

SEACHANGE INTERNATIONAL INC

Form 10-Q

June 09, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock on June 3, 2016 was 35,156,227.

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

	April 30, 2016 (Unaudited)	January 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 51,512	\$ 58,733
Restricted cash	187	82
Marketable securities	4,759	1,504
Accounts and other receivables, net of allowance for doubtful accounts of \$415 at April 30, 2016 and January 31, 2016, respectively	21,470	26,331
Unbilled receivables	11,847	10,680
Inventories, net	1,748	1,682
Prepaid expenses and other current assets	3,346	3,827
Total current assets	94,869	102,839
Property and equipment, net	13,537	14,129
Marketable securities, long-term	8,018	10,764
Investments in affiliates	2,500	2,500
Intangible assets, net	3,747	4,126
Goodwill	41,304	40,175
Other assets	2,909	3,136
Total assets	\$ 166,884	\$ 177,669
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 4,678	\$ 6,132
Deferred stock consideration		3,205
Deferred revenues	16,888	16,201
Other accrued expenses	15,964	17,414
Total current liabilities	37,530	42,952
Deferred revenues, long-term	886	1,209
Taxes payable, long-term	1,462	1,389
Other liabilities, long-term	1,170	1,101

Total liabilities	41,048	46,651
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 34,426,497 shares issued and 34,386,007 outstanding at April 30, 2016, and 33,818,777 shares issued and 33,778,871 outstanding at January 31, 2016	344	338
Additional paid-in capital	231,270	228,164
Treasury stock, at cost; 40,490 and 39,906 common shares at April 30, 2016 and January 31, 2016, respectively	(5)	(2)
Accumulated loss	(99,776)	(90,869)
Accumulated other comprehensive loss	(5,997)	(6,613)
Total stockholders' equity	125,836	131,018
Total liabilities and stockholders' equity	\$ 166,884	\$ 177,669

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

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

	Three Months Ended April 30,	
	2016	2015
Revenues:		
Products	\$ 4,200	\$ 3,164
Services	17,370	20,013
Total revenues	21,570	23,177
Cost of revenues:		
Products	1,574	1,677
Services	10,459	11,203
Amortization of intangible assets	316	181
Stock-based compensation expense	72	
Total cost of revenues	12,421	13,061
Gross profit	9,149	10,116
Operating expenses:		
Research and development	8,699	9,533
Selling and marketing	3,557	3,668
General and administrative	4,071	3,887
Amortization of intangible assets	450	941
Stock-based compensation expense	40	711
Earn-outs and change in fair value of earn-outs		502
Professional fees - other	132	128
Severance and other restructuring costs	1,775	212
Total operating expenses	18,724	19,582
Loss from operations	(9,575)	(9,466)
Other income (expenses), net	922	(229)
Loss before income taxes and equity income in earnings of affiliates	(8,653)	(9,695)
Income tax provision	254	147
Equity income in earnings of affiliates, net of tax		17
Net loss	\$ (8,907)	\$ (9,825)

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Net loss	\$ (8,907)	\$ (9,825)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	607	(277)
Unrealized gain (loss) on marketable securities	9	(12)
Comprehensive loss	\$ (8,291)	\$ (10,114)
Net loss per share:		
Basic	\$ (0.26)	\$ (0.29)
Diluted	\$ (0.26)	\$ (0.29)
Weighted average common shares outstanding:		
Basic	34,354	33,328
Diluted	34,354	33,328

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

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SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Three Months Ended April 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (8,907)	\$ (9,825)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	794	870
Amortization of intangible assets	766	1,122
Fair value of acquisition-related contingent consideration		502
Stock-based compensation expense	112	711
Other	40	89
Changes in operating assets and liabilities, excluding impact of acquisition:		
Accounts receivable	5,363	7,822
Unbilled receivables	(664)	(2,864)
Inventories	(91)	(148)
Prepaid expenses and other assets	853	(1,091)
Accounts payable	(1,736)	119
Accrued expenses	(2,201)	(2,118)
Deferred revenues	80	(1,467)
Other	29	(465)
Total cash used in operating activities	(5,562)	(6,743)
Cash flows from investing activities:		
Purchases of property and equipment	(159)	(282)
Investment in capitalized software		(749)
Purchases of marketable securities	(502)	(2,033)
Proceeds from sale and maturity of marketable securities		4,034
Cash paid for acquisition of business, net of cash acquired		(11,686)
Other investing activities	(106)	
Total cash used in investing activities	(767)	(10,716)
Cash flows from financing activities:		
Proceeds from issuance of common stock	33	
Other financing activities	(3)	
Total cash provided by financing activities	30	

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Effect of exchange rate changes on cash	(922)	411
Net decrease in cash and cash equivalents	(7,221)	(17,048)
Cash and cash equivalents, beginning of period	58,733	90,019
Cash and cash equivalents, end of period	\$ 51,512	\$ 72,971
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 43	\$ 183
Supplemental disclosure of non-cash investing and financing activities:		
Fair value of common stock issued for deferred stock consideration obligation	\$ 3,205	\$
Transfer of items originally classified as inventories to equipment	\$	\$ 80

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

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Business and Basis of Presentation

The Company

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

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of SeaChange International, Inc. and its subsidiaries (SeaChange or the Company) and are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reports as well as rules and regulations of the Securities and Exchange Commission (SEC). All intercompany transactions and balances have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared under U.S. GAAP have been condensed or omitted pursuant to such regulations. However, we believe that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying financial statements include all adjustments necessary to present a fair presentation of the consolidated financial statements for the periods shown. These consolidated financial statements should be read in conjunction with our most recently audited financial statements and related footnotes included in our Annual Report on Form 10-K (Form 10-K) as filed with the SEC. The balance sheet data as of January 31, 2016 that is included in this Quarterly Report on Form 10-Q (Form 10-Q) was derived from our audited financial statements.

The preparation of these financial statements in conformity with U.S. GAAP, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Interim results are not necessarily indicative of the operating results for the full fiscal year or any future periods and actual results may differ from our estimates. During the three months ended April 30, 2016, there have been no material changes to our significant accounting policies that were described in our fiscal 2016 Form 10-K, as filed with the SEC.

2. Significant Accounting Policies

Revenue Recognition

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

persuasive evidence of an arrangement exists;

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

fees are fixed or determinable; and

collection of the related receivable is considered probable.

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

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Accounting for contract amendments and customer change orders are included in contract accounting when executed. Revenue from shipping and handling costs and other out-of-pocket expenses reimbursed by customers are included in revenues and cost of revenues. Our share of intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.

Contract accounting requires judgment relative to assessing risks, estimating revenues and costs and making assumptions including, in the case of our professional services contracts, the total amount of labor required to complete a project and the complexity of the development and other technical work to be completed. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions have to be made regarding the length of time to complete the contract because costs also include estimated third-party vendor and contract labor costs. Penalties related to performance on contracts are considered in estimating sales and profit, and are recorded when there is sufficient information for us to assess anticipated performance. Third-party vendors' assertions are also assessed and considered in estimating costs and margin. During fiscal 2016, we recorded a \$9.2 million provision for loss contract as a result of costs associated with delays of customer acceptance relating to a fixed-price customer contract on a multi-year arrangement which included multiple vendors. We have agreed with the customer on the replacement of certain third-party vendors and a change in the timeline for the completion of the project. As the system integrator on the project, we are subject to any costs overruns or increases with these vendors resulting in delays or acceptance by our customer. Any further delays of acceptance by the customer will result in incremental expenditures and increase the loss.

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

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

Under the revenue recognition rules for tangible products as amended by ASU 2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if

the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence (TPE) if VSOE is not available, and best estimate of selling price (BESP) if neither VSOE nor TPE are available. TPE is the price of the Company s, or any competitor s, largely interchangeable products or services in stand-alone sales to similarly situated customers. BESP is the price at which we

\$26,197,443

Security	Principal Amount (000 s omitted)	Value
Transportation 8.2%		
Bay Area Toll Authority, Toll Bridge Revenue, (San Francisco Bay Area), 5.25%, 4/1/29 ⁽¹⁾	\$ 6,500	\$ 7,537,075
Long Beach, Harbor Revenue, 5.00%, 5/15/27	1,960	2,205,216
Los Angeles Department of Airports, (Los Angeles International Airport), 5.00%, 5/15/35 ⁽¹⁾	7,500	8,305,650
San Francisco City and County Airport Commission, (San Francisco International Airport), 5.00%, 5/1/35	2,190	2,351,775
San Jose, Airport Revenue, 5.00%, 3/1/31	1,750	1,884,890
		\$ 22,284,606
Water and Sewer 5.5%		
Beverly Hills Public Financing Authority, Water Revenue, 5.00%, 6/1/37 ⁽¹⁾	\$ 5,725	\$ 6,528,790
Los Angeles, Wastewater System Revenue, 5.00%, 6/1/43 ⁽¹⁾	7,500	8,358,375
		\$ 14,887,165
Total Tax-Exempt Investments 165.1% (identified cost \$414,643,886)		\$ 447,771,506
Other Assets, Less Liabilities (65.1)%		\$ (176,630,052)
Net Assets 100.0%		\$ 271,141,454

The percentage shown for each investment category in the Portfolio of Investments is based on net assets.

- AGC - Assured Guaranty Corp.
- AGM - Assured Guaranty Municipal Corp.
- AMBAC - AMBAC Financial Group, Inc.
- BHAC - Berkshire Hathaway Assurance Corp.
- FGIC - Financial Guaranty Insurance Company
- NPFG - National Public Finance Guaranty Corp.
- XLCA - XL Capital Assurance, Inc.

The Fund invests primarily in debt securities issued by California municipalities. The ability of the issuers of the debt securities to meet their obligations may be affected by economic developments in a specific industry or municipality. In order to reduce the risk associated with such economic developments, at June 30, 2014, 48.9% of total investments are backed by bond insurance of various financial institutions and financial guaranty assurance agencies. The aggregate percentage insured by an individual financial institution or financial guaranty assurance agency ranged from 1.7% to 18.8% of total investments.

(1) Security represents the municipal bond held by a trust that issues residual interest bonds. A summary of open financial instruments at June 30, 2014 is as follows:

Futures Contracts

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Expiration Month/Year	Contracts	Position	Aggregate Cost	Value	Net Unrealized Depreciation
9/14	100 U.S. 10-Year Treasury Note	Short	\$ (12,499,036)	\$ (12,517,188)	\$ (18,152)
9/14	119 U.S. Long Treasury Bond	Short	(16,204,235)	(16,325,312)	(121,077)
					\$ (139,229)

At June 30, 2014, the Fund had sufficient cash and/or securities to cover commitments under these contracts.

The Fund is subject to interest rate risk in the normal course of pursuing its investment objective. Because the Fund holds fixed-rate bonds, the value of these bonds may decrease if interest rates rise. The Fund purchases and sells U.S. Treasury futures contracts to hedge against changes in interest rates.

At June 30, 2014, the aggregate fair value of open derivative instruments (not considered to be hedging instruments for accounting disclosure purposes) in a liability position and whose primary underlying risk exposure is interest rate risk was \$139,229.

The cost and unrealized appreciation (depreciation) of investments of the Fund at June 30, 2014, as determined on a federal income tax basis, were as follows:

Aggregate cost	\$ 232,553,583
Gross unrealized appreciation	\$ 33,149,745
Gross unrealized depreciation	(1,431,822)
Net unrealized appreciation	\$ 31,717,923

Under generally accepted accounting principles for fair value measurements, a three-tier hierarchy to prioritize the assumptions, referred to as inputs, is used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including a fund's own assumptions in determining the fair value of investments)

In cases where the inputs used to measure fair value fall in different levels of the fair value hierarchy, the level disclosed is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

At June 30, 2014, the hierarchy of inputs used in valuing the Fund's investments and open derivative instruments, which are carried at value, were as follows:

Asset Description	Level 1	Level 2	Level 3	Total
Tax-Exempt Investments	\$	\$ 447,771,506	\$	\$ 447,771,506
Total Investments	\$	\$ 447,771,506	\$	\$ 447,771,506
Liability Description				
Futures Contracts	\$ (139,229)	\$	\$	\$ (139,229)
Total	\$ (139,229)	\$	\$	\$ (139,229)

The Fund held no investments or other financial instruments as of September 30, 2013 whose fair value was determined using Level 3 inputs. At June 30, 2014, there were no investments transferred between Level 1 and Level 2 during the fiscal year to date then ended.

For information on the Fund's policy regarding the valuation of investments and other significant accounting policies, please refer to the Fund's most recent financial statements included in its semiannual or annual report to shareholders.

Item 2. Controls and Procedures

(a) It is the conclusion of the registrant's principal executive officer and principal financial officer that the effectiveness of the registrant's current disclosure controls and procedures (such disclosure controls and procedures having been evaluated within 90 days of the date of this filing) provide reasonable assurance that the information required to be disclosed by the registrant on this Form N-Q has been recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms and that the information required to be disclosed by the registrant on this Form N-Q has been accumulated and communicated to the registrant's principal executive officer and principal financial officer in order to allow timely decisions regarding required disclosure.

(b) There have been no changes in the registrant's internal controls over financial reporting during the fiscal quarter for which the report is being filed that have materially affected, or are reasonably likely to materially affect the registrant's internal control over financial reporting.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eaton Vance California Municipal Bond Fund

By: /s/ Payson F. Swaffield
Payson F. Swaffield
President

Date: August 25, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Payson F. Swaffield
Payson F. Swaffield
President

Date: August 25, 2014

By: /s/ James F. Kirchner
James F. Kirchner
Treasurer

Date: August 25, 2014