, Inc., including leadership positions in marketing and strategy and held the title of Senior Vice President, Mobile TV Solutions Business from 2007 to 2008. Age 62.

Michael D. Bornak

Chief Financial Officer, Treasurer, Secretary, and Senior Vice President of Finance and Administration since January 23, 2012; prior thereto, served as Chief Financial Officer of Tollgrade Communications, Inc. from September 2009; prior thereto served as Chief Financial Officer of Solar Power Industries, Inc. from June 2008 to July 2009; Chief Financial Officer for MHF Logistical Solutions, Inc. from February 2005 to June 2008; Vice President of Finance and Chief Financial Officer of Portec Rail Products, Inc. from January 1998 to February 2005. Mr. Bornak is also a Certified Public Accountant. Age 49.

Steven M. Davi

Senior Vice President, Chief Technology Officer since March, 2012.; prior thereto served as Senior Vice President, Software Engineering from July 2005; Mr. Davi joined the company in November 1997, having served as head of our engineering teams for back-office, advertising, applications and multi-screen video software; prior thereto Mr. Davi served in engineering and managerial positions at Banyan Systems Inc., Prior to joining Banyan Systems, he was in various engineering positions within the networking division at Data General. He holds a Bachelors degree and a Masters degree in Computer Science. Age 48.

Erwin van Dommelen

President, SeaChange Software Division, joined us in 2009 when the Company acquired Netherlands-based video software provider eventIS where he served as CEO; prior thereto held numerous technical and management positions including Director/Practice Manager at KPMG UK; Program Director High Speed Data and Voice at Cablecom; and Project Manager/System Architect at Philips Digital Television Services. Mr. van Dommelen attended the Hogeschool (University of Applied Sciences) Utrecht, graduating in Telecommunication Science. Age 45.

Ira Goldfarb

Executive Vice President, Worldwide Sales and Service since October 2010; prior thereto joined the Company in 1994 as U.S. Central Regional Sales Vice President; prior thereto held several sales management positions at Digital Equipment Corporation beginning in September 1983. Age 54.

Anthony Kelly

Executive Vice President, Senior Vice President of SeaChange since September 2005; prior thereto held the position of Chief Executive Officer of ODG since 1996;prior thereto Mr. Kelly served as a director of the Lambie Nairn Group from May 1992 to December 1994 and as an executive at Video Networks Limited from December 1992 to April 1995. Prior to that, from July 1990 to April 1992, Mr. Kelly served as CEO of the Palace Group, a major UK independent film producer and distributor. Age 50.

Geographic Information

Geographic information is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements.

Available Information

SeaChange is subject to the informational requirements pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). SeaChange files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Financial and other information about SeaChange, including SeaChange's Code of Ethics and Business Conduct and charters for SeaChange's Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, is available on our website (*www.schange.com*). We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our web site is not incorporated by reference into this document and should not be considered a part of this Annual Report. Our web site address is included in this document as an inactive textual reference only.

ITEM 1A. Risk Factors

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

Our business is dependent on customers' continued spending on video systems and services, and reductions by customers in spending adversely affect our business.

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

- general economic conditions;
- customer specific financial or stock market conditions;
- availability and cost of capital;
- governmental regulation;
- demand for services;
- competition from other providers of video systems and services;
- acceptance of new video systems and services by our customers; and
- real or perceived trends or uncertainties in these factors.

Any reduction in spending by our customers would adversely affect our business. We continue to have limited visibility into the capital spending plans of our current and prospective customers. Fluctuations in our revenue can lead to even greater fluctuations in our operating results. Our planned expense levels depend in part on our expectations of future revenue. Our planned expenses include significant investments, particularly within our research and development organization, which we believe are necessary to continue to provide innovative solutions to meet our current and prospective customers' needs. As a result, it is difficult to forecast revenue and operating results. If our revenue and operating results are below the expectations of our investors and market analysts, it could cause a decline in the price of our common stock.

Our future success is dependent on the continued development of the multi-screen video market and if the multi-screen video does not continue to develop, our business may not continue to grow.

A large portion of our expected revenue growth is expected to come from sales and services related to our multi-screen video products. However, the multi-screen video market continues to develop as a commercial market, both within and outside North America. The potential size of the multi-screen video market and the timing of its development are uncertain. The success of this market requires that broadband system operators continue to upgrade their cable networks to support digital two-way transmission service and successfully market multi-screen video and similar services to their cable television subscribers. Some cable system operators, particularly outside of North America, are still in the early stages of commercial deployment of multi-screen video service to major residential cable markets and, accordingly, to date our digital video systems have been commercially available only to a limited number of subscribers. Also, the telecommunications companies have also begun to adapt their networks to support digital two-way transmission and begun marketing multi-screen video services. If cable system operators and telecommunications companies fail to make the capital expenditures necessary to upgrade their networks or determine that broad deployment of multi-screen video services is not viable as a business proposition or if our digital video systems cannot support a substantial number of subscribers while maintaining a high level of performance, our revenues will not grow as we have planned.

If we are unable to successfully introduce new products or enhancements to existing products on a timely basis, our financial condition and operating results may be adversely affected by a decrease in sales of our products.

Because our business plan is based on technological development of new products and enhancements to our existing products, our future success is dependent on our successful introduction of these new products and enhancements on a timely basis. In the future we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these and other new products and enhancements, or find that our new products and enhancements do not adequately meet the requirements of the marketplace or achieve market acceptance. Announcements of currently planned or other new product offerings may cause customers to defer purchasing our existing products. Moreover, despite testing by us and by current and potential customers, errors or failures may be found in our products, and, even if discovered, may not be successfully corrected in a timely manner. These errors or failures could cause delays in product introductions and shipments, or require design modifications that could adversely affect our competitive position. Currently, we are focused on the provision of next generation software products, including SeaChange AdrenalinTM Back Office, SeaChange Nucleus TM Soft Box, and SeaChange Infusion TM Advanced Advertising Platform. Our inability to develop new products or enhancements on a timely basis or the failure of these new products or enhancements to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

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

The global economy and financial markets experienced disruption in recent years, including, among other things, extreme volatility in security prices, diminished credit availability, rating downgrades of certain investments and declining valuations of others. These economic developments and the rate of recovery from these developments affect businesses such as ours and those of our customers and vendors in a number of ways that could result in unfavorable consequences to us. A continued slow recovery from these events or further disruption and deterioration in economic conditions may reduce customer purchases of our products and services, thereby reducing our revenues and earnings. In addition, these events may, among other things, result in increased price competition for our products and services, increased risk in the collectability of our accounts receivable from our customers, increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable, and higher operating costs as a percentage of revenues. We have taken actions to address the effects of the economic crisis and the slow recovery, including implementing cost control and cost reduction measures. It is possible that we may need to take further actions to control our cost structure and implement further cost reduction measures. We cannot predict whether these measures will be sufficient to offset certain of the negative trends that might affect our business.

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

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

Our business has been subject to uncertainties introduced by the evaluation of strategic options completed by us in fiscal 2012.

As previously disclosed, we completed an evaluation of strategic options in fiscal 2012 and concluded that it was in the best interests of stockholders to remain a standalone public company, and to focus on improving and streamlining our operations. This strategic review resulted in the expenditure of substantial management time and resources, and may result in our customers reducing the level of orders they place with us, employees deciding to leave the Company, a third party expressing interest in acquiring the Company, and other factors that may have a negative effect on our business. It is also possible that we may be unsuccessful in improving and streamlining our operations. These factors may create uncertainty in our operations that could cause our revenues to decline and that could have a material adverse effect on our business, financial condition and results of operations and may cause fluctuations in our stock price.

We may be unsuccessful in our efforts to become a pure play software company, by which we mean a company that primarily provides software solutions.

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

Because our customer base is highly concentrated among a limited number of large customers, the loss of or reduced demand by, or return of product by one or more of these customers, could have a material adverse effect on our business, financial condition and results of operations.

Our customer base is highly concentrated among a limited number of large customers, and, therefore, a limited number of customers account for a significant percentage of our revenues in any fiscal period. We generally do not have written agreements that require customers to purchase fixed minimum quantities of our products. Our sales to specific customers tend to vary significantly from year to year and from quarter to quarter depending upon these customers' budgets for capital expenditures and our new product introductions. We believe that a significant amount of our revenues will continue to be derived from a limited number of large customers in the future. The loss of, reduced demand for products or related services by, or return of a product previously purchased by any of our major customers could have a material adverse effect on our business, financial condition and results of operations. In addition, the industry has experienced consolidation among our customers which may cause delays or reductions in capital expenditure plans and/or increased competitive pricing pressures as the number of available customers decline and their relative purchasing power increases in relation to suppliers. Any of these factors could adversely affect our business.

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

We derive a substantial portion of our revenues from purchase orders that exceed $1.0 million in value. Therefore, any significant cancellation or deferral of purchases of our products or the return of previously purchased products could result in a substantial variation in our operating results in any particular quarter due to the resulting decrease in revenue and gross margin. In addition, to the extent significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected because our operating costs and expenses are based, in part, on our expectations of future revenues, and we may be unable to adjust spending in a timely manner to compensate for any revenue shortfall. Because of these factors, in some future quarter our operating results may be below the expectations of public market analysts and investors which may adversely affect the market price of our common stock. In addition, these factors may make period-to-period comparisons of our operating results less meaningful.

Due to the lengthy sales cycle involved in the sale of our products, our quarterly results may vary and should not be relied on as an indication of future performance.

Digital video-on-demand, advertising, and content products and services are relatively complex and their purchase generally involve a significant commitment of capital, with attendant delays frequently associated with large capital expenditures and implementation procedures within an organization. Moreover, the purchase of these products typically requires coordination and agreement among a potential customer’s corporate headquarters and its regional and local operations. For these and other reasons, the sales cycle associated with the purchase of our digital video-on-demand, advertising, and content products and services is typically lengthy and subject to a number of significant risks, including customers’ budgetary constraints and internal acceptance reviews, over which we have little or no control. Based upon all of the foregoing, we believe that our quarterly revenues and operating results are likely to vary significantly in the future, that period-to-period comparisons of our results of operations are not necessarily meaningful and that these comparisons should not be relied upon as indications of future performance.

If there were a decline in demand or average selling prices for our products, including our back office and advertising products, our revenues and operating results would be materially affected.

We expect our back office and advertising products to continue to account for a significant portion of our revenues. Accordingly, a decline in demand or average selling prices for these products, whether as a result of new product introductions by others, price competition, technological change, inability to enhance the products in a timely fashion, or otherwise, could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to manage our growth and the related expansion in our operations effectively, our business may be harmed through a diminished ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees.

Our ability to successfully offer new products and services and implement our business plan in a rapidly evolving market requires effective planning and management. We are also continuing to transition towards greater reliance on our software products and services for an increased portion of our total revenue, particularly as we explore the divestiture of non-core business units as evidenced by our agreement to divest a portion of our broadcast servers and storage business unit executed on March 21, 2012. In light of the growing complexities in managing our expanding portfolio of products and services, our anticipated future operations may continue to strain our operational and administrative resources. To manage future growth effectively, we must continue to improve our operational controls and internal controls over financial reporting, and to integrate the businesses we have acquired and our new personnel and to manage our expanding international operations. A failure to manage our growth may harm our business through a decreased ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees upon which our business is dependent.

Because our business is susceptible to risks associated with international operations, we may not be able to maintain or increase international sales of our products and services, and we may not realize the full amount of the anticipated savings in connection with our continued trend towards the manufacture and assembly of our products outside of North America and Europe.

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

- difficulties in establishing and managing international distribution channels;
- difficulties in selling, servicing and supporting overseas products and services and in translating products and services into foreign languages;
- the uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;
- multiple and possibly overlapping tax structures;
- negative tax consequences such as withholding taxes and employer payroll taxes;
differences in labor laws and regulations affecting our ability to hire and retain employees; and
economic or political changes in international markets.

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

To date, most of our revenues have been denominated in U.S. dollars, while a significant portion of our international expenses are incurred in the local currencies of countries in which we operate. Because a portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we often sell in dollars, and a weakened dollar could increase local currency operating costs. In preparing our consolidated financial statements, certain financial information is required to be translated from foreign currencies to the United States dollar using either the spot rate or the weighted-average exchange rate. If the United States dollar changes relative to applicable local currencies, there is a risk our reported sales, operating expenses, and net income could significantly fluctuate. We are not able to predict the degree of exchange rate fluctuations, nor can we estimate the effect any future fluctuations may have upon our future operations.

Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights from third-party challenges.

Our success and ability to compete depends upon our ability to protect our proprietary technology that is incorporated into our products. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Although we have issued patents, we cannot assure that any additional patents will be issued or that the issued patents will not be invalidated. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise misappropriate and use our products or technology without authorization, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We may need to resort to litigation in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. If competitors are able to use our technology, our ability to compete effectively could be harmed.

We have been and in the future could become subject to litigation regarding intellectual property rights, which could seriously harm our business and require us to incur significant legal costs to defend our intellectual property rights.

The industry in which we operate is characterized by vigorous protection and pursuit of intellectual property rights or positions, which on occasion, have resulted in significant and often protracted litigation. We have from time to time received, and may in the future receive, communications from third parties asserting infringements on patent or other intellectual property rights covering our products or processes. We are currently engaged in intellectual property litigation with Arris Group, Inc., and we may be a party to litigation in the future to enforce our intellectual property rights or as a result of an allegation that we infringe others' intellectual property. Any parties asserting that our products infringe upon their proprietary rights would force us to defend ourselves and possibly our customers or manufacturers against the alleged infringement, as many of our commercial agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. We have received certain claims for indemnification from customers but have not been made party to any litigation involving intellectual property infringement claims as a result. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights. This possibility of multiple damages serves to increase the incentive for plaintiffs to bring such litigation. In addition, these lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention away from our operations. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. In addition, any potential intellectual property litigation also could force us to stop selling, incorporating or using the products that use the infringed intellectual property or obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, although this license may not be available on reasonable terms, or at all, or redesign those products that use the infringed intellectual property. If we are forced to take any of the foregoing actions, our business may be seriously harmed.

If content providers, such as movie studios, limit the scope of content licensed for use in the digital video-on-demand market, our business, financial condition and results of operations could be negatively affected because the potential market for our products would be more limited than we currently believe and have communicated to the financial markets.

The success of the video-on-demand market is contingent on content providers, such as movie studios, permitting their content to be licensed for use in this market. Content providers may, due to concerns regarding either or both marketing and illegal duplication of the content, limit the extent to which they provide content to the video-on-demand market. A limitation of content for the video-on-demand market would indirectly limit the market for our video-on-demand system which is used in connection with that market.

Because we purchase certain material components used in manufacturing our products from sole suppliers and we use a limited number of third party manufacturers to manufacture our products, our business, financial condition and results of operations could be materially adversely affected by a failure of these suppliers or manufacturers.

Certain key components of our products are currently purchased from a sole supplier, including computer chassis, switching gear, an interface controller video transmission board, and operating system and applications software. We have in the past experienced quality control problems, where products did not meet specifications or were damaged in shipping, and delays in the receipt of these components. These problems were generally of short duration and did not have a material adverse effect on our business and results of operations. However, we may in the future experience similar types of problems which could be more severe or more prolonged. While we believe that there are alternative suppliers available for these components, we believe that the procurement of these components from alternative suppliers could take up to a year. In addition, these alternative components may not be functionally equivalent or may be unavailable on a timely basis or on similar terms. The inability to obtain sufficient key components as required, or to develop alternative sources if and as required in the future, could result in delays or reductions in product shipments which, in turn, could have a material adverse effect on our business, financial condition and results of operations. In addition, we rely on a limited number of third parties who manufacture certain components used in our products. While to date there has been suitable third party manufacturing capacity readily available at acceptable quality levels, in the future there may not be manufacturers that are able to meet our future volume or quality requirements at a price that is favorable to us. Any financial, operational, production or quality assurance difficulties experienced by these third party manufacturers that result in a reduction or interruption in supply to us could have a material adverse effect on our business, financial condition and results of operations.

If we are not able to obtain necessary licenses or distribution rights for third-party technology at acceptable prices, or at all, our products could become obsolete or we may not be able to deliver certain product offerings.

We have incorporated third-party licensed technology into our current products and our product lines. From time to time, we may be required to license additional technology from third parties to develop new products or product enhancements or to provide specific solutions. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The inability to maintain or re-license any third-party licenses required in our current products or to obtain any new third-party licenses necessary to develop new products and product enhancements or provide specific solutions could require us to obtain substitute technology of lower quality or performance standards or at greater cost. Such inabilities could delay or prevent us from making these products or enhancements or providing specific solutions, which could seriously harm the competitiveness of our products.

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

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

We currently compete against large companies offering video software solutions. In the digital advertisement insertion market, we compete against suppliers of both analog tape-based and digital systems. In addition, a number of well-funded companies have been discussing broadband internet VOD services for home television viewing. If these products are developed, they may be more cost effective than our VOD solutions, which could result in cable system operators and telecommunications companies discontinuing their purchases of our on-demand products. Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources, including software companies and television equipment manufacturers, may enter those markets, thereby further intensifying competition. Increased competition could result in price reductions, cancellations of purchase orders, losses of business with current customers to competitors, and loss of market share which would adversely affect our business, financial condition and results of operations. Many of our current and potential competitors have greater financial, selling and marketing, technical and other resources than we do. Moreover, our competitors may also foresee the course of market developments more accurately than we. Although we believe that we have certain technological and other advantages over our competitors, realizing and maintaining these advantages will require a continued high level of investment by us in research and product development, marketing and customer service and support. In the future we may not have sufficient resources to continue to make these investments or to make the technological advances necessary to compete successfully with our existing competitors or with new competitors. If we are unable to compete effectively, our business, prospects, financial condition and operating results would be materially adversely affected because of the difference in our operating results from the assumptions on which our business model is based.

If we fail to respond to rapidly changing technologies related to digital video, our business, financial condition and results of operations would be materially adversely affected because the competitive advantage of our products and services relative to those of our competitors would decrease.

The markets for our products are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions and enhancements. Future technological advances in the television and video industries may result in the availability of new products or services that could compete with the solutions provided by us or reduce the cost of existing products or services, any of which could enable our existing or potential customers to fulfill their video needs better and more cost efficiently than with our products. Our future success will depend on our ability to enhance our existing digital video products, including the development of new applications for our technology, and to develop and introduce new products to meet and adapt to changing customer requirements and emerging technologies. In the future, we may not be successful in enhancing our digital video products or developing, manufacturing and marketing new products which satisfy customer needs or achieve market acceptance. In addition, there may be services, products or technologies developed by others that render our products or technologies uncompetitive, unmarketable or obsolete, or announcements of currently planned or other new product offerings either by us or our competitors that cause customers to defer or fail to purchase our existing solutions.

Our financial condition and results of operations could be materially adversely affected by the performance of the companies in which we have made and may in the future make equity investments.

We have made non-controlling equity investments in complementary companies, including On Demand Deutschland GmbH & Co. KG and Minerva Networks, Inc., and we may in the future make additional investments in these and/or other companies. These investments may require additional capital and may not generate the expected rate of return that we believed possible at the time of making the investment. This may adversely affect our financial condition or results of operations. Also, investments in development-stage companies may generate other than temporary declines in fair value of our investment that would result in impairment charges.

We may not fully realize the benefits of our acquisitions of Mobix Interactive Ltd., eventIS Group B.V or VividLogic, Inc., and these and future acquisitions may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

As part of our business strategy, we have acquired and may in the future seek to acquire or invest in new businesses, products or technologies that we believe could complement or expand our business, augment our market coverage, enhance our technical capabilities or otherwise offer growth opportunities. Acquisitions, including our acquisitions of Mobix Interactive Ltd., eventIS Group B.V. and VividLogic, Inc. could create risks for us, including:

- difficulties in assimilation of acquired personnel, operations, technologies or products which may affect our ability to develop new products and services and compete in our rapidly changing marketplace due to a resulting decrease in the quality of work and innovation of our employees upon which our business is dependent;
- adverse effects on our existing business relationships with suppliers and customers, which may be of particular importance to our business because we sell our products to a limited number of large customers, we purchase certain components used in manufacturing our products from sole suppliers and we use a limited number of third party manufacturers to manufacture our product; and
- our ability to retain and incentivize management and key employees of the acquired business.

Future acquisitions or divestitures may adversely affect our financial condition.

Historically, we have acquired technology or businesses to supplement and expand our product offerings. In the future, we could acquire additional products, technologies or businesses, or enter into joint venture arrangements, for the purpose of complementing or expanding our business as occurred with VividLogic Inc. in fiscal 2011, eventIS Group B.V. in fiscal 2010, Mobix Interactive Ltd. in fiscal 2009 and On Demand Deutschland GMBH in fiscal 2007. As previously announced, we are selling our broadcast servers and storage business unit and continue to evaluate the divestiture of non-core operations as we focus on becoming a company that primarily provides software solutions. Negotiation of potential acquisitions, divestitures or joint ventures and our integration or transfer of acquired or divested products, technologies or businesses could divert management’s time and resources.

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

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

- problems and increased costs in connection with the integration or divestiture of the personnel, operations, technologies, or products of the acquired or divested businesses;
- unanticipated costs;
- diversion of management's attention from our core business;
- inability to make planned divestitures of businesses on favorable terms in a timely manner or at all;
- adverse effects on business relationships with suppliers and customers and those of the acquired company;
- acquired assets becoming impaired as a result of technical advancements or worse-than-expected performance by the acquired company;
- entering markets in which we have no, or limited, prior experience; and
- potential loss of key employees.

In addition, in connection with any acquisitions or investments we could:

- issue stock that would dilute our existing stockholders' ownership percentages;
- incur debt and assume liabilities;
- obtain financing on unfavorable terms;
- incur amortization expenses related to acquired intangible assets or incur large and immediate write-offs;
- incur large expenditures related to office closures of the acquired companies, including costs relating to the termination of employees and facility and leasehold improvement charges resulting from our having to vacate the acquired companies' premises; and
- reduce the cash that would otherwise be available to fund operations or for other purposes.

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If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

Under accounting principles generally accepted in the United States, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or other intangible assets may not be recoverable include declines in our stock price and market capitalization, or future cash flows projections. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on projections of future operating performance. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. We may be required to record a significant noncash charge to earnings in our financial statements during the period in which any impairment of our goodwill or other intangible assets is determined.

We may experience risks in our investments due to changes in the market, which could adversely affect the value or liquidity of our investments.

We maintain a portfolio of marketable securities in a variety of instruments which may include commercial paper, certificates of deposit, money market funds and government debt securities. These investments are subject to general credit, liquidity, market, and interest rate risks. As a result, we may experience a reduction in value or loss of liquidity of our investments. These market risks associated with our investment portfolio may have a negative adverse effect on our results of operations, liquidity and financial condition.

The success of our business model could be influenced by changes in the regulatory environment, such as changes that either would limit capital expenditures by television, cable or telecommunications operators or reverse the trend towards deregulation in the industries in which we compete.

The telecommunications and television industries are subject to extensive regulation which may limit the growth of our business, both in the United States and other countries. The growth of our business internationally is dependent in part on deregulation of the telecommunications industry abroad similar to that which has occurred in the United States and the timing and magnitude of which is uncertain. Broadband system operators are subject to extensive government regulation by the Federal Communications Commission and other federal and state regulatory agencies. These regulations could have the effect of limiting capital expenditures by broadband system operators and thus could have a material adverse effect on our business, financial condition and results of operations. The enactment by federal, state or international governments of new laws or regulations, changes in the interpretation of existing regulations or a reversal of the trend toward deregulation in these industries could adversely affect our customers, and thereby materially adversely affect our business, financial condition and results of operations.

We may not be able to hire and retain highly skilled employees, particularly which could affect our ability to compete effectively because our business is technology-based.

Our success depends to a significant degree upon the continued contributions of our key personnel, many of whom would be difficult to replace. We have recently experienced the turnover of our Chief Executive Officer, President and Chief Financial Officer. We believe that our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, customer service, selling and marketing, finance, administrative and manufacturing personnel, as our business is technology-based. Because competition for these personnel is intense, we may not be able to attract and retain qualified personnel in the future. The loss of the services of any of the key personnel, the integration of new personnel, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel, particularly software engineers and sales personnel could have a material adverse effect on our business, financial condition and results of operations because our business is technology-based.

We may have additional tax liabilities.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by various tax jurisdictions. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our income tax provision, net income, or cash flows in the period or periods for which that determination is made. In addition, we are subject to sales, use and similar taxes in many countries, jurisdictions and provinces, including those states in the United States where we maintain a physical presence or have a substantial nexus. These taxing regimes are complex. For example, in the United States, each state and local taxing authority has its own interpretation of what constitutes a sufficient physical presence or nexus to require the collection and remittance of these taxes. Similarly, each state and local taxing authority has its own rules regarding the applicability of sales tax by customer or product type.

System errors, failures, or interruptions could cause delays in shipments, require design modifications or replacements which may have a negative impact on our business and damage our reputation and customer relationships.

System errors or failures in our products or related to our information technology infrastructure may adversely affect our business, financial condition and results of operations. Despite our testing and testing by current and potential customers, not all errors or failures may be found in our products or, if discovered, successfully corrected in a timely manner. Notwithstanding our efforts to the contrary, our products and business may be subject to unauthorized access which could also result in errors or failures in our products, or the dissemination of confidential information. These errors or failures could cause delays in product introductions and shipments, require design modifications that could adversely affect our competitive position or result in material liability to us. Further, some errors may not be detected until the systems are deployed. In such a case, we may have to undertake major replacement programs to correct the problem. Our reputation may also suffer if our customers view our products as unreliable or our systems as unsecure, whether based on actual or perceived errors or failures in our products or our systems. Further, a defect, error or performance problem with our on-demand systems could cause our customers' VOD offerings to fail for a period of time or be degraded. Any such failure would cause customer service and public relations problems for our customers. As a result, any failure of our customers' systems caused by our technology, including the failure of third party technology incorporated therein or therewith, could result in delayed or lost revenue due to adverse customer reaction, negative publicity regarding us and our products and services and claims for substantial damages against us, regardless of our responsibility for such failure. Any claim could be expensive and require us to spend a significant amount of resources. In circumstances where third party technology incorporated with or in our systems includes a defect, error or performance problem or fails for any reason, we may have to replace such third party technology at our expense and be responsible to our customers for their corresponding claims. Such replacements or claims could be expensive and could require us to spend a significant amount of resources.

We may be subject to network disruptions or security breaches that could damage our reputation and harm our business and operating results.

We may be subject to network disruptions or security breaches caused by computer viruses, illegal break-ins or hacking, sabotage, acts of vandalism by third parties or terrorism. Our security measures or those of our third party service providers may not detect or prevent such security breaches. Any such compromise of our information security could result in the unauthorized publication of our confidential business or proprietary information, cause an interruption in our operations, result in the unauthorized release of customer or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation or damage our reputation, which could harm our business and operating results.

Our stock price may be volatile.

Historically, the market for technology stocks has been extremely volatile. Our common stock has experienced, and may continue to experience, substantial price volatility. The occurrence of any one or more of the factors noted above could cause the market price of our common stock to fluctuate. In the past couple of years, the stock market in general, and the NASDAQ Stock Market and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. These broad market and industry factors may materially adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been instituted against such companies.

Any weaknesses identified in our system of internal controls by us and our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on our business.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and report on their systems of internal control over financial reporting. In addition, our independent registered public accounting firm must report on its evaluation of those controls. In future periods, we may identify deficiencies, including as a result of the loss of the services of one or more of our key personnel, in our system of internal controls over financial reporting that may require remediation. There can be no assurances that any such future deficiencies identified may not be significant deficiencies or material weaknesses that would be required to be reported in future periods.

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

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

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

Location	Principal Use	Business Segment	Square Feet
Owned Facilities			
Acton, Massachusetts	Corporate Headquarters	Software and Servers	120,000
London, United Kingdom	ODG corporate offices and video content processing services	Media Services	9,000
Leased Facilities			
Manila, Philippines	Engineering and Customer Services	Software and Servers	28,000
Milpitas, California	Engineering	Software and Servers	20,200
Fort Washington, Pennsylvania	Engineering	Software and Servers	14,000
Eindhoven, The Netherlands	Engineering, Sales and Customer Services	Software and Servers	6,300
Held for sale			
Greenville, New Hampshire			24,000

In addition, we lease offices in Illinois, Nevada, Ireland, Singapore, Germany, Japan, India, Turkey, UK, and Mexico. We believe that existing facilities are adequate to meet our foreseeable requirements. Due to restructuring of the VOD server product lines and divesture of a portion of the broadcast servers and storage business unit, we have determined to sell our Greenville, New Hampshire facility and have classified it as an asset held for sale on our balance sheet.

ITEM 3. Legal Proceedings

ARRIS Litigation

On July 31, 2009, ARRIS Group, Inc. (“ARRIS”) filed a contempt motion in the U.S. District Court for the District of Delaware against SeaChange International relating to U.S. Patent No 5,805,804 (the “804 patent”), a patent in which ARRIS has an ownership interest. In its motion, ARRIS is seeking further patent royalties and the enforcement of the permanent injunction entered by the Court on April 6, 2006 against certain SeaChange products. On August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court that its products do not infringe the ‘804 patent and asserting certain equitable defenses. On June 4, 2010, the Court entered an Order staying the declaratory judgment action pending resolution of the contempt proceeding. On September 2, 2011, the Court entered an Order in which it concluded that a contempt proceeding is the appropriate procedure for resolving the parties' dispute and that further factual and legal determinations would be necessary. On March 1, 2012, the Court conducted a hearing at which the parties submitted additional information. No determinations were made by the Court at the hearing as to liability, and the parties are now scheduled to submit post-hearing briefs. We believe that our products do not infringe on the '804 patent and that we have meritorious defenses against the suit, however, the ultimate resolution of the matter is not reasonably estimable at this time, but could result in a material liability for us.

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 SeaChange, its employees, authorized agents or subcontractors. For example, SeaChange has received requests from several of its customers for indemnification of patent litigation claims asserted by Acacia Media Technologies, USA Video Technology Corporation, Multimedia Patent Trust, Microsoft Corporation, VTran Media Technologies and ActiveVideo Networks, Inc. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us.

ITEM 4. Mine Safety Disclosures

Not applicable

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information Our common stock is traded on the NASDAQ Global Select Market under the symbol "SEAC".

The following table sets forth the quarterly high and low closing sales prices per share reported on NASDAQ for our last two fiscal years ended January 31, 2012 and 2011.

	Fiscal Year 2012		Fiscal Year 2011	
	High	Low	High	Low
Three Month Period Ended:				
First Quarter	$10.95	$8.62	$8.61	$6.45
Second Quarter	11.26	9.94	9.48	7.45
Third Quarter	9.63	6.96	9.17	7.08
Fourth Quarter	8.82	6.59	9.04	7.90

On March 29, 2012, there were 119 holders of record.

We have never declared or paid any cash dividends on our common stock, since inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings for use in operations and to finance the expansion of our business.

On May 26, 2010, our Board of Directors authorized the repurchase of up to $20.0 million of its common stock, par value $.01 per share, through a share repurchase program. The repurchase program terminated on January 31, 2012 and the Company did not repurchase any shares under this program for fiscal 2012 and purchased 178,000 shares at a cost of $1.4 million for fiscal 2011.

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

Information regarding equity plans appears in Part III, Item 12 of this annual report on Form 10-K.

STOCK PERFORMANCE GRAPH

The following graph compares the change in the cumulative total stockholder return on SeaChange's common stock during the period from the close of trading on January 31, 2007 through January 31, 2012, with the cumulative total return on the Center for Research in Securities Prices ("CRSP") Index for the Nasdaq Stock Market (U.S. Companies) and a SIC Code Index based on SeaChange's SIC Code. The comparison assumes $100 was invested on January 31, 2007 in SeaChange's common stock at the $10.00 closing price on January 31, 2007 and in each of the foregoing indices and assumes reinvestment of dividends, if any.

The following graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any filing of SeaChange under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing. The stock price performance shown on the following graph is not necessarily indicative of future price performance. Information used on the graph was obtained from a third party provider, a source believed to be reliable, but SeaChange is not responsible for any errors or omissions in such information.

Notes:

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.

B. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

C. The Index level for all series was set to 100 on January 31, 2007.

ITEM 6. Selected Financial Data The following selected consolidated financial data of the Company has been derived from our audited consolidated financial statements. The following selected financial data may not be representative of our future financial performance and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Prior periods results have been restated to reclassify discontinued operations activity to the line in the consolidated statement of operations

	Year ended January 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues:					
Products	$73,157	$82,155	$97,005	$100,348	$91,103
Services	124,548	119,532	92,935	77,635	68,214
Total revenues	197,705	201,687	189,940	177,983	159,317
Costs of revenues:					
Products	22,774	30,256	35,929	35,478	37,619
Services	76,919	68,576	54,941	47,348	42,817
Total cost of revenue	99,693	98,832	90,870	82,826	80,436
Gross profit	98,012	102,855	99,070	95,157	78,881
Operating expenses:					
Research and development	40,692	44,569	45,104	37,482	35,026
Selling and marketing	21,619	21,055	22,425	24,076	19,963
General and administrative	24,116	23,647	20,823	20,064	19,160
Amortization of intangibles	3,923	3,359	2,826	1,575	2,952
Acquisition costs	3,312	764	-	-	-
Restructuring	3,316	6,997	-	-	6,004
Total operating expenses	96,978	100,391	91,178	83,197	83,105
Income (loss) from operations	1,034	2,464	7,892	11,960	(4,224)
Interest income, net	297	269	607	2,050	1,927
Other expense, net	(655)	(687)	(462)	(925)	(43)
Gain on sale of investment in affiliates	-	27,071	-	-	10,031
Income before income taxes and equity income (loss) in earnings of affiliates	676	29,117	8,037	13,085	7,691
Income tax expense (benefit)	2,193	(2,438)	271	525	2,106
Equity income (loss) in earnings of affiliates, net of tax	233	85	(653)	(770)	1,143
Net (loss) income from continuing operations	(1,284)	31,640	7,113	11,790	6,728
Loss from discontinued operations	(2,730)	(2,172)	(5,790)	(1,816)	(3,826)
Net (loss) income	$(4,014)	$29,468	$1,323	$9,974	$2,902
(Loss) earnings per share:					
Basic	$(0.13)	$0.94	$0.04	$0.32	$0.10
Diluted	$(0.13)	$0.92	$0.04	$0.32	$0.10
(Loss) earnings per share from continuing operations:					
Basic	$(0.04)	$1.01	$0.23	$0.38	$0.23
Diluted	$(0.04)	$0.99	$0.23	$0.38	$0.23
(Loss) earnings per share from discontinued operations:					

Basic	$(0.09)	$(0.07)	$(0.19)	$(0.06)	$(0.13)
Diluted	$(0.09)	$(0.07)	$(0.19)	$(0.06)	$(0.13)
Consolidated Balance Sheet Data (as of January 31):					
Working capital	$102,991	$92,628	$60,887	$89,549	$88,344
Total assets	299,035	305,191	267,147	233,983	217,896
Deferred revenue	36,473	40,643	44,554	29,396	16,185
Long-term liabilities	21,569	27,057	15,808	3,745	3,391
Total liabilities	88,097	96,049	89,225	61,747	52,494
Total stockholders' equity	210,938	209,142	177,922	172,236	165,402

ITEM 7. Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the other sections of this annual report on Form 10-K, including "Item 1: Business," "Item 6: Selected Financial Data" and "Item 8: Financial Statements." Unless otherwise specified, any reference to a "year" is to a year ended January 31. Additionally, when used in this Form 10-K, unless the context requires otherwise, the terms "we", "our", "us" and "the Company" refer to SeaChange International, Inc. and its subsidiaries. Certain statements contained in this MD&A and elsewhere in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, forward-looking statements can be identified by terminology such as "believe," "expect," "intend," "may," "will," "should," "could," "potential," "continue," "estimate," "plan," or "anticipate," or thereof, other variations thereon or compatible terminology. These statements involve a number of risks and uncertainties. Actual events or results may differ materially from any forward-looking statement as a result of various factors, including those described in Item 1A above under "Risk Factors."

Servers and Storage Business Segment:

On March 21, 2012, we announced the signing of a definitive asset sale agreement to sell a portion of our broadcast services and storage business unit, subject to customary and regulatory approvals. The sale of these assets resulted from our evaluation that this business was no longer a strategic asset that we wished to invest in as we focus our attention to growing into a pure play software company. We have retained certain lines of business that were not included in this asset sale, including video streaming and related hardware, and have reclassified those revenues and earnings into the software segment of our business as they constitute less than ten percent of our total revenues. Unless otherwise indicated, references to the revenues and earnings throughout this MD&A and elsewhere in this Form 10-K refer to revenues from continuing operations and do not include revenue and earnings from the discontinued operations as a result of this asset sale. Similarly, discussion of other matters in our Consolidated Financial Statements refers to continuing operations unless otherwise indicated. The results of the divested portion of our former servers and storage business segment are reported in discontinued operations.

Overview

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

On September 1, 2009, we completed our acquisition of eventIS Group B.V. (“eventIS”). eventIS, based in Eindhoven, the Netherlands, provides video-on-demand (“VOD”) and linear broadcast software and related services to cable television and telecommunications companies primarily in Europe. We acquired eventIS to expand our VOD solutions into the European market. We have made cash payments to date to the former shareholder of eventIS of $40.5 million and issued 227,041 of restricted common shares, 75,018 of which will vest in equal installments over three years beginning fiscal 2011 and 152,023 which will vest in equal installments over three years beginning in fiscal 2012. We are obligated to make payments of approximately $137,000 in cash on each of September 1, 2012 and September 1, 2013 and an additional payment in an aggregate amount of $2.8 million with $1.7 million payable in cash and $1.1 million payable by the issuance of restricted shares of our common stock on September 1, 2012. Under the earn-out provisions of the share purchase agreement, a cash payment of $1.7 million for earnouts achieved in fiscal 2011 and 2012 will be paid in fiscal 2013. Additional earn-out payments may be earned in fiscal 2013 if certain performance goals are met, we will be obligated to make additional cash payments to the former shareholders of eventIS. Acquisition costs related to this acquisition of approximately $1.0 million, related primarily to legal, accounting, valuation and other professional services, were recognized in fiscal 2010. These transactions costs were recorded and expensed in general and administrative expenses in our Consolidated Statement of Operations.

On February 1, 2010, we completed our acquisition of VividLogic, Inc. (“VividLogic”). VividLogic is based in Fremont, California. Vividlogic provides in-home infrastructure software for high definition televisions, home gateways, and set-top boxes to cable television service providers, set-top box manufacturers and consumer electronics (CE) suppliers. We acquired Vividlogic to expand our home gateway solutions product offerings. Under the purchase agreement we paid $21.5 million in cash at the closing of the transaction, paid an additional $1.0 million in cash on February 1, 2012 and are obligated to make a future payment of $1.0 million on February 1, 2013. In addition, under the share purchase agreement with the former shareholders of VividLogic, in the first quarter of fiscal 2013 we will make a cash earnout payment of $2.7 million for the earnout earned in fiscal 2012. Additional earn-out payments may be earned over fiscal 2013 if certain performance goals are met.

Our strategy is to grow our revenues with our installed customer base and add potential new customers by continuing to invest and develop our new next generation software platforms for our back office (Adrenalin), advertising (Infusion and AdPulse) and home gateway (Nucleus) product offerings, as our number one focus is to provide superior service and cost-saving products to our customers. We will also continue to invest in technologies that will help make us an industry leader in multi-screen video. In addition, we are reviewing all areas of our operating costs in order to lower our cost structure and streamline operations in order to improve our profitability. We took actions both in fiscal 2012 and 2011 to lower our operating costs. In fiscal year 2012, we announced annualized savings of approximately $5.0 million primarily related to the reduction in our marketing and sales staff and the elimination or reduction of certain senior executive positions. In fiscal 2011, we eliminated approximately 110 employees, wrote down obsolete inventory and certain fixed assets. We are also evaluating assets that are non-core to our desire to transform into a pure play software company. In that effort, we have signed a definitive asset sale agreement on March 21, 2012 to divest a portion of our former broadcast servers and storage business unit. We expect that sale to close in the near future once customary regulatory approvals are received. We will also look to continue to acquire or invest in new technologies that expand our product offerings and ensure that they will be accretive to shareholder value.

Operating Segment, Significant Customers and Geographic Information

Operating segments are defined as components of an enterprise evaluated regularly by the Company’s senior management in deciding how to allocate resources and assess performance. Following the divestiture of the broadcast servers and storage product lines, the Software and VOD server product line was organized in one business reporting segment. Reportable segments were determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company’s management structure.

Our operations are now organized in the following two business segments:

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

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

Under this reporting structure, we further determined that there are significant functions, and therefore costs, that are considered corporate expenses and are not allocated to the two reportable segments for the purposes of assessing performance and making operating decisions. These unallocated costs include general and administrative expenses, other than direct general and administrative expenses related to Media Services and Software, other income (expense), net, taxes and equity losses in earnings of affiliates, which are managed separately at the corporate level. The basis of the assumptions for all such revenues, costs and expenses includes significant judgments and estimations. There are no inter-segment revenues for the periods shown below. We do not separately track all assets by operating segments nor are the segments evaluated under this criterion. We have experienced fluctuations in our product revenues from quarter to quarter due to the timing of the receipt of customer orders, the shipment of those orders, and, in certain cases, customer acceptance of products. The factors that impact the timing of the receipt of customer orders include among other factors:

- the customer's receipt of authorized signatures on their purchase orders;
- the budgetary approvals within the customer's company for capital purchases; and
- the ability to process the purchase order within the customer's organization in a timely manner.

Factors that may impact the shipment of customer orders include:

- the availability of material to produce the product;
- the time required to produce and test the product before delivery; and
- the customer's required delivery date.

In addition, many customers may delay or reduce capital expenditures. This, together with other factors, could result in reductions in sales of our products, longer sales cycles, difficulties in collection of accounts receivable, excess and obsolete inventory, gross margin deterioration, slower adoption of new technologies, increased price competition and supplier difficulties.

Our operating results are significantly influenced by a number of factors, including the mix of products sold and services provided, pricing, costs of materials used in our products and the expansion of our operations during the fiscal year. We price our products and services based upon our costs and consideration of the prices of competitive products and services in the marketplace. The costs of our products primarily consist of the costs of components and subassemblies that have generally declined from product introduction to product maturity. In the current state of the economy, we currently expect that customers may still have limited capital spending budgets as we believe they are dependent on advertising revenues to fund their capital equipment purchases. Accordingly, we expect our financial results to vary from quarter to quarter, and our historical financial results are not necessarily indicative of future performance. In light of the higher proportion of our international business, we expect movements in foreign exchange rates to have a greater impact on our operating results and the equity section of our balance sheet in the future.

Fiscal Year Ended January 31, 2012 Compared to the Fiscal Year Ended January 31, 2011

The following table sets forth summarized consolidated financial information for each of the two fiscal years ended January 31, 2012 and 2011.

	Year Ended January 31, 2012	2011
	(in thousands)	
Revenues:		
Products	$73,157	$82,155
Services	124,548	119,532
Total revenues	197,705	201,687
Costs and expenses:		
Cost of product revenues	22,774	30,256
Cost of service revenues	76,919	68,576
Research and development	40,692	44,569
Selling and marketing	21,619	21,055
General and administrative	24,116	23,647
Amortization of intangibles	3,923	3,359
Acquisition costs	3,312	764
Restructuring costs	3,316	6,997
Income from operations	1,034	2,464
Other expenses, net	(358)	(418)
Gain on sale of investment in affiliates	-	27,071
Income before income taxes and equity income in earnings of affiliates	676	29,117
Income tax expense (benefit)	2,193	(2,438)
Equity income in earnings of affiliates, net of tax	233	85
(Loss) income from continuing operations	(1,284)	31,640
(Loss) from discontinued operations	(2,730)	(2,172)
Net (loss) income	$(4,014)	$29,468

Revenues

The following table summarizes information about the Company's reportable segments for each of the two fiscal years ended January 31, 2012 and 2011.

	Fiscal Year Ended January 31,		
	2012	2011	%
	(in thousands, except for percentage data)		
Software Revenues:			
Products	$73,157	$82,155	(11.0%)
Services	91,635	91,501	0.1 %
Total revenues	164,792	173,656	(5.1 %)
Cost of product revenues	22,774	30,256	(24.7%)
Cost of service revenues	48,861	45,335	7.8 %
Total cost of revenues	71,635	75,591	(5.2 %)
Gross Margin	$93,157	$98,065	(5.0 %)
Gross Margin percentage	56.5 %	56.5 %	0.1 %
Media Services Revenue:			
Services	$32,913	$28,031	17.4 %
Cost of services	28,058	$23,241	20.7 %
Gross Margin	$4,855	$4,790	1.4 %
Gross Margin percentage	14.8 %	17.1 %	(2.3 %)

Software Product Revenue. In fiscal 2012, product revenue decreased approximately 11% to $73.1 million from $82.2 million in the same period in the prior year. The $9.1 million decrease in product revenues compared to fiscal 2011 was due to decreased shipments of VOD servers to North and South American customers of approximately $4.2 million. The decrease in product revenues was also due to a portion of middleware revenues from Virgin Media that were recorded as service revenues during the year ended January 31, 2012 totaling $4.7 million, while recorded entirely as product revenue in the prior year. In the prior year, the agreement with Virgin Media provided for licensing rights and specified enhancements to the software and therefore the associated revenues were classified as product revenues. However, the agreement in the first quarter of fiscal 2012 provided for software licensing rights and software maintenance services, and was accordingly split between product and services revenues.

Software Service Revenue. Service revenues were relatively flat compared to fiscal 2011. Service revenues increased $4.7 million due to the reclassification of a portion of middleware revenues from Virgin Media from product revenues to service revenues as noted above, and we achieved higher services revenues from VividLogic. This increase was offset due to fiscal 2011 service revenues having included $4.6 million of maintenance revenues resulting from a deactivation of VOD software and equipment by a U.S customer, and our Comcast software subscription agreement extension being classified as services revenues for the period of February 2010 through May 2010.

Media Services Revenue. Revenues from Media Services increased 17.4% to $32.9 million in the year ended January 31, 2012 compared to $28.0 million for the year ended January 31, 2011. The increase in revenue was due primarily to increased content processing revenues from a customer in France and Dubai and new customer contracts in South America signed this year partially offset by lower revenues from Virgin Media.

For fiscal 2012 and 2011, two customers each accounted for more than 10%, and collectively accounted for 31% and 36%, respectively, of our total revenues. Revenues from these customers were primarily in the Software segment. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers

International products and services revenues accounted for approximately 51% or $100.0 million and 46% or $93.0 million of total revenues in fiscal 2012 and 2011, respectively. We expect that international products and services revenues will remain a significant portion of our business in the future.

Software Gross Margin. Costs of product revenues consist primarily of the cost of purchased material components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses, and labor and overhead costs related to software development contracts. Our software gross margin as a percentage of revenues was flat at 57% compared to fiscal 2011.

Media Services Gross Margin. Our Media Services segment gross margin of 15% for fiscal 2012 was two percentage points lower than the gross margin for fiscal 2011 due to higher headcount-related costs and increased content costs to support new contracts for customers in Latin America and Eastern Europe.

Research and Development. Our research and development expenses consist primarily of employee costs, which include salaries, benefits and related payroll taxes, depreciation of development and test equipment and an allocation of related facility expenses. Research and development expenses were 21% and 22% of total revenues for fiscal 2012 and 2011, respectively, and decreased $3.9 million from $44.6 million to $40.7 million year over year. The year over year decrease is primarily due to lower domestic headcount-related costs primarily related to our VOD server and TV Navigator product lines.

Selling and Marketing. Our 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 from $21.1 million, or approximately 10% of total revenues, in fiscal 2011 to $21.7 million, or approximately 11% of total revenues, for fiscal 2012. The increase of approximately $600,000 was primarily due to an increase in eventIS headcount-related costs and higher third-party commissions partially offset by lower domestic commission expense due to lower domestic revenues.

General and Administrative. Our general and administrative expenses consist primarily of employee costs, which include salaries and related payroll taxes and benefit related costs, legal and accounting services, insurance and an allocation of related facilities expenses. In fiscal 2012, general and administrative expenses of $24.1 million increased by approximately $0.5million from $23.6 million for the same period in 2011, and these expenses represented 12% of total revenues for both years. The increase is primarily due to higher stock-based compensation relating to fourth quarter departure of senior executives and higher legal fees of $1.7 million associated with patent ligation and the Company's review of various strategic alternatives. These expenses were partially offset by the absence of transaction costs totaling $1.6 million related to the VividLogic acquisition, which was included in the prior year's expenses. After an extensive review of strategic alternatives, the Company decided in November 2011 that it was in the best interest of the shareholders to continue as a standalone public company and concluded this review. As described in Item 1A "Risk Factors", this evaluation of strategic alternatives has created uncertainty for our business.

Amortization of Intangibles. Our amortization expense is primarily related to the costs of acquired intangible assets. Amortization is also based on the future economic value of the related intangible assets which is generally higher in the earlier years of the assets' lives. Total amortization expense of intangible assets was $5.4 and $5.9 million for fiscal

2012 and fiscal 2011, respectively. Amortization expense charge to operating expenses increased from $3.4 million in fiscal 2011 to $3.9 million in fiscal 2012. An additional $2.2 million and $2.0 million of amortization expense related to acquired technology was charged to cost of sales for the years ended January 31, 2012 and 2011, respectively.

Acquisition-Related Costs. Acquisition-related costs include changes in the fair value of acquisition related contingent consideration, and changes in contingent liabilities related to estimated earn-out payments. During fiscal 2012, we revised our estimate of potential earn-out payments to the former shareholders of VividLogic and eventIS and recorded an accrued expense of $3.3 million to reflect estimated future financial performance compared to the respective earn-out criteria.

Restructuring. During fiscal 2012, we incurred a restructuring charge of $3.3 million as we continue to take actions to lower our cost structure as we strive to improve our financial performance and streamline our operations. Included in the restructuring charge are severance costs of $2.8 million related to the termination of 33 employees, including the departure of the President and the retirement of the Chief Executive Officer, the write-down of $430,000 of inventory relating to discontinued VOD server product lines and a $270,000 charge for the disposal of fixed assets relating to the New Hampshire facility.

Other expense, net. The table below provides detail regarding our other income and expenses:

	Fiscal Year ended January 31,	
	2012	2011
	(in thousands)	
Interest income	$352	$307
Interest expense	(55)	(38)
Foreign exchange loss	(86)	(1,138)
Impairment expense	(684)	-
Miscellaneous (expense) income	115	451
	$(358)	$(418)

Foreign exchange loss. The decrease in foreign exchange losses was a result of the change in exchange rates between the USD and foreign currencies during fiscal 2012 compared to fiscal 2011.

Impairment expense: In fiscal 2012, impairment expense related to the write down to fair value of our New Hampshire facility being held for sale.

Gain from sale of investment in affiliates: During fiscal 2011, we recorded the gain on the sale of the entire equity investments in Casa Systems of $25.2 million and InSite One of $1.9 million.

Income Tax Provision. Our effective tax rate and income tax provision for fiscal 2012 was (324%) and $2.2 million expense compared to an effective tax rate of 8% and a ($2.4 million) of tax benefit for fiscal 2011. The income tax expense for fiscal 2012 was primarily due to $1.0 million of state income taxes and income tax expense of $1.5 million at foreign subsidiaries in the United Kingdom, the Netherlands, and Ireland.

At January 31, 2012 we provided a valuation allowance for the full amount of the U.S. net deferred tax assets due to the uncertainty of realization of those assets. We will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. If we determine that we can realize some portion or all of the net deferred tax assets, the valuation allowance would be reversed and a corresponding increase in net income would be recognized during the period.

We recognized tax benefits of $400,000 and $300,000 for fiscal 2012 and fiscal 2011, respectively, resulting from the expiration of the statute of limitations for uncertain tax positions. The statute of limitations varies by the various jurisdictions in which we operate. In any given year, the statute of limitations in certain jurisdictions may lapse without examination and any uncertain tax positions taken in these years will result in a reduction of liability for unrecognized tax benefits for that year.

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Fiscal Year Ended January 31, 2011 Compared to the Fiscal Year Ended January 31, 2010

The following table sets forth summarized consolidated financial information for each of the two fiscal years ended January 31, 2011 and 2010.

	Year Ended January 31,	
	2011	2010
	(in thousands)	
Revenues:		
Products	$82,155	$97,005
Services	119,532	92,935
Total revenues	201,687	189,940
Costs and expenses:		
Cost of product revenues	30,256	35,929
Cost of service revenues	68,576	54,941
Research and development	44,569	45,104
Selling and marketing	21,055	22,425
General and administrative	23,647	20,823
Amortization of intangibles	3,359	2,826
Acquisition costs	764	-
Restructuring costs	6,997	-
Income from operations	2,464	7,892
Other (expense) income, net	(418)	145
Gain on sale of investment in affiliate	27,071	-
Income before income taxes and equity income in earnings of affiliates	29,117	8,037
Income tax (benefit) expense	(2,438)	271
Equity income (loss) in earnings of affiliates, net of tax	85	(653)
Income from continuing operations	31,640	7,113
(Loss) from discontinued operations	(2,172)	(5,790)
Net income	$29,468	$1,323

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Revenues

The following table summarizes information about the Company's reportable segments for each of the two fiscal years ended January 31, 2011 and 2010.

	Fiscal Year Ended January 31, 2011	2010	%
	(in thousands, except for percentage data)		
Software revenues:			
Products	$82,155	$97,005	(15.3%)
Services	91,501	73,141	25.1 %
Total Software revenues	173,656	170,146	2.1 %
Cost of product revenues	30,256	$35,929	(15.8%)
Cost of service revenues	45,335	$38,431	18.0 %
Total cost of revenues	$75,591	$74,360	1.7 %
Gross Margin	$98,065	$95,786	2.4 %
Gross Margin percentage	56.5 %	56.3 %	0.2 %
Media Services Revenue:			
Services	$28,031	$19,794	41.6 %
Cost of services	23,241	16,510	40.8 %
Gross Margin	$4,790	$3,284	45.9 %
Gross Margin percentage	17.1 %	16.6 %	0.5. %

Software Product Revenue. Our product revenue decreased 15% to $82.2 million in fiscal 2011 from $97.0 million in fiscal 2010. The year over year decrease in product revenues was due to lower VOD software license revenues and lower shipments of VOD servers to North American and Latin American service providers. The lower VOD software licenses revenues was due to the Comcast software subscription agreement extension classification as services revenues for the period of February 2010 through May 2010. Unlike in prior periods, where software subscription agreements with Comcast provided for specified enhancements and therefore were classified as product revenues, the agreement extensions contained no specified enhancements. The new software subscription agreement signed with Comcast during the second quarter of fiscal 2011 was accounted for on a percentage of completion basis and was recorded as product revenues starting on May 21, 2010 since the new subscription agreement provides for specific enhancements. These decreases were partially offset by the inclusion of VividLogic product revenues and the inclusion of eventIS for a full year of revenues, while fiscal 2010 included only five months of eventIS revenues.

Software Service Revenue. Our service revenues increased 25% to $91.5 million in fiscal 2011 from $73.1 million in fiscal 2010. The increase in service revenues year over year was due to the inclusion of a full year of service revenues from the acquisitions of eventIS and VividLogic. In addition, fiscal 2011 service revenues included $4.6 million of maintenance revenues resulting from a deactivation of VOD software and equipment by a U.S customer. The higher year over year service revenues also included the Comcast software subscription agreement extension which was classified as services revenues for the period of February 2010 through May 2010, as noted above. These increases were partially offset by lower VOD professional services revenue due to lower VOD server revenues.

For fiscal 2011 and 2010, two customers each accounted for more than 10%, and collectively accounted for 36% and 41%, respectively, of our total revenues. International products and services revenues accounted for approximately 46% or $93.0 million and 33% or $63.1 million of total revenues in fiscal 2011 and 2010, respectively.

Media Services Revenue. Revenues from Media Services increased 42% to $28.0 million in fiscal 2011 compared to $19.8 million for fiscal 2010. The increase in revenue was due primarily to contract wins in Dubai and France in the fourth quarter of fiscal 2011 and increased content processing revenues from customers in Greece and Turkey.

Software Gross Margin. Costs of product revenues consist primarily of the cost of purchased material components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses, and labor and overhead costs related to software development contracts. Our software gross margin as a percentage of revenues was flat at 56% in both fiscal 2011 and 2010

Media Services Gross Margin. Media Services gross margin of 17% in fiscal 2011 was a half point higher than in fiscal 2010 due to cost savings related to bringing in-house all content processing that was completed in the second half of last year offset by higher startup costs associated with new contract wins in South Africa and Serbia in the second half of fiscal 2011.

Research and Development. Our research and development expenses consist primarily of employee costs, which include salaries, benefits and related payroll taxes, depreciation of development and test equipment and an allocation of related facility expenses. Research and development expenses were 22% and 24% of total revenues for fiscal 2011 and 2010, respectively, and decreased approximately $500,000 from $45.1 million to $44.6 million year over year. The decrease in this expense year over year was primarily due to lower domestic headcount-related costs resulting from the our second and third quarter restructuring efforts offset by the inclusion of a full years worth of costs associated with our eventIS acquisition and increased headcount costs in the Philippines.

Selling and Marketing. Our selling and marketing expenses consist primarily of payroll costs, which include salaries and related payroll taxes, benefits and commissions, travel expenses and certain promotional expenses. Selling and marketing expenses decreased 6% from $22.4 million or 12% of total revenues in fiscal 2010 to $21.1 million, or 10% of total revenues, in fiscal 2011. This decrease in total expenses is primarily due to lower headcount related costs offset by the inclusion of a full year of costs associated with our eventIS acquisition.

General and Administrative. Our 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. In fiscal 2011, general and administrative expenses of $23.6 million, or 12% of total revenues, increased $2.8 million from $20.8 million, or 11% of total revenues from fiscal 2010. General and administrative expenses increased primarily due to transaction costs related to the VividLogic acquisition and higher legal and professional fees associated with ARRIS litigation that were partially offset by lower corporate headcount-related costs.

Restructuring. During fiscal 2011, we initiated actions to lower our cost structure in order to improve our financial performance. During fiscal 2011, we incurred restructuring charges totaling $7.0 million including severance costs of $3.2 million for the termination of approximately 110 employees, a write down of inventory of $2.5 million related to the decision to discontinue certain VOD server products, and a $1.3 million charge for the disposal of fixed assets as a direct result of the restructuring plan.

Amortization of Intangibles. Our amortization expense is primarily related to the costs of acquired intangible assets. Total amortization of intangible assets was $5.4 million and $3.4 million for fiscal 2011 and 2010, respectively. Amortization expense charged to operating expenses increased to $3.4 million in fiscal 2011 from $2.8 million in fiscal 2010 primarily due to a full year's impact of amortization expense related to intangible assets acquired as part of our eventIS and VividLogic acquisitions. Amortization is also based on the future economic value of the related intangible assets which is generally higher in the earlier years of the assets' lives. An additional $2.0 million and $0.6 million of amortization expense related to acquired technology was charged to cost of sales for fiscal 2011 and 2010, respectively

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

	Fiscal Year ended January 31,	
	2011	2010
	(in thousands)	
Interest income (expense), net	$269	$607
Foreign exchange loss	(1,138)	(572)
Miscellaneous income	451	110
	$(418)	$145

Interest income and expense. The decrease in interest income was primarily due to the lower prevailing interest rates earned on our marketable securities.

Foreign exchange (loss). The increase in foreign exchange losses was a result of the change in exchange rates between U.S.Dollars and foreign currencies during fiscal 2011 compared to fiscal 2010.

Acquisition related expenses. For fiscal 2011, our acquisition expenses of $764,000 included $1.1 million in expense related to the write-off of an indemnified asset resulting from the settlement of the California tax audit related to our VividLogic acquisition, that was partially offset by a $870,000 gain resulting from an adjustment to acquisition related intangible assets for which the measurement period had ended as well as changes to the contingent consideration for earn-outs to the former shareholders of eventIS and VividLogic. We incurred no acquisition related expenses in fiscal 2010.

Gain from sale of investment in affiliates. Our fiscal 2011 results reflect the gain on the sale of our entire equity investments in Casa Systems of $25.2 million and InSite One of $1.9 million. We had no gain in fiscal 2010.

Equity Income/(Loss) in Earnings of Affiliates. Equity income in earnings of affiliates was $85,000 in fiscal 2011 compared to a $653,000 in equity loss in earnings of affiliates for fiscal 2010 due to On Demand Deutschland GmbH & Co. KG increased profitability as a result of a large contract win in Austria and higher content processing in Germany. The equity income (loss) in earnings of affiliates consists of our 50% ownership share of On Demand Deutschland GmbH & Co. KG, our German joint venture, under the equity method of accounting.

Income Tax Provision. Our effective tax rate and tax benefit for fiscal 2011 was 8% and $2.4 million, respectively, compared to an effective tax rate and an income tax expense of 4% and $271,000, respectively, for fiscal 2010. The income tax benefit for fiscal 2011 was primarily due to a reduction of a portion of the valuation allowance against our deferred tax assets due to our having met the “more likely than not” realization criteria on its U.S. deferred tax assets resulting from the gain related to our equity investment in Casa Systems, Inc. and the benefit of the reduction in deferred tax assets associated with the deferred tax liabilities from the acquisition of VividLogic. Previously, we maintained a full valuation allowance. We also recognized $300,000 of tax benefits resulting from the expiration of the statute of limitations for uncertain tax positions and $1.0 million of tax benefits resulting from the settlement of a California audit by the former shareholders of VividLogic. In addition, our subsidiary in the United Kingdom. recorded a tax benefit of $540,000 resulting from a successful claim with the United Kingdom tax authorities for previously paid taxes from the transfer of intangible assets from the United Kingdom to our German joint venture.

These tax benefits were offset by the tax expense resulting from the gain on the sale of Casa Systems, Inc. and InSite One, Inc. equity and tax expense resulting from our profitable operations in foreign tax jurisdictions.

In conjunction with the purchase price allocation for the acquisition of VividLogic, we recorded a liability for uncertain tax position in the amount of $1.2 million. We have reached a settlement with the State of California regarding the previously disclosed state tax audit and have recorded a corresponding tax benefit of $1.0 million. In connection with the settlement of this matter, a $1.1 million indemnified asset was also written-off and recorded as other expenses in the Statement of Operations.

Non-GAAP Measures

As part of our ongoing review of financial information related to our business, we regularly use non-GAAP measures, in particular adjusted non-GAAP earnings per share, as we believe they provide a meaningful insight into our business and trends. We also believe that these adjusted non-GAAP measures provide readers of our financial statements with useful information and insight with respect to the results of our business. However, the presentation of adjusted non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. Below are tables for fiscal 2012, 2011 and 2010 which detail and reconcile GAAP and adjusted non-GAAP earnings per share:

SeaChange International, Inc.

Reconciliation of Selected GAAP Measures to Non-GAAP Measures - Unaudited

(in thousands, other than per share amounts)

	Twelve months Ended January 31, 2012			Twelve months Ended January 31, 2011			Twelve months Ended January 31, 2010		
	GAAP	Adjustment	Non-GAAP	GAAP	Adjustment	Non-GAAP	GAAP	Adjustment	Non-GAAP
Revenues	$197,705		$197,705	$201,687		$201,687	$189,940	$-	$189,940
Deferred revenue-acquisition related	-	-	-	-	3,876	3,876	-	1,807	1,807
Deferred revenue-maintenance acceleration	-	7	7	-	(4,559)	(4,559)	-	-	-
	197,705	7	197,712	201,687	(683)	201,004	189,940	1,807	191,747
Operating expenses:	96,978		96,978	100,391		100,391	91,178	-	91,178
Stock-based compensation	-	2,869	2,869	-	2,720	2,720	-	3,105	3,105
Amortization of intangible assets	-	6,081	6,081	-	5,345	5,345	-	3,465	3,465
Acquisition related costs	-	3,312	3,312	-	1,595	1,595	-	1,413	1,413
Restructuring	-	3,316	3,316	-	6,997	6,997	-	-	-
Strategic alternatives related costs		1,762	1,762	-	-	-	-	-	-
	96,978	17,340	79,638	100,391	16,657	83,734	91,178	7,983	83,195

Income from operations	1,034	17,347	18,381	2,464	15,974	18,438	7,892	9,790	17,682
Gain from sale of investment in affiliates	-	-	-	27,071	(27,071)	-	-	-	-
Impairment from asset held for sale	(678)	678	-						
Income tax impact expense (benefit)	2,193	385	2,578	(2,438)	4,865	2,427	371	3,106	3,477
Net (loss) income from continuing operations	$(1,284)	$17,640	$16,356	$31,640	$(15,962)	$15,678	$7,113	$6,684	$13,797
Net (loss) income from discontinued operations	$(2,730)	$1,127	$(1,603)	$(2,172)	$237	$(1,935)	$(5,790)	$125	$(5,665)
Net (loss) income	$(4,014)	$18,767	$14,753	$29,468	$(15,725)	$13,743	$1,323	$6,809	$8,132
Diluted earnings per share	$(0.13)	$0.59	$0.46	$0.92	$(0.49)	$0.43	$0.04	$0.21	$0.25
Diluted income per share for continuing operations	$(0.04)	$0.55	$0.51	$0.99	$(0.50)	$0.49	$0.23	$0.21	$0.44
Diluted income per share for discontinued operations	$(0.09)	$0.04	$(0.05)	$(0.07)	$0.01	$(0.06)	$(0.18)	$0.00	$(0.18)
Diluted weighted average common shares outstanding	32,093	32,093	32,093	31,986	31,986	31,986	31,433	31,433	31,433

In managing and reviewing our business performance, we exclude a number of items required by GAAP. Management believes that excluding these items mentioned below is useful in understanding trends and managing our operations. We believe it is useful for investors to understand the effects of these items on our total operating expenses.

***Deferred revenue acquisition related*:** Business combination accounting rules require us to account for the fair value of customer contracts assumed in connection with our acquisitions. In connection with our acquisitions of eventIS Group B.V. on September 1, 2009 and VividLogic Inc. on February 1, 2010, the book value of our deferred software revenue was reduced by approximately $5.7 million in the adjustment to fair value. Because these customer contracts may take up to 18 months to complete, our GAAP revenues subsequent to these acquisitions do not reflect the full amount of software revenues on assumed customer contracts that would have otherwise been recorded by eventIS Group B.V. and VividLogic Inc. We believe this adjustment is useful to investors as a measure of the ongoing performance of our business because we have historically experienced high renewal rates on similar customer contracts, although we cannot be certain that customers will renew these contracts.

Deferred revenue-maintenance acceleration**:** We recognized previously deferred maintenance revenue due to a termination by a customer of our maintenance obligation for certain products previously purchased.

Stock-based compensation expenses**:** We have excluded the effect of stock-based compensation and stock-based payroll expenses from our non-GAAP operating expenses and net income measures. Although stock-based compensation is a key incentive offered to our employees, we continue to evaluate our business performance excluding stock-based compensation expenses. Stock-based compensation expenses will recur in future periods.

Amortization of intangible assets**:** We have excluded the effect of amortization of intangible assets from our non-GAAP operating expenses and net income measures. Amortization of intangibles is inconsistent in amount and frequency and is significantly affected by the timing and size of our acquisitions.

Restructuring**:** We incurred charges due to the restructuring of our business including severance charges, write down of inventory to net realizable value, and the disposal of fixed assets resulting from the restructuring, which we generally would not have otherwise incurred in the periods presented as part of our continuing operations.

Acquisition related costs: We incurred expenses in connection with our acquisition of eventIS Group B.V. and VividLogic Inc. during fiscal 2012, 2011, and 2010 which would not have otherwise occurred in the periods presented as part of our operating expenses.

Impairment expense**:** We incurred an impairment charge from the write-down of an asset held for sale.

Gain from sale of investment in affiliates: Reflects the gain on the sale of the entire equity investments in Casa Systems and InSite One.

Income tax impact expense**:** The non-GAAP income tax adjus