SEACHANGE INTERNATIONAL INC
Form 10-Q
September 08, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2009

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3197974**
(State or other jurisdiction of incorporation or organization)	**(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

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 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

The number of shares outstanding of the registrant s Common Stock on September 3, 2009 was 30,859,959.

SEACHANGE INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

SEACHANGE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	July 31, 2009 (unaudited)	January 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 71,496	$ 62,458
Restricted cash	-	1,431
Marketable securities	8,876	9,447
Accounts receivable, net of allowance for doubtful accounts of $854 and $853, respectively	29,976	41,513
Income taxes receivable	1,734	771
Unbilled receivables	3,538	4,595
Inventories, net	20,330	17,251
Prepaid expenses and other current assets	4,585	3,348
Total current assets	140,535	140,814
Property and equipment, net	40,224	35,217
Marketable securities, long-term	13,081	12,415
Investments in affiliates	13,697	13,043
Intangible assets, net	7,989	4,621
Goodwill	27,353	27,422
Other assets	937	451
Total assets	$ 243,816	$ 233,983
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 13,732	$ 11,951
Income taxes payable	563	519
Other accrued expenses	7,971	10,592
Customer deposits	5,046	1,966
Deferred revenues	23,605	26,237
Total current liabilities	50,917	51,265
Deferred revenues, long-term	9,586	6,737
Distribution and losses in excess of investment	2,038	1,745
Deferred tax liabilities and taxes payable, long-term	3,373	2,000
Total liabilities	65,914	61,747
Commitments and contingencies (Note 6)		
Stockholders' equity:		
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; 32,027,755 and 31,822,838 shares issued; 30,855,959 and 30,949,457 outstanding, respectively	320	318
Additional paid-in capital	208,824	206,411
Treasury stock, at cost, 1,171,796 and 873,381 common shares, respectively	(7,709)	(5,989)
Accumulated deficit	(18,151)	(18,773)
Accumulated other comprehensive loss	(5,382)	(9,731)
Total stockholders' equity	177,902	172,236
Total liabilities and stockholders' equity	$ 243,816	$ 233,983

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

SEACHANGE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)
(unaudited)

	Three Months Ended July 31, 2009	Three Months Ended July 31, 2008	Six Months End July 31, 2009	2
Revenues:				
Products	$ 22,598	$ 29,486	$ 48,968	$
Services	23,909	21,219	46,415	
	46,507	50,705	95,383	
Cost of revenues:				
Products	7,789	13,019	17,758	
Services	15,004	13,046	28,893	
	22,793	26,065	46,651	
Gross profit	23,714	24,640	48,732	
Operating expenses:				
Research and development	11,976	11,047	24,080	
Selling and marketing	6,251	7,265	12,515	
General and administrative	5,183	4,800	10,050	
Amortization of intangibles	794	397	1,273	
	24,204	23,509	47,918	
(Loss) income from operations	(490)	1,131	814	
Interest and other income, net	149	678	284	
(Loss) income before income taxes and equity loss in earnings of affiliates	(341)	1,809	1,098	
Income tax benefit (expense)	12	(208)	(232)	
Equity loss in earnings of affiliates, net of tax	(47)	(114)	(244)	
Net (loss) income	$ (376)	$ 1,487	$ 622	$
Earnings (loss) per share:				
Basic	$ (0.01)	$ 0.05	$ 0.02	$
Diluted	$ (0.01)	$ 0.05	$ 0.02	$
Weighted average common shares outstanding:				
Basic	30,795	30,684	30,821	
Diluted	30,795	31,148	31,289	

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

SEACHANGE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended July 31, 2009	Six Months Ended July 31, 2008
Cash flows from operating activities:		
Net income	$ 622	$ 1,830
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,778	3,473
Amortization of intangibles and capitalized software	1,377	1,075
Inventory valuation charge	264	482

Provision for doubtful accounts receivable	50	210
Discounts earned and amortization of premiums on marketable securities	70	(30)
Equity loss in earnings of affiliates	244	397
Stock-based compensation expense	1,495	1,770
Deferred income taxes	(224)	(24)
Changes in operating assets and liabilities:		
Accounts receivable	11,964	(14,641)
Unbilled receivables	1,057	1,645
Inventories	(4,993)	(3,954)
Income taxes receivable	(963)	35
Prepaid expenses and other assets	(1,535)	(801)
Accounts payable	1,601	2,882
Income taxes payable	29	(900)
Accrued expenses	(2,735)	(737)
Customer deposits	3,080	2,655
Deferred revenues	169	7,787
Other	101	49
Net cash provided by operating activities	15,451	3,203
Cash flows from investing activities:		
Purchases of property and equipment	(5,972)	(7,900)
Purchases of marketable securities	(24,064)	(25,884)
Proceeds from sale and maturity of marketable securities	23,791	28,972
Acquisition of businesses and payment of contingent consideration	(723)	(43)
Investment in affiliates	(866)	-
Release of restricted cash	1,589	-
Net cash used in investing activities	(6,245)	(4,855)
Cash flows from financing activities:		
Purchase of treasury stock	(1,720)	(5,989)
Proceeds from issuance of common stock relating to the stock plans	920	1,306
Net cash used in financing activities	(800)	(4,683)
Effect of exchange rates on cash	632	(138)
Net increase (decrease) in cash and cash equivalents	9,038	(6,473)
Cash and cash equivalents, beginning of period	62,458	63,359
Cash and cash equivalents, end of period	$ 71,496	$ 56,886
Supplemental disclosure of non-cash activities:		
Transfer of items originally classified as inventories to equipment	$ 1,650	$ 2,182
Issuance of equity for ODG contingent consideration	-	8,150
Conversion of accounts receivable to equity related to investment in affiliate	-	332

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

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SEACHANGE INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of July 31, 2009 and for the three and six months ended July 31, 2009 and 2008, respectively, include the accounts of SeaChange International, Inc. and its subsidiaries (SeaChange or the Company) in accordance with generally accepted accounting principles for interim financial reports and the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles have been condensed or omitted pursuant to such regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Companys Annual Report on Form 10-K as filed with the SEC for the fiscal year ended January 31, 2009. In the opinion of management, the accompanying financial statements include all adjustments necessary to present a fair statement of financial position as of July 31, 2009 and results of operations for the three and six months ended July 31, 2009 and 2008 and cash flows for the six months ended July 31, 2009 and 2008. The results of operations and cash flows for the period ended July 31, 2009 are not necessarily indicative of the operating results and cash flows for the full fiscal year or any future periods.

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates and judgments, including those related to revenue recognition, valuation of inventory and accounts receivable, valuation of investments and income taxes, stock-based compensation, goodwill, intangible assets and related amortization. The Company bases these estimates on historical and anticipated results and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from managements estimates. The Company has reclassified certain prior period balances to conform to the current year presentation. These reclassifications have no impact on previously reported total assets, total liabilities, stockholders equity, results of operations or cash flows.

2. Fair Value Measurements

The Company adopted the provisions of Statement of Financial Account Standard No. 157 and FASB Staff Position FAS 157-2, *Fair Value Measurements* (SFAS 157 and FSP FAS 157-2) on February 1, 2008. The adoption of these pronouncements did not have a material effect on the Companys financial position or results of operations. Accordingly, the Company is continuing to apply Statement of Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115) for its available for sale securities with offsetting unrealized gains and losses reported in other comprehensive income or loss. Per SFAS 157, the Company is providing fair value measurement disclosures of its available for sale securities in accordance with one of three levels of fair value measurement.

SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 enables the reader of the financial statements to assess the inputs used to develop fair value measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS 157 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Companys financial assets and liabilities that are measured at fair value on a recurring basis as of July 31, 2009 are as follows:

	July 31, 2009	Fair Value Measurements Using Level 1	Level 2	Level 3
		(in thousands)		
Financial assets:				
Available for sale marketable securities:				
Current marketable securities:				
U.S. government agency issues	$ 8,876	$ 8,876	$ -	$ -
Non-current marketable securities:				
U.S. government agency issues	12,081	12,081	-	-
State and municipal obligations	1,000	-	-	1,000
Total	$ 21,957	$ 20,957	$ -	$ 1,000

The following table sets forth a reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) for the six months ended July 31, 2009 (in thousands):

	Level 3 Marketable Securities
Balance at January 31, 2009	$ 1,000
Level 3 transfers, net	-
Purchases and sales, net	-
Unrealized (gain) loss recorded in other comprehensive income	-
Balance at July 31, 2009	$ 1,000

The Company relies on mark to market valuations to record the fair value of the Company's available for sale security assets which are measured under a Level 1 input. These assets are publicly traded equity securities for which market prices are readily observable and recorded under the guidelines of SFAS 115. At July 31, 2009, we had $8.9 million in short-term marketable securities and $13.1 million in long-term marketable securities. Of the $22.0 million in available-for-sale securities at July 31, 2009, the Company holds $1.0 million in auction rate securities ("ARS") that were intended to provide liquidity via an auction process that resets the applicable interest rate in the event there is no new investment in these securities. Due to the uncertainty in the credit markets, this $1.0 million ARS holding in our investment portfolio has failed to settle on its respective settlement date resulting in illiquidity in this investment. Consequently, we have not been able to access these funds and do not expect to do so until a future auction of these investments is successful or a buyer is found outside the auction process. Although the maturity date of the underlying security of our ARS investment is twenty-two years, we currently have sufficient cash and cash equivalents, cash from operations and access to unused credit facilities to meet our short term liquidity requirements and do not anticipate that we will need to access our ARS investment. Accordingly, the Company has classified this investment at par value which approximates fair value. The following is a summary of available for sale securities.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
July 31, 2009:				
Money market	$ 5,631	$ -	$ -	$ 5,631
US government agency issues	20,607	350	-	20,957
Corporate debt securities	-	-	-	-
State and municipal obligations	1,000	-	-	1,000
Total	$ 27,238	$ 350	$ -	$ 27,588
January 31, 2009:				
Money market	$ 5,505	$ -	$ -	$ 5,505
US government agency issues	19,397	438	-	19,835
Corporate debt securities	1,007	20	-	1,027
State and municipal obligations	1,000	-	-	1,000
Total	$ 26,909	$ 458	$ -	$ 27,367

3. Inventories

Inventories consist of the following:

	July 31, 2009	January 31, 2009

	(in thousands)	
Components and assemblies	$ 9,596	$ 8,501
Finished products	10,734	8,750
Total inventory, net	$ 20,330	$ 17,251

4. Investments in Affiliates

On Demand Deutschland GmbH & Co. KG

On February 27, 2007, the On Demand Group Limited (ODG), a wholly-owned U.K. subsidiary of SeaChange, entered into an agreement with Tele-Munchen Fernseh GmbH & Co. Produktionsgesellschaft (TMG) to create a joint venture named On Demand Deutschland GmbH & Co. KG. On Demand Deutschland specializes in establishing on-demand and pay-per-view services on multiple platforms in German-speaking Europe. ODG contributed $2.8 million to acquire its 50% ownership interest in the joint venture of which $2.6 million consisted of the fair value of customer contracts and content license agreements contributed by ODG and $154,000 represented a cash contribution. The customer contracts and licensed content had no book value. SeaChange determined that this investment is an operating joint venture and does not require consolidation under the accounting guidance of FIN No. 46R. Consequently, SeaChange accounts for this investment under the equity method of accounting.

ODGs original investment in the joint venture was recorded at $154,000 representing the US dollar equivalent of the initial cash contribution. The difference between the book and fair value of the customer contracts and content license agreements is being accreted over the expected five year life of the contracts and recorded as a gain and an increase in the investment. This gain will be partially offset by ODGs 50% share of the joint ventures amortization expense over the same period related to the acquired contracts and content license agreements. ODG also recorded a net payable amount to the joint venture of $337,000 as of the joint venture formation date (February 27, 2007) reflecting the transfer of net liabilities incurred by ODG related to the joint venture as well as the joint ventures reimbursement of previously incurred costs by ODG of $787,000 related to joint venture activities prior to its formation. Consistent with EITF 89-7, *Exchange of Assets or Interest in a Subsidiary for a Noncontrolling Equity Interest in a New Entity,* ODG did not record other income in connection with the reimbursement of these costs or any other gains as ODG is deemed to have a commitment to support the operations of the joint venture. ODG treated the reimbursement and other gain for a total of $869,000 as a capital distribution in excess of the carrying value of its investment in the joint venture. This capital distribution will be accreted over the expected five year life of the customer contracts and recorded as a gain and an increase in the investment in the joint venture.

ODG entered into a Service Agreement with the joint venture whereby ODG provides content aggregation, distribution, marketing and administration services to the joint venture under an arms length fee structure. In the three and six months ended July 31, 2009 and 2008, ODG recorded revenues of $379,000 and $723,000, respectively, and $376,000 and $957,000 respectively, related to the Service Agreement. ODGs share of profits from this agreement in proportion to its equity ownership interest is eliminated in consolidation.

The Shareholders Agreement requires ODG to provide cash contributions up to $4.2 million (USD equivalent) upon the request of the joint ventures management and approval by the shareholders of the joint venture. In February 2009, ODG made an additional cash contribution of $212,000 to the joint venture.

ODG recorded its proportionate share of the joint ventures losses for the three months ending July 31, 2009 and 2008 of $47,000 and $114,000, respectively. For the six months ending July 31, 2009 and 2008, ODG recorded losses of $244,000 and $397,000, respectively. Due to the capital distribution and ODGs share of the joint ventures net loss exceeding the book value of its investment in the joint venture, the investment is recorded as a long-term liability of $1.9 million and $1.6 million at July 31, 2009 and January 31, 2009, respectively.

Casa Systems, Inc

In June of 2009, the Company invested $654,000 in convertible preferred stock, preserving its 19.8% ownership interest of Casa Systems, Inc., a Massachusetts company that specializes in video processing products primarily for cable television companies. Consistent with prior periods, SeaChange accounts for this investment under the cost method of accounting.

5. Acquisitions

On November 19, 2008, ODG entered into a Share Purchase Agreement (the Share Purchase Agreement) providing for the purchase by ODG of all the outstanding capital stock (the Mobix Shares) of Mobix Interactive Limited (Mobix). Mobix is a London, England based company that provides software and content services related to the deployment of mobile video services for wireless network operators.

At the closing, ODG paid the shareholders of Mobix approximately $3.0 million in cash for the Mobix Shares. The £1 million (approximately $1.5 million) deposited in escrow was subsequently returned to ODG on May 27, 2009 due to Mobix failing to meet certain performance goals within the Share Purchase Agreement. In addition, on March 16, 2009, ODG paid $700,000 to the former shareholders of Mobix due to Mobix achieving one of the performance goals within the Share Purchase Agreement and is reflected in the preliminary purchase price allocation.

In addition, under the earnout provisions in the Share Purchase Agreement, if Mobix meets certain performance goals over the three year period ending November 19, 2011, primarily related to the financial performance of Mobix, SeaChange will be obligated to make additional cash payments aggregating £8.3 million (approximately $12.4 million USD). The contingent consideration will be reduced or increased based upon Mobixs actual performance relative to the performance goals.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the financial position and results of operations of Mobixs business have been consolidated subsequent to the acquisition date. The Company is currently undergoing a valuation of the assets and liabilities acquired and it is expected to finalize the purchase price allocation by the third quarter of fiscal 2010. The allocation of the purchase price is preliminarily, based on the Companys best estimates of fair values as of November 19, 2008 and is as follows, subject to the final valuation results (in thousands):

Consideration:		
Cash paid, net of cash acquired of $209	$	3,514
Transaction costs		413
Total consideration	$	3,927
Preliminary allocation of the purchase consideration:		
Liabilities assumed	$	(898)
Deferred tax liability	$	(1,185)
Tangible assets acquired		592
Intangible assets		4,233
Goodwill		1,185
	$	3,927

During the second quarter of fiscal 2010, the Company has estimated, based on a preliminary third party valuation report, the fair value of the acquired intangible assets to be $4.2 million which resulted in the reallocation of the previously recorded goodwill. In addition, the Company recorded the estimated deferred tax liabilities related to the temporary tax and book difference on amortization expense of the estimated acquired intangible assets.

SeaChange determined that the goodwill included the value of the Mobix work force and expected synergies in global sales and marketing, especially within the European market, and in content services related to the deployment of mobile video services for wireless network operators. The goodwill generated from the acquisition is not tax deductible. The acquired assets, including goodwill, have been assigned to the Media Services operating segment.

6. Commitments and Contingencies

ARRIS Litigation

On July 31, 2009, Arris Corporation 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, a patent owned by Arris Corporation. In its motion, Arris Corporation is seeking further patent royalties and the enforcement of the permanent injunction entered by the Court on April 6, 2006 against certain of SeaChange products. In response, on August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court to declare that its products are non-infringing with respect to the ’804 patent and asserting certain equitable defenses.

On August 25, 2009, Arris Corporation filed 1) an answer to SeaChange’s complaint that included a counterclaim of patent infringement under the ’804 patent; and 2) a motion to stay the declaratory judgment action until the resolution of the contempt motion. SeaChange has filed a motion to consolidate the Arris contempt motion with SeaChange’s declaratory judgment action. SeaChange believes that Arris’ contempt motion is without merit, and that SeaChange products do not infringe the remaining claims under the ’804 patent.

Indemnification and Warranties

SeaChange provides indemnification, to the extent permitted by law, to its officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee, or agent is or was serving at SeaChange’s request in such capacity. With respect to acquisitions, SeaChange provides indemnification to or assumes indemnification obligations for the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies’ bylaws and charter. As a matter of practice, SeaChange has maintained directors and officers’ liability insurance including coverage for directors and officers of acquired companies.

SeaChange enters into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require SeaChange to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to SeaChange’s products. From time to time, SeaChange also indemnifies 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 SeaChange’s 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, and VTran Media Technologies. Management performed an analysis of these requests under Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* (“SFAS 5”) as interpreted by FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others* (“FIN45”).

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

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

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

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

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7. Treasury Stock

On March 11, 2009, SeaChange's 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. As authorized by the program, shares may be purchased in the open market or through privately negotiated transactions in a manner consistent with applicable securities laws and regulations, including pursuant to a Rule 10b5-1 plan maintained by the Company. This share repurchase program does not obligate the Company to acquire any specific number of shares and may be suspended or discontinued at any time. All repurchases are expected to be funded from the Company's current cash and investment balances. The timing and amount of the shares to be repurchased will be based on market conditions and other factors, including price, corporate and regulatory requirements and alternative investment opportunities. The repurchase program is scheduled to terminate on January 31, 2010. There were no stock purchases during the quarter ended July 31, 2009. During the six months ended July 31, 2009, the Company repurchased 298,415 shares at a cost of $1.7 million.

8. Segment Information

The Company is managed and operated as three segments, Software, Servers and Storage, and Media Services, as defined by SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*. A description of the three reporting segments is as follows:

- Software segment includes product revenues from the Company's Advertising, VOD, Middleware and Broadcast software, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products, and operating expenses relating to the Software segment such as research and development, selling and marketing and amortization of intangibles.
- Servers and Storage segment includes product revenues from the VOD and Broadcast server product lines and related services such as professional services, installation, training, project management, product maintenance, and technical support for those products and operating expenses relating to the Servers and Storage segment, such as research and development and selling and marketing.
- Media Services segment includes the operations of ODG, including Mobix Interactive, Inc. activities which include content acquisition and preparation services for television and wireless service providers and related operating expenses.

Under this reporting structure, the Company further determined that there are significant functions, and therefore costs, that are considered corporate expenses and are not allocated to the reportable segments for the purposes of assessing performance and making operating decisions. These unallocated costs include general and administrative expenses, other than general and administrative expenses related to Media Services, interest and other income, net, taxes and equity 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. The Company does not separately track all assets by operating segments nor are the segments evaluated under this criterion. The following summarizes the revenues, gross profit, operating expenses and income from operations by reportable segment:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2009	2008	2009	2008
Software	(in thousands)			
Revenue:				
Products	$ 14,424	$ 18,906	$ 30,709	$ 38,059
Services	15,636	13,673	29,969	24,583
Total revenue	30,060	32,579	60,678	62,642
Gross profit	18,208	18,175	35,938	34,671
Operating expenses:				
Research and development	9,318	8,668	18,796	16,855
Selling and marketing	4,004	4,522	7,682	8,242
Amortization of intangibles	384	364	769	728
	13,706	13,554	27,247	25,825
Income from operations	$ 4,502	$ 4,621	$ 8,691	$ 8,846
Servers and Storage				
Revenue:				
Products	$ 8,174	$ 10,580	$ 18,259	$ 18,421
Services	3,657	3,652	7,625	7,118
Total revenue	11,831	14,232	25,884	25,539
Gross profit	5,256	5,982	12,154	11,581
Operating expenses:				
Research and development	2,658	2,379	5,284	4,668
Selling and marketing	2,247	2,742	4,833	5,415
	4,905	5,121	10,117	10,083
Income from operations	$ 351	$ 861	$ 2,037	$ 1,498
Media Services				
Service revenue	$ 4,616	$ 3,894	$ 8,821	$ 7,908
Gross profit	250	483	640	1,150
Operating expenses:				
Selling and marketing	-	1	-	31
General and administrative	604	796	1,423	1,611
Amortization of intangibles	410	33	504	65
	1,014	830	1,927	1,707
Loss from operations	$ (764)	$ (347)	$ (1,287)	$ (557)
Unallocated Corporate				
Operating expenses:				
General and administrative	$ 4,579	$ 4,004	$ 8,627	$ 8,474
Total unallocated corporate expenses	$ 4,579	$ 4,004	$ 8,627	$ 8,474
Consolidated (loss) income from operations	$ (490)	$ 1,131	$ 814	$ 1,313

The following table summarizes revenues by geographic locations:

	Three Months Ended July 31,				Six Months Ended July 31,		
	2009		2008		2009		
	Amount	%	Amount	%	Amount	%	Amou
Revenues by customers' geographic locations:	(in thousands, except percentages)						
North America	$ 28,838	62%	$ 34,220	68%	$ 65,963	69%	$ 65
Europe and Middle East	9,118	20%	10,871	21%	18,179	19%	20
Latin America	5,091	11%	946	2%	6,663	7%	1
Asia Pacific and other international locations	3,460	7%	4,668	9%	4,578	5%	8

Total	$ 46,507	$ 50,705	$ 95,383	$ 96

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

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2009	**2008**	**2009**	**2008**
Customer A	22%	35%	23%	31%
Customer B	12%	13%	15%	13