SEACHANGE INTERNATIONAL INC
Form 10-Q
December 10, 2018
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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 October 31, 2018

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 every Interactive Data File required to be submitted 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 such files). YES NO

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant s Common Stock on December 5, 2018 was 35,749,131.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	October 31, 2018 (Unaudited)	January 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 21,554	$ 43,652
Restricted cash	543	9
Marketable securities	1,732	3,991
Accounts and other receivables, net of allowance for doubtful accounts of $16 at October 31, 2018 and $16 at January 31, 2018, respectively	12,669	22,537
Unbilled receivables	7,881	3,101
Inventories, net	706	666
Prepaid expenses and other current assets	5,479	3,557
Total current assets	50,564	77,513
Property and equipment, net	8,660	9,471
Marketable securities, long-term	8,554	4,449
Intangible assets, net	531	1,303
Goodwill, net	23,956	25,579
Other assets	1,069	1,015
Total assets	$ 93,333	$ 119,330
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 4,669	$ 2,431
Deferred revenues	6,199	11,598
Other accrued expenses	6,337	15,379
Total current liabilities	17,205	29,408
Deferred revenue, long-term	875	2,835
Deferred tax liabilities, long-term	196	215
Taxes payable, long-term	405	1,152
Total liabilities	18,681	33,610

Commitments and contingencies (Note 6)		
Stockholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 35,795,099 shares issued and 35,754,609 outstanding at October 31, 2018, and 35,634,984 shares issued and 35,594,494 outstanding at January 31, 2018	358	356
Additional paid-in capital	242,074	239,423
Treasury stock, at cost; 40,490 common shares at October 31, 2018 and January 31, 2018, respectively	(5)	(5)
Accumulated loss	(164,679)	(148,620)
Accumulated other comprehensive loss	(3,095)	(5,434)
Total stockholders equity	74,653	85,720
Total liabilities and stockholders equity	$ 93,333	$ 119,330

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

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SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited, amounts in thousands, except per share data)

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017
Revenues:				
Products	$ 8,268	$ 11,119	$ 12,821	$ 18,907
Services	10,343	12,311	32,626	38,415
Total revenues	18,611	23,430	45,447	57,322
Cost of revenues:				
Products	1,716	1,198	2,518	3,088
Services	5,428	5,612	15,914	15,810
Amortization of intangible assets	178	255	534	764
Stock-based compensation expense	1	1	1	3
Total cost of revenues	7,323	7,066	18,967	19,665
Gross profit	11,288	16,364	26,480	37,657
Operating expenses:				
Research and development	4,836	5,634	15,477	17,411
Selling and marketing	3,705	3,916	10,776	9,292
General and administrative	3,209	3,868	11,224	10,595
Amortization of intangible assets	205	370	664	1,075
Stock-based compensation expense	768	696	2,570	2,224
Professional fees - other	50		50	21
Severance and other restructuring costs	1,030	960	1,620	3,670
Total operating expenses	13,803	15,444	42,381	44,288
(Loss) income from operations	(2,515)	920	(15,901)	(6,631)
Other (expenses) income, net	(2,087)	14	(4,898)	969
(Loss) income before income taxes	(4,602)	934	(20,799)	(5,662)
Income tax (benefit) provision	(775)	1,154	(2,421)	1,458
Net loss	$ (3,827)	$ (220)	$ (18,378)	$ (7,120)
Net loss	$ (3,827)	$ (220)	$ (18,378)	$ (7,120)
Other comprehensive (loss) income, net of tax:				

Foreign currency translation adjustment	923	(79)	2,354	(76)
Unrealized gain (loss) on marketable securities	3	(12)	(15)	(17)
Comprehensive loss	$ (2,901)	$ (311)	$ (16,039)	$ (7,213)
Net loss per share:				
Basic	$ (0.11)	$ (0.00)	$ (0.52)	$ (0.20)
Diluted	$ (0.11)	$ (0.00)	$ (0.52)	$ (0.20)
Weighted average common shares outstanding:				
Basic	35,747	35,479	35,668	35,381
Diluted	35,747	35,479	35,668	35,381

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)

	Nine Months Ended October 31,	
	2018	**2017**
Cash flows from operating activities:		
Net loss	$ (18,378)	$ (7,120)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	1,053	1,758
Amortization of intangible assets	1,198	1,839
Stock-based compensation expense	2,571	2,227
Deferred income taxes	(702)	102
Other	27	76
Changes in operating assets and liabilities:		
Accounts receivable	9,100	(1,401)
Unbilled receivables	(4,957)	3,289
Inventories	(43)	(165)
Prepaid expenses and other assets	(2,107)	62
Accounts payable	2,401	(3,199)
Accrued expenses	(9,068)	942
Deferred revenues	(7,060)	355
Other operating activities	2,422	327
Total cash used in operating activities	(23,626)	(908)
Cash flows from investing activities:		
Purchases of property and equipment	(328)	(386)
Purchases of marketable securities	(8,510)	(7,246)
Proceeds from sale and maturity of marketable securities	6,649	7,993
Other investing activities		176
Total cash used in investing activities	(2,189)	537
Cash flows from financing activities:		
Proceeds from issuance of common stock	81	53
Payments of withholding tax on RSU vesting	(43)	(52)
Total cash provided by financing activities	38	1
Effect of exchange rate changes on cash, cash equivalents and restricted cash	4,213	(878)
Net decrease in cash, cash equivalents and restricted cash	(21,563)	(1,248)

Cash, cash equivalents and restricted cash, beginning of period	43,661	28,411
Cash, cash equivalents and restricted cash, end of period	$ 22,097	$ 27,163
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 2,908	$ 267

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, advertising and premium over-the-top (OTT) video management solutions. Our products and services are designed to empower video providers to create, manage and monetize the increasingly personalized, highly engaging experiences that viewers demand.

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, consisting of only normal recurring items, 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, 2018 that is included in this Quarterly Report on Form 10-Q (Form 10-Q) was derived from our audited financial statements. Certain prior period amounts have been reclassified to conform to current period presentation.

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 and nine months ended October 31, 2018, there have been no material changes to our significant accounting policies that were described in our fiscal 2018 Form 10-K, as filed with the SEC. As noted in our Form 10-Q for the quarterly period ended April 30, 2018, in the three months ended April 30, 2018, our policy for revenue recognition was updated as a result of adopting the new revenue recognition guidance.

2. Significant Accounting Policies

Cash, cash equivalents and restricted cash

Cash and cash equivalents include cash on hand and on deposit and highly liquid investments in money market mutual funds, government sponsored enterprise obligations, treasury bills, commercial paper and other money market securities with remaining maturities at date of purchase of 90 days or less. All cash equivalents are carried at cost, which approximates fair value. Restricted cash represents cash that is restricted as to withdrawal or usage and consists primarily of cash held as collateral for performance obligations with our customers.

The following table provides a summary of cash, cash equivalents and restricted cash that constitutes the total amounts shown in the consolidated statements of cash flows for the nine months ended October 31, 2018 and 2017:

	Nine Months Ended October 31,	
	2018	2017
	(Amounts in thousands)	
Cash and cash equivalents	$ 21,554	$ 27,155
Restricted cash	543	8
Total cash, cash equivalents, and restricted cash	$ 22,097	$ 27,163

Revenue Recognition

The Company adopted Accounting Standards Codification No. (ASC) 606, *Revenue from Contracts with Customers*, on February 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. The adoption of ASC 606 did not have a material impact on the Company s consolidated financial statements. The reported results for fiscal 2019 reflect the application of ASC 606 guidance while the reported results for fiscal 2018 were prepared under the guidance of ASC 605, *Revenue Recognition,* which is also referred to herein as legacy U.S. GAAP or the previous guidance. The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of the Company s goods and services and will provide financial statement readers with enhanced disclosures. In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, and excludes any sales incentives or taxes collected from a customer which are subsequently remitted to government authorities. To achieve this core principle, the Company applies the following five steps:

1) Identify the contract(s) with a customer - A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party s rights regarding the goods or services to be transferred and identifies the payment terms related to those goods or services, (ii) the contract has commercial substance, and (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable based on the customer s intent and ability to pay the promised consideration.

2) Identify the performance obligations in the contract - Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, the Company must apply judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.

3) Determine the transaction price - The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company s judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Determining the transaction price requires significant judgment, which is discussed by revenue category in further detail below.

4) Allocate the transaction price to the performance obligations in the contract - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is

not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

5) Recognize revenue when (or as) the Company satisfies a performance obligation - The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

The Company s revenue is derived from sales of hardware, software licenses, professional services, and maintenance fees related to the hardware and the Company s software licenses.

Contracts with multiple performance obligations

The Company s contracts often contain multiple performance obligations. For contracts with multiple performance obligations, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative stand-alone selling price basis. If the transaction price contains discounts or the Company expects to provide future price concessions, these elements are considered when determining the transaction price prior to allocation. Variable fees within the transaction price will be estimated and recognized in revenue as the Company satisfies its performance obligations to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable fee is resolved. If the contract grants the client the option to acquire additional products or services, the Company assesses whether or not any discount on the products and services is in excess of levels normally available to similar clients and, if so, accounts for that discount as an additional performance obligation.

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Hardware

The Company has concluded that hardware is either (1) a distinct performance obligation as the client can benefit from the product on its own or (2) a combined performance obligation with software licenses. This conclusion is dependent on the nature of the promise to the customer. In either scenario, hardware revenue is typically recognized at a point in time when control is transferred to the client, which is defined as the point in time when the client can use and benefit from the hardware. In situations where the hardware is distinct, it is delivered before services are provided and is functional without services, therefore the point in time when control is transferred is upon delivery or acceptance by the customer. When hardware and software are combined, the Company has determined stand-alone selling price for hardware utilizing the relative allocation method based on observable evidence.

Software licenses

The Company has concluded that its software licenses are either (1) a distinct performance obligation as the client can benefit from the software on its own or (2) a combined performance obligation with hardware, depending on the nature of the promise to the customer. In either scenario software license revenue is typically recognized at a point in time when control is transferred to the client, which is defined as the point in time when the client can use and benefit from the license. The software license is delivered before related services are provided and is functional without services, updates, and technical support. The Company s license arrangements generally contain multiple performance obligations, including hardware, installation services, training, and maintenance. The Company has determined stand-alone selling price for software utilizing the relative allocation method based on observable evidence.

Maintenance

Maintenance revenue, which is included in services revenue in our consolidated statements of operations and comprehensive loss, includes revenue from client support and related professional services. Client support includes software upgrades on a when and-if available basis, telephone support, bug fixes or patches, and general hardware maintenance support. Maintenance is priced as a percentage of the list price of the related software license and hardware. The Company determined the standalone selling price of maintenance based on this pricing relationship and observable data from standalone sales of maintenance.

The Company has identified three separate distinct performance obligations of maintenance:

- Software upgrades and updates;
- Technical support; and
- Hardware support.

These performance obligations are distinct within the contract and, although they are not sold separately, the components are not essential to the functionality of the other components. Each of the performance obligations included in maintenance revenue is a stand ready obligation that is recognized ratably over the passage of the contractual term, which is typically one year.

Services

The Company s services revenue is comprised of software license implementation services, engineering services, training and reimbursable expenses. The Company has concluded that services are distinct performance obligations, with the exception of engineering services. Engineering services may be provided on a stand-alone basis, or bundled with a license, when the Company is providing custom development.

The stand-alone selling price for services in time and materials contracts is determined by observable prices in stand-alone services arrangements and recognized as revenue as the services are performed based on an input measure of hours incurred to total estimated hours.

The Company estimates the stand-alone selling price for fixed price services based on estimated hours adjusted for historical experience, at time and material rates charged in stand-alone services arrangements. Revenue for fixed price services is recognized over time as the services are provided based on an input measure of hours incurred to total estimated hours.

Contract modifications

The Company occasionally enters into amendments to previously executed contracts that constitute contract modifications. The Company assesses each of these contract modifications to determine:

- If the additional products and services are distinct from the product and services in the original arrangement, and

- If the amount of consideration expected for the added products and services reflects the stand-alone selling price of those products and services.

A contract modification meeting both criteria is accounted for as a separate contract. A contract modification not meeting both criteria is considered a change to the original contract and is accounted for on either a prospective basis as a termination of the existing contract and the creation of a new contract, or a cumulative catch-up basis.

Impairment of Assets

Indefinite-lived intangible assets, such as goodwill, are not amortized but are evaluated for impairment at the reporting unit level annually, in our third quarter beginning August 1st. Indefinite-lived intangible assets may be tested for impairment on an interim basis in addition to the annual evaluation if an event occurs or circumstances change such as declines in sales, earnings or cash flows, decline in the Company s stock price, or material adverse changes in the business climate, which would more likely than not reduce the fair value of a reporting unit below its carrying amount.

We also evaluate other long-lived assets such as property and equipment and intangible assets with finite useful lives, on a regular basis for the existence of facts or circumstances, both internal and external that may suggest an asset is not recoverable. If such circumstances exist, we evaluate the carrying value of long-lived assets to determine if impairment exists based upon estimated undiscounted future cash flows over the remaining useful life of the assets and compares that value to the carrying value of the assets. Our cash flow estimates contain management s best estimates, using appropriate and customary assumptions and projections at the time.

In the second quarter of fiscal 2019, we determined there to be a triggering event that prompted us to test our goodwill for impairment as of July 31, 2018. As a result of the quantitative goodwill impairment test performed as of July 31, 2018, the Company determined that the fair value of the reporting unit exceeded its carrying value. Therefore, no impairment charges on our goodwill or other long-lived assets were recorded in the second quarter of fiscal 2019. See Note 5, *Goodwill and Intangible Assets,* for more information.

Liquidity

We continue to realize savings related to our previous restructuring activities. These measures are important steps in restoring SeaChange to profitability and positive cash flow. The Company believes that existing funds and cash expected to be provided by future operating activities are adequate to satisfy our working capital, capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months.

3. Fair Value Measurements

Definition and Hierarchy

The applicable accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance establishes a framework for measuring fair value and expands required disclosure about the fair value measurements of assets and liabilities. This guidance requires us to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a non-recurring basis in periods subsequent to initial measurement, in a fair value hierarchy.

The fair value hierarchy is broken down into three levels based on the reliability of inputs and requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required, as well as the assets and liabilities that we value using those levels of inputs:

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not very active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Valuation Techniques

Inputs to valuation techniques are observable and unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. When developing fair value estimates for certain financial assets and liabilities, we maximize the use of observable inputs and minimize the use of unobservable inputs. When available, we use quoted market prices, market comparables and discounted cash flow projections. Financial assets include money market funds, U.S. treasury notes or bonds, U.S. government agency bonds and corporate bonds.

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In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly. In periods of market inactivity, the observability of prices and inputs may be reduced for certain instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of October 31, 2018 and January 31, 2018. There were no fair value measurements of our financial assets and liabilities using significant Level 3 inputs for the periods presented:

		Fair Value at October 31, 2018 Using	
	October 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(Amounts in thousands)	
Financial assets:			
Money market accounts [(1)]	$ 2,832	$ 2,649	$ 183
Available-for-sale marketable securities:			
Current marketable securities:			
U.S. treasury notes and bonds - conventional	745	745	
Non-current marketable securities:			
U.S. treasury notes and bonds - conventional	6,274	6,274	
U.S. government agency issues	986		986
Corporate bonds	2,280		2,280
Total	$ 13,117	$ 9,668	$ 3,449

		Fair Value at January 31, 2018 Using	
	January 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(Amounts in thousands)	
Financial assets:			
Money market accounts [(1)]	$ 4,568	$	$ 4,568
Available-for-sale marketable securities:			

Current marketable securities:			
U.S. treasury notes and bonds - conventional	1,993	1,993	
U.S. government agency issues	1,998		1,998
Non-current marketable securities:			
U.S. treasury notes and bonds - conventional	1,724	1,724	
U.S. government agency issues	985		985
Corporate bonds	1,740		1,740
Total	$ 13,008	$ 3,717	$ 9,291

(1) Money market funds and U.S. treasury bills are included in cash and cash equivalents on the accompanying consolidated balance sheets and are valued at quoted market prices for identical instruments in active markets.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to our tangible property and equipment, goodwill, and other intangible assets, which are re-measured when the derived fair value is below carrying value on our consolidated balance sheets. For these assets and liabilities, we do not periodically adjust carrying value to fair value except in the event of impairment. If we determine that impairment has occurred, the carrying value of the asset is reduced to fair value and the difference is recorded to loss from impairment of long-lived assets in our consolidated statements of operations and comprehensive loss.

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In the second quarter of fiscal 2019, we determined there to be a triggering event that prompted us to test our goodwill for impairment as of July 31, 2018. The triggering event was a decline in actual revenue for the quarter compared to projected amounts, which was reported in a Current Report on Form 8-K furnished to the SEC on August 21, 2018. The Company performed a quantitative goodwill impairment test, utilizing the single-step approach under ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment,* comparing the carrying value of the reporting unit to its estimated fair value, which was calculated using the income approach. As a result of the quantitative goodwill impairment test performed as of July 31, 2018, the Company determined that the fair value of the reporting unit exceeded its carrying value. Therefore, no impairment charges on our goodwill or other long-lived assets were recorded in the second quarter of fiscal 2019. See Note 5, *Goodwill and Intangible Assets,* for more information.

Available-For-Sale Securities

We determine the appropriate classification of debt investment securities at the time of purchase and reevaluate such designation as of each balance sheet date. Our investment portfolio consists of money market funds, U.S. treasury notes and bonds, U.S. government agency notes and bonds and corporate bonds as of October 31, 2018 and January 31, 2018. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. All cash equivalents are carried at cost, which approximates fair value. Our marketable securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, reported in stockholders equity as a component of accumulated other comprehensive loss. The amortization of premiums and accretion of discounts to maturity are computed under the effective interest method and are included in other (expenses) income, net, in our consolidated statements of operations and comprehensive loss. Interest on securities is recorded as earned and is also included in other (expenses) income, net. Any realized gains or losses would be shown in the accompanying consolidated statements of operations and comprehensive loss in other (expenses) income, net. We provide fair value measurement disclosures of available-for-sale securities in accordance with one of the three levels of fair value measurement mentioned above.

The following is a summary of cash, cash equivalents and available-for-sale securities, including the cost basis, aggregate fair value and gross unrealized gains and losses, for short- and long-term marketable securities portfolio as of October 31, 2018 and January 31, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Amounts in thousands)		
October 31, 2018:				
Cash	$ 18,723	$	$	$ 18,723
Cash equivalents	2,820	11		2,831
Cash and cash equivalents	21,543	11		21,554
U.S. treasury notes and bonds - short-term	749		(3)	746
U.S. treasury notes and bonds - long-term	6,306		(32)	6,274
U.S. government agency issues - long-term	1,001		(15)	986
Corporate bonds - long-term	2,310		(30)	2,280

Total cash, cash equivalents and marketable securities	$ 31,909	$	11	$	(80)	$	31,840
January 31, 2018:							
Cash	$ 39,084	$		$		$	39,084
Cash equivalents	4,568						4,568
Cash and cash equivalents	43,652						43,652
U.S. treasury notes and bonds - short-term	2,001				(8)		1,993
U.S. treasury notes and bonds - long-term	1,740				(16)		1,724
U.S. government agency issues - short-term	1,991		9		(2)		1,998
U.S. government agency issues - long-term	1,002				(17)		985
Corporate bonds - long-term	1,760				(20)		1,740
Total cash, cash equivalents and marketable securities	$ 52,146	$	9	$	(63)	$	52,092

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The gross realized gains and losses on sale of available-for-sale securities as of October 31, 2018 and January 31, 2018 were immaterial. For purposes of determining gross realized gains and losses, the cost of securities is based on specific identification.

Contractual maturities of available-for-sale investments as of October 31, 2018 are as follows (amounts in thousands):

	Estimated Fair Value
Maturity of one year or less	$ 1,732
Maturity between one and five years	8,554
Total	$ 10,286

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents consist primarily of highly liquid investments in money market mutual funds, government sponsored enterprise obligations, treasury bills, commercial paper and other money market securities with remaining maturities at date of purchase of 90 days or less.

The fair value of cash, cash equivalents, restricted cash and marketable securities at October 31, 2018 and January 31, 2018 was $32.4 million and $52.1 million, respectively.

Restricted Cash

At times, we may be required to maintain cash held as collateral for performance obligations with our customers which we classify as restricted cash on our consolidated balance sheets. Restricted cash was $0.5 million as of October 31, 2018 and was not material as of January 31, 2018.

4. Consolidated Balance Sheet Detail

Inventories, net

Inventories consist primarily of hardware and related component parts and are stated at the lower of cost (on a first-in, first-out basis) or market. Inventories consist of the following:

	As of October 31, 2018	As of January 31, 2018
	(Amounts in thousands)	
Components and assemblies	$ 592	$ 426
Finished products	114	240
Total inventories, net	$ 706	$ 666

Property and equipment, net

Property and equipment, net consists of the following:

	Estimated Useful Life (Years)	As of October 31, 2018	As of January 31, 2018
		(Amounts in thousands)	
Land		$ 2,780	$ 2,780
Buildings	20	11,861	11,839
Office furniture and equipment	5	730	774
Computer equipment, software and demonstration equipment	3	12,414	12,770
Service and spare components	5	1,158	1,158
Leasehold improvements	1-7	513	537
		29,456	29,858
Less - Accumulated depreciation and amortization		(20,796)	(20,387)
Total property and equipment, net		$ 8,660	$ 9,471

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Depreciation and amortization expense on property and equipment, net was $0.3 million and $1.0 million for the three and nine months ended October 31, 2018 and $0.6 million and $1.8 million for the three and nine months ended October 31, 2017.

Other accrued expenses

Other accrued expenses consist of the following:

	As of October 31, 2018	As of January 31, 2018
	(Amounts in thousands)	
Accrued compensation and commissions	$ 1,340	$ 1,414
Accrued bonuses	1,174	2,715
Employee benefits	301	601
Sales tax and VAT payable	420	4,001
Income taxes payable	41	2,869
Accrued other	2,337	3,554
Accrued Restructuring	724	225
Total other accrued expenses	$ 6,337	$ 15,379

5. Goodwill and Intangible Assets

Goodwill

Goodwill represents the difference between the purchase price and the estimated fair value of identifiable assets acquired and liabilities assumed. We are required to perform impairment tests related to our goodwill annually, which we perform during the third quarter of each fiscal year, or when we identify certain triggering events or circumstances that would more likely than not reduce the estimated fair value of the goodwill of the Company below its carrying amount. The following table represents the changes in the carrying amount of goodwill for the nine months ended October 31, 2018 (amounts in thousands):

Balance as of January 31, 2017:	
Goodwill, gross	$ 62,566
Accumulated impairment losses	(39,279)
Goodwill, net	23,287
Cumulative translation adjustment	2,292
Balance as of January 31, 2018:	
Goodwill, gross	64,858
Accumulated impairment losses	(39,279)

Goodwill, net	25,579
Cumulative translation adjustment	(1,623)
Balance as of October 31, 2018:	
Goodwill, gross	63,235
Accumulated impairment losses	(39,279)
Goodwill, net	$ 23,956

In the second quarter of fiscal 2019, we determined there to be a triggering event that prompted us to test our goodwill for impairment as of July 31, 2018. The triggering event was a decline in actual revenue for the quarter compared to projected amounts, which was reported in a Current Report on Form 8-K furnished to the SEC on August 21, 2018. The Company performed a quantitative goodwill impairment test, utilizing the single-step approach under ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment,* comparing the carrying value of the reporting unit to its estimated fair value, which was calculated using a discounted cash flow analysis, a form of income approach. We considered three generally accepted approaches for valuing businesses: the market approach, the income approach and the asset-based (cost) approach to arrive at fair value. The discounted cash flow analysis relied on certain assumptions regarding future net free cash flows based on industry market data, historical performance and expected future performance. Future net free cash flows were discounted to present value using a risk-adjusted discount rate, which reflects the Weighted Average Cost of Capital (WACC). The WACC was developed using information from same or similar industry participants and publicly available market data. As a result of the quantitative goodwill impairment test performed as of July 31, 2018, the Company determined that the estimated fair value of the reporting unit exceeded its carrying value, including goodwill, by 28.7%. Therefore, no impairment charges on our goodwill or other long-lived assets were recorded in the second quarter of fiscal 2019.

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Intangible Assets

Intangible assets, net, consisted of the following at October 31, 2018 and January 31, 2018:

	As of October 31, 2018				As of January 31, 2018		
	Weighted average remaining life (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(Amounts in thousands)						
Finite-life intangible assets:							
Customer contracts	1.85	$ 17,895	$ (17,482)	$ 413	$ 30,818	$ (29,836)	$ 982
Non-compete agreements		2,473	(2,473)		2,639	(2,635)	4
Completed technology	1.86	9,655	(9,561)	94	11,479	(11,203)	276
Trademarks, patents and other	3.0	6,948	(6,924)	24	7,189	(7,148)	41
Total finite-life intangible assets	1.9	$ 36,971	$ (36,440)	$ 531	$ 52,125	$ (50,822)	$ 1,303

Amortization expense for intangible assets was $0.4 million and $1.2 million, respectively, for the three and nine months ended October 31, 2018 and $0.6 million and $1.8 million, respectively, for the three and nine months ended October 31, 2017.

As of October 31, 2018, the estimated future amortization expense for our finite-life intangible assets is as follows (amounts in thousands):

Fiscal Year Ended January 31,	Estimated Amortization Expense
2019 (for the remaining three months)	$ 217
2020	311
2021	3
2022	
2023	
2024 and thereafter	
Total	$ 531

6. Commitments and Contingencies

Indemnification and Warranties

We provide indemnification, to the extent permitted by law, to our officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee or agent is, or was, serving at our request in such capacity. With respect to acquisitions, we provide indemnification to, or assume indemnification obligations for, the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies governing documents. As a matter of practice, we have maintained directors and officers liability insurance including coverage for directors and officers of acquired companies.

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. From time to time, we also indemnify customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of our products and services or resulting from the acts or omissions of us, our employees, authorized agents or subcontractors. From time to time we have received requests from customers for indemnification of patent litigation claims. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us. There are no current pending legal proceedings, in the opinion of management, that would have a material adverse effect on our financial position, results from operations and cash flows. There is no assurance that future legal proceedings arising from ordinary course of business or otherwise, will not have a material adverse effect on our financial position, results from operations or cash flows.

We warrant that our products, including software products, will substantially perform in accordance with our standard published specifications in effect at the time of delivery. In addition, we provide maintenance support to our customers and therefore allocate a portion of the product purchase price to the initial warranty period and recognize revenue on a straight-line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. When we enter into arrangements that include revenue for extended warranties beyond the standard duration, the revenue is deferred and recognized on a straight-line basis over the contract period. Related costs are expensed as incurred.

7. Severance and Other Restructuring Costs

Restructuring Costs

During the nine months ended October 31, 2018, we incurred restructuring charges, primarily for employee-related benefits for terminated employees offset by the reversal of certain accruals from fiscal 2018 for costs related to the restructuring.

The following table shows the activity in accrued restructuring reported as a component of other accrued expenses on the consolidated balance sheet as of October 31, 2018 (amounts in thousands):

	Employee-Related Benefits	Closure of Leased Facilities	Other Restructuring	Total
Accrual balance as of January 31, 2018	$ 61	$ 135	$ 29	$ 225
Restructuring charges incurred	950	(7)	(29)	914
Cash payments	(287)	(128)		(415)
Other charges				
Accrual balance as of October 31, 2018	$ 724	$	$	$ 724

During the third quarter of fiscal 2017, we implemented a restructuring program (the 2017 Restructuring Program) with the purpose of reducing costs and assisting in restoring SeaChange to profitability and positive cash flow. This program included measures intended to allow the Company to more efficiently operate in a leaner, more direct cost structure. These measures included reductions in workforce, consolidation of facilities, transfers of certain business processes to lower cost regions and reduction in third-party service costs. The Restructuring Plan was substantially complete as of January 31, 2018. However, we incurred a small charge for employee-related benefits during the first quarter of fiscal 2019 and reversed any remaining estimates to severance and other restructuring charges in our consolidated statements of operations and comprehensive loss in April 2018. Since its implementation, we recognized $7.1 million in restructuring charges related to the 2017 Restructuring Program.

In September 2018, in order to return the Company to profitability by the end of fiscal 2019, we announced that we implemented further cost-savings actions during the third quarter of fiscal 2019 (the 2019 Restructuring Program). The primary element of this restructuring program was staff reductions across all of our functions and geographic areas and we expect the program to be completed by the end of fiscal 2019. Annualized cost savings are expected to be approximately $6 million once completed and other restructuring and severance charges are expected to be approximately $1 million.

Severance Costs

During the three and nine months ended October 31, 2018, we incurred additional severance charges not related to a restructuring plan of $0.1 million and $0.7 million, respectively, primarily from the departure of 17 employees. Severance costs during each of the three and nine months ended October 31, 2017 were $0.2 million.

8. Stockholders Equity

2011 Compensation and Incentive Plan

In July 2011, our stockholders approved the adoption of our 2011 Compensation and Incentive Plan (the 2011 Plan). The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units (RSUs), deferred stock units (DSUs) and other equity based non-stock option awards as determined by the plan administrator to officers, employees, consultants, and directors of the Company.

On July 13, 2017, our stockholders approved an amendment to the 2011 Plan which increased the number of shares under the 2011 Plan by 4,000,000 shares and correspondingly, increased the number of incentive stock options that can be authorized for issuance under the 2011 Plan.

Effective February 1, 2014, SeaChange gave its non-employee members of the Board of Directors the option to receive DSUs in lieu of RSUs, beginning with the annual grant for fiscal 2015. The number of units subject to the DSUs is determined as of the grant date and shall fully vest one year from the grant date. The shares underlying the DSUs are not vested and issued until the earlier of the director ceasing to be a member of the Board of Directors (provided such time is subsequent to the first day of the succeeding fiscal year) or immediately prior to a change in control.

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We may satisfy awards upon the exercise of stock options or the vesting of stock units with newly issued shares or treasury shares. The Board of Directors is responsible for the administration of the 2011 Plan and determining the terms of each award, award exercise price, the number of shares for which each award is granted and the rate at which each award vests. In certain instances, the Board of Directors may elect to modify the terms of an award. As of October 31, 2018, there were 2,523,049 shares available for future grant under the 2011 Plan.

Option awards may be granted to employees at an exercise price per share of not less than 100% of the fair market value per common share on the date of the grant. Stock units may be granted to any officer, employee, director, or consultant at a purchase price per share as determined by the Board of Directors. Option awards granted under the 2011 Plan generally vest over a period of one to four years and expire ten years from the date of the grant.

In fiscal 2016, the Board of Directors developed a Long-Term Incentive (LTI) Program under which the named executive officers and other key employees of the Company will receive long-term equity-based incentive awards, which are intended to align the interests of our named executive officers and other key employees with the long-term interests of our stockholders and to emphasize and reinforce our focus on team success. Long-term equity-based incentive compensation awards are made in the form of stock options, RSUs and performance stock units (PSUs) subject to vesting based in part on the extent to which employment continues for three years. In fiscal 2018, the Board of Directors changed the structure of prospective LTI performance-based awards, changing from awards based on total shareholder return to awards based on Company-specific financial performance metrics. Since these awards are performance-based awards and do not include market conditions, we record the fair value of these PSUs using the grant date share price rather than the Monte Carlo simulation model used for PSUs previously granted in fiscal 2016 and fiscal 2017, which included market conditions. We recognize stock compensation expense ratably over the required service period based on the estimate that it is probable that the measurement criteria will be achieved and the targeted number of shares will vest. If there is a change in estimate of the number of shares that are probable of vesting, we will cumulatively adjust stock compensation expense in the period that the change in estimate is made.

We have granted market-based options to certain officers in connection with their appointment. These stock options have an exercise price equal to our closing stock price on the date of grant and will vest in approximately equal increments based upon the closing price of SeaChange s common stock. We record the fair value of these stock options using the Monte Carlo simulation model, since the stock option vesting is variable depending on the closing price of our traded common stock. The model simulated the daily trading price of the market-based stock options expected terms to determine if the vesting conditions would be triggered during the term. Effective April 6, 2016, Ed Terino, who previously served as our Chief Operating Officer (COO), was appointed Chief Executive Officer (CEO) of SeaChange and was granted 600,000 market-based options, bringing the total of his market-based options, when added to the 200,000 market-based options he received upon hire as COO in June 2015, to 800,000 market-based options. The fair value of these 800,000 stock options was estimated to be $2.1 million. As of October 31, 2018, $0.06 million remained unamortized on these market-based stock options, which will be expensed over the next 0.3 years, the remaining weighted average amortization period.

2015 Employee Stock Purchase Plan

In July 2015, we adopted the 2015 Employee Stock Purchase Plan (the ESPP). The purpose of the ESPP is to provide eligible employees, including executive officers of SeaChange, with the opportunity to purchase shares of our common stock at a discount through accumulated payroll deductions of up to 15%, but not less than one percent of their eligible compensation, subject to any plan limitations. Offering periods typically commence on October 1st and April 1st and end on March 31st and September 30th with the last trading day being the exercise date for the offering period. On each purchase date, eligible employees will purchase our stock at a price per share equal to 85% of the closing price of our common stock on the exercise date, but no less than par value. The maximum number of shares of our common stock which will be authorized for sale under the ESPP is 1,150,000 shares. Since its inception, a total of 56,821 shares have been purchased under the ESPP. Stock-based compensation expense related to the ESPP was not significant for the three and nine months ended October 31, 2018 and 2017.

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9. Accumulated Other Comprehensive Loss

The following shows the changes in the components of accumulated other comprehensive loss for the nine months ended October 31, 2018:

	Foreign Currency Translation Adjustment	Changes in Fair Value of Available-for-Sale Investments	Total
	(Amounts in thousands)		
Balance at January 31, 2018	$ (5,380)	$ (54)	$ (5,434)
Other comprehensive income (loss)	2,354	(15)	2,339
Balance at October 31, 2018	$ (3,026)	$ (69)	$ (3,095)

Unrealized holding gains (losses) on securities available-for-sale are not material for the periods presented.

Comprehensive loss consists of our net loss and other comprehensive income (loss), which includes foreign currency translation adjustments and changes in unrealized gains and losses on marketable securities available-for-sale. For purposes of comprehensive loss disclosures, we do not record tax expense or benefits for the net changes in the foreign currency translation adjustments.

10. Revenues from Contracts with Customers

On February 1, 2018, the Company adopted ASC 606 using the modified retrospective method to achieve a consistent application of revenue recognition, resulting in a single revenue model to be applied by reporting companies under U.S. GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the providing entity expects to be entitled in exchange for those goods or services. Therefore, for arrangements that include customer-specified acceptance criteria, revenue is recognized when the Company can objectively determine that control has been transferred to the customer in accordance with the agreed-upon specifications in the contract, which may occur before formal customer acceptance. In addition, the new guidance requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance no longer requires the Company to have vendor specific object evidence (VSOE) to determine the fair value of undelivered elements in a multiple-element software transaction, resulting in revenue attributable to the sale of software being recognized earlier.

Our products and services facilitate the aggregation, licensing, management and distribution of video and advertising content to cable television system operators, telecommunication companies, satellite operators and media companies. Offerings include and revenue is generated from the sales of software, hardware, professional services, maintenance and support in order to deploy SeaChange systems and provide ongoing functionality.

These offerings can be sold on a standalone basis or as a component of a contract with multiple performance obligations. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price. The performance obligations include future credits, significant discounts and material rights in addition to the software, hardware, professional services, maintenance and support.

The revenue for perpetual licenses to software applications and hardware is recognized upon delivery or acceptance by the customer. Product maintenance and technical support is recognized ratably over the stated and implied maintenance periods.

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The professional services are either fixed price or time and material contracts, and consist of installation and integration, customized development and customized software, training, and on-site managed services. The installation and integration is recognized over time based on an input measure of hours incurred to total estimated hours. The customized development and software is recognized at a point in time upon delivery and acceptance of the final software product. The training and the on-site managed services are recognized over the service period.

The cumulative effect of the changes made to our consolidated balance sheet as of February 1, 2018 for the adoption of the new guidance under the modified retrospective method is as follows (amounts in thousands):

	As of		
	January 31, 2018 Under ASC 605	**Adjustment**	**February 1, 2018 Under ASC 606**
Assets			
Unbilled receivables	$ 3,101	$ 137	$ 3,238
Prepaid expenses and other current assets (1)	$ 3,557	$ 824	$ 4,381
Liabilities			
Deferred revenues	$ 14,433	$ (1,358)	$ 13,075
Equity			
Accumulated loss	$ (148,620)	$ 2,319	$ (146,301)

(1) Contract assets, short-term are included in prepaid expenses and other current assets in our consolidated balance sheet.

The following tables set forth the amount by which each financial statement line item is affected in the current reporting period by the application of ASC 606, as compared to the guidance that was in effect before its adoption. The impact of adoption on the consolidated financial statements as of and for the three and nine months ended October 31, 2018 is as follows (amounts in thousands):

Consolidated Balance Sheets:

	As of		
	October 31, 2018 Under ASC 605	**Adjustment**	**October 31, 2018 Under ASC 606**
Assets			
Unbilled receivables	$ 5,112	$ 366	$ 5,479
Prepaid expenses and other current assets (1)	$ 8,561	$ (680)	$ 7,880
Liabilities			
Deferred revenues	$ 13,418	$ 6,344	$ 7,075
Equity			
Accumulated loss	$ 170,709	$ 6,030	$ (164,679)

(1) Contract assets, short-term, are included in prepaid expenses and other current assets in our consolidated balance sheet.

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Consolidated Statements of Operations and Comprehensive Loss:

	For the Three Months Ended October 31, 2018		
	Under ASC 605	**Adjustment**	**Under ASC 606**
Revenues	$ 18,352	$ 260	$ 18,612
Cost of revenues	7,163	160	7,323
Operating expenses	13,695	110	13,805
Loss from operations	(2,506)	(10)	(2,516)
Loss before income taxes	(4,535)	(10)	(4,545)
Income tax (benefit) provision	(775)		(775)
Net loss	(3,818)	(10)	(3,828)
Net loss per share:			
Basic	$ (0.12)	$	$ (0.12)
Diluted	$ (0.12)	$	$ (0.12)

	For the Nine Months Ended October 31, 2018		
	Under ASC 605	**Adjustment**	**Under ASC 606**
Revenues	$ 41,216	$ 4,231	$ 45,447
Cost of revenues	18,509	458	18,967
Operating expenses	42,381		42,381
Loss from operations	(19,675)	3,774	(15,901)
Loss before income taxes	(24,515)	3,774	(20,741)
Income tax (benefit) provision	(2,412)		(2,421)
Net loss	(22,152)	3,774	(18,378)
Net loss per share:			
Basic	$ (0.63)	$ 0.11	$ (0.52)
Diluted	$ (0.63)	$ 0.11	$ (0.52)

Consolidated Statement of Cash Flows:

	For the Nine Months Ended October 31, 2018		
	Under ASC 605	**Adjustment**	**Under ASC 606**
Cash used in operating activities:			
Net loss	$ (22,089)	$ 3,711	$ (18,378)
Unbilled receivables	(5,638)	680	(4,957)
Prepaid expenses and other current assets	(1,740)	366	(2,107)
Deferred revenues	(716)	(6,344)	(7,060)
Other operating activities	169	2,319	2,488
Total cash used in operating activities	$ (23,626)	$	$ (23,626)

The following summarizes the significant changes under ASC 606 as compared to legacy U.S. GAAP:

Under legacy U.S. GAAP, the Company allocated revenue to licenses under the residual method when it had VSOE for the remaining undelivered elements, which allocated any future credits or significant discounts entirely to the license. Under ASC 606, the Company allocates all future credits, significant discounts, and material rights to all performance obligations based upon their relative selling price. Additional license revenue from the reallocation of such arrangement consideration is recognized when control is transferred to the customer, which is generally upon delivery of the license.

Under legacy U.S. GAAP, the Company did not have VSOE for professional services and maintenance in certain geographical areas, which resulted in revenue being deferred in such instances until such time as VSOE existed for all undelivered elements or recognized ratably over the longest service period. Under ASC 606, the requirement for VSOE is eliminated and replaced with the concept of a standalone selling price. Once the transaction price is allocated to each of the performance obligations, the Company recognizes revenue as the performance obligations are delivered, either at a point in time or over time. Under ASC 606, license revenue is recognized when control is transferred to the customer and professional services revenue is recognized over time based on an input measure of hours incurred to total estimated hours. This results in the acceleration of professional services revenue when compared to the historical practice of ratable recognition for professional services when there is a lack of VSOE.

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Under legacy U.S. GAAP, sales commissions and other third-party acquisition costs resulting directly from securing contracts with customers are expensed when incurred. Under ASC 340, *Other Assets and Deferred Costs,* because the sales commission paid on the maintenance renewals is not commensurate with the original arrangement, ASC 340 requires that these acquisition costs be expensed over the expected period of benefit, which we estimate as the customer life of five years.

Under legacy U.S. GAAP, professional service costs associated with highly customized development efforts related directly to contracts with customers are expensed when incurred. Under ASC 340, these costs are recognized as an asset when incurred and are expensed along with professional service revenue at the time that customized software is delivered and/or accepted.

Disaggregated Revenue

The following table shows our revenue disaggregated by revenue stream for the three and nine months ended October 31, 2018 (amounts in thousands):

	For the Three Months Ended October 31, 2018	**For the Nine Months Ended October 31, 2018**
Revenue by revenue stream:		