

SEACHANGE INTERNATIONAL INC

Form 10-K

April 04, 2014

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2014

.. **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) **(IRS Employer)**
of incorporation or organization) **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 No

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 No

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 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 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

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

As of July 31, 2013, 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 \$371,543,301. The number of shares of the registrant's Common Stock outstanding as of the close of business on March 31, 2014 was 32,889,024.

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 16, 2014 to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

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 (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, 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, general market conditions and our continued limited number of customers. 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., *Risk Factors*, of this Form 10-K. 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 conjunction with Part II, Item 7., *Management Discussion and Analysis of Financial Condition and Results of Operations*, and our financial statements and footnotes contained in this Form 10-K.

Table of Contents**TABLE OF CONTENTS**

	Page
PART I	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	23
Item 2. <u>Properties</u>	24
Item 3. <u>Legal Proceedings</u>	24
Item 4. <u>Mine Safety Disclosures</u>	24
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	25
Item 6. <u>Selected Financial Data</u>	26
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	51
Item 8. <u>Financial Statements and Supplementary Data</u>	52
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	90
Item 9A. <u>Controls and Procedures</u>	90
Item 9B. <u>Other Information</u>	92
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	92
Item 11. <u>Executive Compensation</u>	92
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	92
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	93
Item 14. <u>Principal Accounting Fees and Services</u>	93
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	94
<u>Signatures</u>	98

Table of Contents

PART I

Item 1. BUSINESS

General

SeaChange International, Inc., a Delaware corporation founded on July 9, 1993, is an industry leader in the delivery of multi-screen television. Our products and services facilitate the aggregation, licensing, management and distribution of video (primarily movies and television programming) and television advertisements. We sell our software products and services worldwide primarily to television service providers including: cable television system operators, such as Liberty Global, plc. (LGI), Comcast Corporation (Comcast), Cox Communications, Inc. (Cox), Rogers Communications, Inc. and Cablevision Systems among others; and telecommunications companies, such as Verizon Communications, Inc., AT&T, Inc. and Eircom among others.

Our products and services are designed to enable our customers to reduce capital and operating expenses, reduce subscriber turnover, and increase average revenue per subscriber by establishing new, revenue-generating subscription television services and advertising. Using our products and services, we believe our customers can increase their revenues by offering services such as video-on-demand (VOD) television programming on a variety of customer devices, including mobile telephones (smart phones), personal computers (PCs), tablets and over-the-top (OTT) streaming players. Our systems enable television service providers to offer other interactive television services that allow subscribers to receive personalized services and interact with their video devices, thereby enhancing their viewing experience. Our products also allow our customers to insert advertising into broadcast and VOD content.

SeaChange serves an exciting global marketplace where multi-screen viewing is increasing, consumer device options are evolving rapidly, and viewer habits are shifting. The primary thrust of our business has been to enable the delivery of video assets in the evolving multi-screen television environment. Through acquisitions and partnerships we have expanded our capabilities, products and services to address the delivery of content to devices other than television set-top boxes, namely PCs, tablets, smart phones and OTT streaming players. We believe that our strategy of expanding into adjacent product lines will position us to further support and maintain our existing service provider customer base. Providing our customers with more technologically advanced software platforms enables them to further reduce their infrastructure costs and improve reliability. Additionally, we are positioned to capitalize on new customers entering the multi-screen marketplace and increasingly serve adjacent markets, such as telecommunication, mobile and OTT. 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 three Emmy Awards for our pivotal roles in the growth of volume service provider businesses including VOD and multi-channel television advertising. Our achievements on behalf of certain customers have also received significant market recognition including, during fiscal year 2014, winning the Liberty Global Vendor Award for Best Product & Service Quality and the Cable Europe Innovation Award for cable operator Voo s multi-screen service launch.

During fiscal 2014, we continued our transition into a leading provider of software and services by investing in our next generation products, while significantly improving and streamlining our operations. This transition began in fiscal 2013, when we shed non-core company assets, namely our prior media services and broadcast storage and streaming businesses, and focused on higher margin, recurring revenue generating software products, including our next generation multi-screen television platform, advertising platform and video gateway software. Accordingly, our prior media services and broadcast servers and storage business units are reflected in our financial statements as discontinued operations. For more information on these divestitures see Note 3., *Discontinued Operations*, to the

consolidated financial statements in Part II, Item 8., *Financial Statements and Supplementary Data*, of this Form 10-K.

Products and Services

Our business is comprised of three product areas: multi-screen television, television advertising and video gateway software. Our revenue sources consist of product revenue from these areas, as well as related services.

Table of Contents

Multi-Screen Television

SeaChange Adrenalin Multi-Screen Television Platform

Adrenalin is a comprehensive software platform that enables service providers to manage, monetize and deliver a seamless viewing experience to subscribers across televisions, PCs, tablets, smart phones and other IP-enabled devices. Adrenalin is modular allowing our customers to gradually adopt new functionality and features to expand multi-screen television distribution capabilities. Adrenalin automates and streamlines functionality in four crucial areas:

Ingest of video 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; and

Publishing and purchasing, which allow content to be formatted for viewing on any device.

SeaChange Nitro Subscriber Experience Software

Deployed in conjunction with Adrenalin, our Nitro subscriber experience software gives service providers a customizable interface that personalizes the multi-platform subscriber experience and provides consistent presentation and navigation of linear, on-demand, OTT and time-shifted television. Nitro optimizes subscriber engagement and content promotions to ensure that the value of all content is fully realized on any consumer device.

SeaChange AssetFlow

In today's television enterprise, a show, movie or advertisement and its associated metadata, such as poster, description and pricing, are reproduced with numerous variants to serve the unique requirements of multiple network types, consumer devices and geographies. At the point of content ingest, our AssetFlow software is used to receive, manage and publish content for on-demand viewing on televisions, tablets, PCs and other consumer devices. AssetFlow simplifies the increasingly complex tasks of movie and television program asset tracking, metadata management, and overall content workflow.

Television Advertising

SeaChange Infusion Advanced Advertising Platform

As more television content is served to multiple consumer devices, the ability to generate additional revenue by inserting targeted advertising on these devices becomes crucial to service providers seeking to offset content rights costs and reduce subscriber fees for viewing the content. Infusion enables service providers to maximize advertising revenue across multi-screen, linear, on-demand and OTT viewing and reach their audiences while viewers watch television on multiple devices. The platform incorporates demographic intelligence to target viewers by geography

and personal preference, then engages with the viewers through pre-rolls, mid-rolls, banners, overlays and click-action interactivity. Infusion scales to support service providers' migration to consolidated regional and national advertising systems that are managed from increasingly web-centric and virtualized datacenters.

SeaChange AdPulse On-Demand Advertising Software

Service providers leverage AdPulse to capitalize on their VOD television services with ad placements that are dynamically targeted according to the content viewers select, as well as by geographic, demographic and viewing characteristics. Because the advertisements are tracked separately from the content, the data provided includes detailed advertisement viewing and trick-mode (fast-forward, rewind, and pause) usage leading to easier analysis of reach and effectiveness.

Table of Contents

SeaChange AdFlow

AdFlow simplifies the ingest and preparation of content required to cost-effectively deliver multi-channel or multi-screen advertising. It enables the range of advertisements to be ready for insertion, regardless of encoding formats, screen size, and the many other factors affecting today's linear, on-demand and multi-screen television operations. It also handles advertisement file processing, verification, transcoding operations and confirms playout for revenue booking.

Video Gateway Software

We are producing Nucleus, a video gateway software that ports to any set-top box, -or other customer premises equipment hardware and system on a chip (SoC) and acts as a hub for all video distribution to IP- connected devices throughout the home, such as tablets, smart phones and game consoles.

SeaChange capitalized on open software and networking technologies to create Nucleus video gateway software, a fully customizable foundation for rich multi-screen services running on the chipset and hardware that service providers choose. Nucleus extends providers' video services to video consumer devices through its support for DLNA networking protocols, and enables them to enhance their overall offering by providing the framework for the introduction of new applications. Further, Nucleus leverages the industry Reference Design Kit, a technology standard that enables the video service provider community to take advantage of open technologies to more rapidly introduce and support service innovations.

Services

SeaChange offers comprehensive professional services and customer support for all of its products. We have developed extensive capabilities in systems integration, implementation and custom engineering. Our focus and expertise in service-provider video, means that we often take on the role of primary integrator for increasingly complex multi-vendor deployments. We also offer managed services with advantages, including remote monitoring and proactive system maintenance, to help our customers quickly and confidently establish new on-demand and multi-screen services.

Strategy

We continue to implement our growth strategy and deliver exceptional customer service, positioning SeaChange as an industry leader in enabling transformative multi-screen video experiences by focusing on:

Upgrading our installed customer base to our next generation software products;

Developing new, related businesses and adjacent products;

Growth in geographic regions in which we do not currently have a large presence, such as Asia, Middle East and Africa;

Expanding to new and adjacent markets, such as telecommunication, mobile and OTT;

Reducing our overall cost structure and further streamlining our operations; and

Acquiring or investing in businesses that will enhance our product offerings and be accretive to our business.

Research and Product Development

Our research and development costs were \$39.7 million in fiscal 2014, \$38.7 million in fiscal 2013 and \$39.2 million in fiscal 2012. 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

Table of Contents

our current and future customer base as well as new markets. We have made substantial investments in developing our next generation products. Our current research and development activities are focused on developing multi-screen television platforms, video gateway software and advertising solutions in the multi-screen video market, and integrating the solutions we currently offer. 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 customers' needs, such as increasing average revenue per subscriber, lowering operating and capital costs and reducing customer churn. Our research and development efforts are performed at our Acton, Massachusetts headquarters as well as our sites in Milpitas, California; Portland, Oregon; Fort Washington, Pennsylvania; Bangalore, India; Manila, Philippines; and Eindhoven, Netherlands.

During fiscal 2014 and 2013, we continued the focus of our research and development efforts on the next generation software platforms, which are vital to our customers' success. We achieved this by further increasing our investment in our software products for multi-screen video, advertising and video gateway software platforms, while reducing our investment in certain legacy product lines and divesting non-core business units and assets.

As of January 31, 2014, we had a research and development staff of 320 employees, representing 44% of our total employee workforce. As of January 31, 2013 and 2012, we had a research and development staff of 334 and 427 which represented 46% and 37% of our total workforce, respectively. Our research and development staff was reduced by 99 employees when we divested our broadcast servers and storage and media services businesses in May 2012.

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 Acton, Massachusetts headquarters and our European facility in Eindhoven, the Netherlands, 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, it is sometimes difficult to predict what quarter or fiscal year our sales will occur. In addition, many of our digital video products are complicated, making the timing of revenue recognition from sales less certain.

In light of the complexity of our video software 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.

As of January 31, 2014, we had a marketing and sales staff of 56 employees, representing 8% of our total employee workforce. As of January 31, 2013 and 2012, we had a marketing and sales staff of 48 and 77 people, respectively,

Table of Contents

representing 7% of our total workforce for both of these fiscal years. Our marketing and sales staff was reduced by 15 employees when we divested our broadcast servers and storage and media services businesses in May 2012.

Manufacturing and Quality Control

Our manufacturing operation consists primarily of component and subassembly procurement, systems integration and final assembly, testing and quality control of the complete systems. In May of 2009, we achieved TL 9000 certification across multiple locations. The QuEST Forum, a consortium of telecommunications suppliers and service providers, developed the TL 9000 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, 2014, 2013, and 2012, we had a manufacturing staff of approximately 12, 14, and 27 people respectively, which represented approximately 2% of our total workforce for each fiscal year.

Our Customers

We currently sell our products primarily to video service providers, including cable system operators and telecommunications companies. 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 in any given fiscal period have been derived from substantial orders placed by these large organizations. For the fiscal year ended January 31, 2014, LGI, Comcast and Cox each accounted for more than 10% 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, the timing and relative size of orders received and shipped during a fiscal quarter, or the timing and size of orders for which revenue recognition criteria have been satisfied 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 revenue for any particular period. Because of the nature of our products and our use of standard components, a significant portion of the 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 require final acceptance, and 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 revenue 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 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.

Table of Contents

In the market for multi-screen video, we compete with various larger companies offering video software back office platforms and applications such as Cisco Systems, Inc., Arris Group Inc. (ARRIS), and Ericsson Inc. In our video gateway software market, we compete with system integrators and gateway software and applications vendors who offer proprietary software and hardware solutions. In the advertisement platform market, we generally compete with ARRIS and BlackArrow. 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 30 patents worldwide (including 28 U.S. patents), have several patents pending 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 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.

Employees

The table below represents the number of employees that we employ in different geographic areas across the world for the periods shown. Employees included in our divested businesses are not included in this table. We believe that our relations with our employees are good. None of our employees are represented by a collective bargaining agreement.

Country	January 31,		
	2014	2013	2012 (1)
United States	382	411	449
Philippines	150	143	193
Netherlands	111	97	87
Other international	80	71	69
Total employees by country	723	722	798

- (1) Fiscal 2012 in the above table does not include 355 employees that were included in the divestiture of our broadcast servers and storage and media services businesses.

Table of Contents**Executive Officers**

The following is a list of our executive officers, their ages as of March 31, 2014 and their positions held with us:

Name	Age	Title
Raghu Rau	64	Chief Executive Officer and Board member
Anthony C. Dias	47	Chief Financial Officer, Senior Vice President, Finance and Administration and Treasurer
David McEvoy	56	Senior Vice President and General Counsel and Secretary

Mr. Rau became the Chief Executive officer on November 30, 2011 and was appointed the permanent Chief Executive Officer on May 1, 2012 and 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.

Mr. Dias joined the Company on December 3, 2007 as Vice President of Finance and Corporate Controller. He became Chief Financial Officer in September 2013. Prior to that, *Mr. Dias* served since June 2012 as Chief Accounting Officer. Prior to joining SeaChange, *Mr. Dias* served as Corporate Controller at LeMaitre Vascular, Inc. from October 2006 to November 2007. Prior to that *Mr. Dias* held various senior finance positions with Candela Corporation, Globalware, Inc. and Aldiscon, Inc. (later acquired by Logica). *Mr. Dias* is also a Certified Public Accountant.

Mr. McEvoy joined the Company on July 1, 2012 as Vice President and General Counsel. He became Senior Vice President and General Counsel on February 1, 2013. Prior to joining SeaChange, *Mr. McEvoy* was the Senior Vice President and General Counsel of Peoplefluent Inc. *Mr. McEvoy* was the Senior Vice President and General Counsel of Art Technology Group, Inc. (ATG) from September 2005 to March 2010. ATG was acquired by Oracle on January 5, 2011. Prior to joining ATG, *Mr. McEvoy* was the Group General Counsel of Gores Technology Group, a private equity firm. *Mr. McEvoy* has held various General Counsel and other executive level legal positions with several companies including Aprisma Inc., Anker Systems Ltd., VeriFone Inc., Mattel Interactive, Broderbund and The Learning Company.

Geographic Information

Geographic information is included in Part II, Item 7 of this Form 10-K under the heading *Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations* and in Note 11., *Segment Information, Significant Customers and Geographic Information*, to the consolidated financial statements located in Part II, Item 8, of this Form 10-K.

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 SEC. Such reports, proxy statements and other information may be obtained by visiting the

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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.

Table of Contents

Financial and other information about SeaChange, including our Code of Ethics and Business Conduct and charters for our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, is available on the Investor Relations section of our website at www.schange.com. We make available free of charge on our website our Form 10-K, Quarterly Reports on Form 10-Q (Form 10-Q), Current Reports on Form 8-K (Form 8-K) and amendments to those reports 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 Form 10-K. 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 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. A reduction in spending by customers would 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.

Table of Contents

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

A large portion of our anticipated 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 video service providers 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 our next generation software products, including SeaChange Adrenalin[®], SeaChange Nucleus[®], SeaChange Infusion[®] Advanced Advertising Platform and SeaChange AdPulse[®]. Our inability to complete the development of these 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 in fiscal 2015 and in future periods.

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 and the change in business spending resulting 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.

Table of Contents

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 by outsourcing and off-shoring, implementing cost reduction programs, reducing the number of our employees, and reducing and rationalizing planned capital expenditures and expense budgets. As previously announced, we sold our broadcast servers and storage and media services businesses in fiscal 2013 as we continue to 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.

Evaluations of strategic options, such as the one we completed in fiscal 2012, result in the expenditure of substantial management time and resources, and may result in our customers reducing the level of orders they place with us, the departure from the Company of key employees, a third party expressing interest in acquiring the Company, and other factors that may have a negative effect on our business. Since fiscal 2012, there has been continued consolidation within the industry in which we compete, which may make it more likely that a third party expresses interest in acquiring us. These factors could create uncertainty in our operations and cause our revenues to decline, having a material adverse effect on our business, financial condition and results of operations and result in fluctuations of our stock price.

We may be unsuccessful in our efforts to become a company that primarily provides software solutions.

Our efforts to become a company that primarily provides software solutions may result in a reduction in both 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, the return of product by one or more of these customers or the failure of revenue acceptance criteria to have been satisfied in a given fiscal quarter, 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, return of a product previously purchased by any of our major customers or

the failure of revenue acceptance criteria to have been satisfied in a given fiscal quarter, 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

Table of Contents

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 final customer acceptance, 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 one million dollars in value. Therefore, any significant cancellation or deferral of purchases of our products or receiving final customer acceptance 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 guidance that we may issue or the expectations of public market analysts and investors, any of 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.

Our next generation software products and services are relatively complex and their purchase generally involves 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 next generation software 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, our revenues and operating results would be materially affected.

We expect our next generation software product lines to account for a significant portion of our revenues. Accordingly, a decline in demand or average selling prices for these products and any greater than anticipated declines in sales of our legacy 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.

We must manage product transitions successfully in order to remain competitive.

The introduction of a new product or product line is a complex task, involving significant expenditures in research and development, training, promotion and sales channel development, and management of existing product inventories to reduce the cost associated with returns and slow moving inventory. However, we cannot assure that we will be able to

execute product transitions in an efficient manner or that product transitions will be executed without harming our operating results. Failure to develop products with required features and performance levels or any delay in bringing a new product to market could significantly reduce our revenues and harm our competitive position.

Table of Contents

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 a significant portion of our total revenue. 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.

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.

We are subject to the Foreign Corrupt Practices Act (FCPA), and our failure to comply could result in penalties which could harm our reputation, business, and financial condition.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. The FCPA also requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the Company. Under the FCPA, U.S. companies may be held liable for actions taken by their strategic or local partners or representatives. The FCPA and similar laws in other countries can impose civil and criminal penalties for violations.

If we do not properly implement practices and controls with respect to compliance with the FCPA and similar laws, or if we fail to enforce those practices and controls properly, we may be subject to regulatory sanctions, including administrative costs related to governmental and internal investigations, civil and criminal penalties, injunctions and restrictions on our business activities, all of which could harm our reputation, business and financial condition.

New regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the

Table of Contents

Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements required due diligence efforts in fiscal 2014, with initial disclosure requirements beginning in May of fiscal 2015. There will be costs associated with complying with these disclosure requirements, including for due diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering conflict free conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face adverse affects to our reputation if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

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 U.S. 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 U.S. dollar using either the spot rate or the weighted-average exchange rate. If the U.S. 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

Table of Contents

on patent or other intellectual property rights covering our products or processes. 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 VOD 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 VOD 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 VOD market. A limitation of content for the VOD market would indirectly limit the market for our VOD 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.

Table of Contents

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 inability 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 developing and implementing broadband internet VOD services. To the extent the products developed are competitive with and not complementary to our products, 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

Table of Contents

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