

SEACHANGE INTERNATIONAL INC
Form 10-Q
December 11, 2006
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3197974
(IRS Employer

Identification No.)

50 Nagog Park, Acton, MA 01720

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (978) 897-0100

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of the registrant's Common Stock on December 7, 2006 was 29,207,227.

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

	October 31,	January 31,
	2006	2006
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,855	\$ 21,594
Restricted cash		500
Marketable securities	4,196	14,596
Accounts receivable, net of allowance for doubtful accounts of \$394 at October 31, 2006 and \$405 at January 31, 2006	27,138	30,109
Unbilled receivables	5,105	4,363
Inventories, net	18,067	19,299
Income taxes receivable	2,780	2,781
Prepaid expenses and other current assets	3,802	4,594
Total current assets	95,943	97,836
Property and equipment, net	30,726	27,191
Marketable securities	15,967	24,689
Investments in affiliates	13,443	12,812
Intangible assets, net	14,480	18,904
Goodwill	23,319	20,379
Other assets	5,157	5,363
Total assets	\$ 199,035	\$ 207,174
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 10,104	\$ 10,016
Income taxes payable	364	2,843
Accrued litigation reserve		7,986
Other accrued expenses	6,228	8,408
Customer deposits	5,078	2,170
Deferred revenues	18,533	20,045
Deferred tax liabilities	587	556
Total current liabilities	40,894	52,024
Deferred tax liabilities, long-term	991	1,353
Total liabilities	41,885	53,377
Commitments and contingencies (Note 11)		
Stockholders equity:		

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Convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 29,063,217 and 28,451,930 shares issued and outstanding at October 31, 2006 and January 31, 2006, respectively	291	285
Additional paid-in capital	182,703	176,238
Accumulated deficit	(26,693)	(22,264)
Accumulated other comprehensive income (loss)	849	(462)
 Total stockholders' equity	 157,150	 153,797
 Total liabilities and stockholders' equity	 \$ 199,035	 \$ 207,174

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

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

	Three months ended		Nine months ended	
	October 31,	October 31,	October 31,	October 31,
	2006	2005	2006	2005
	(unaudited)			
Revenues:				
Hardware, software and systems	\$ 26,022	\$ 22,049	\$ 73,344	\$ 56,564
Services	16,232	13,272	47,917	36,464
	42,254	35,321	121,261	93,028
Cost of revenues:				
Hardware, software and systems	12,916	13,791	35,727	35,538
Services	9,764	6,920	26,763	20,192
	22,680	20,711	62,490	55,730
Gross profit	19,574	14,610	58,771	37,298
Operating expenses:				
Research and development	9,773	8,797	30,667	25,136
Selling and marketing	5,703	4,927	16,833	14,518
General and administrative	4,864	3,710	14,261	9,829
Amortization of intangibles	1,410	800	4,230	1,161
Total operating expenses	21,750	18,234	65,991	50,644
Loss from operations	(2,176)	(3,624)	(7,220)	(13,346)
Interest income	337	467	1,026	1,564
Interest expense	(5)	(6)	(87)	(20)
Loss before income taxes and equity income in earnings of affiliates	(1,844)	(3,163)	(6,281)	(11,802)
Income tax benefit	358	1,150	1,079	2,275
Equity income (loss) in earnings of affiliates	453	(95)	773	283
Net loss	\$ (1,033)	\$ (2,108)	\$ (4,429)	\$ (9,244)
Basic loss per share	\$ (0.04)	\$ (0.07)	\$ (0.15)	\$ (0.33)
Diluted loss per share	\$ (0.04)	\$ (0.07)	\$ (0.15)	\$ (0.33)
Weighted average common shares outstanding:				
Basic	29,031	28,308	28,731	28,258
Diluted	29,031	28,308	28,731	28,258

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

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	Nine months ended	
	October 31, 2006	October 31, 2005
	(unaudited)	
Cash flows from operating activities:		
Net loss	\$ (4,429)	\$ (9,244)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	5,536	4,814
Amortization of intangibles and capitalized software	4,924	1,286
Inventory valuation charge	709	695
Allowance for (recovery of) doubtful accounts receivable	303	(190)
Amortization of premiums on marketable securities	28	234
Loss on disposal of property and equipment	3	
Equity income in earnings of affiliates	(773)	(283)
Stock-based compensation	2,644	
Changes in operating assets and liabilities:		
Accounts receivable	2,668	4,474
Unbilled receivables	(742)	(3,251)
Inventories	(2,585)	(4,089)
Income taxes receivable	1	131
Prepaid expenses and other assets	843	(5,551)
Accounts payable	88	(3,272)
Income taxes payable	(2,479)	(2,497)
Accrued expenses	624	3,107
Accrued litigation reserve	(7,986)	72
Customer deposits	2,908	2,672
Deferred revenues	(1,512)	(3,026)
Other	(414)	(22)
Net cash provided by (used) in operating activities	359	(13,940)
Cash flows from investing activities:		
Purchases of property and equipment	(5,826)	(11,468)
Purchases of marketable securities	(11,238)	(11,893)
Proceeds from sale and maturity of marketable securities	30,577	14,507
Acquisition of businesses	(3,045)	(31,260)
Investments in affiliates		(9,993)
Decrease in restricted cash	500	500