

SEACHANGE INTERNATIONAL INC  
Form 10-K  
April 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 31, 2018

or

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  
(State or other jurisdiction) 04-3197974  
(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:

Edgar Filing: SEACHANGE INTERNATIONAL INC - Form 10-K

Common Stock, \$0.01 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, 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 a check mark if the registrant has elected 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 Act). Yes No

As of July 31, 2017, 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 \$98,541,508. The number of shares of the registrant's Common Stock outstanding as of the close of business on April 12, 2018 was 35,614,396.

DOCUMENTS INCORPORATED BY REFERENCE:

Edgar Filing: SEACHANGE INTERNATIONAL INC - Form 10-K

Portions of the definitive Proxy Statement filed no later than 120 days after the Company's fiscal year end pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

---

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 Financial Condition and Results of Operations," along with statements contained in other reports that we have filed with the Securities and Exchange Commission ("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 Exchange 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," "continue," "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 (including taxes), exchange rate sensitivity, interest rate sensitivity, liquidity, product introductions, industry changes, general market conditions, our continued limited number of customers, geographic location of sales and a reduction in workforce and the impact thereof. 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

PART I		
Item 1.	<u>BUSINESS</u>	Page 4
Item	<u>RISK FACTORS</u>	
1A.		10
Item	<u>UNRESOLVED STAFF COMMENTS</u>	
1B.		24
Item 2.	<u>PROPERTIES</u>	24
Item 3.	<u>LEGAL PROCEEDINGS</u>	24
Item 4.	<u>MINE SAFETY DISCLOSURES</u>	25
PART II		
Item 5.	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	26
Item 6.	<u>SELECTED FINANCIAL DATA</u>	28
Item 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	29
Item	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	
7A.		53
Item 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	54
Item 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	94
Item	<u>CONTROLS AND PROCEDURES</u>	
9A.		95
Item	<u>OTHER INFORMATION</u>	
9B.		96
PART III		
Item	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	
10.		97
Item	<u>EXECUTIVE COMPENSATION</u>	
11.		97
Item	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	
12.		97
Item	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	
13.		97
Item	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	
14.		97
PART IV		
Item	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	
15.		98

Item	<u>FORM 10-K SUMMARY</u>	101
16.	<u>SIGNATURES</u>	102

---

## 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 multiscreen, advertising and premium over the top (“OTT”) video management solutions headquartered in Acton, Massachusetts. Our products and services facilitate the aggregation, licensing, management and distribution of video and advertising content for cable television system operators, telecommunications companies, satellite operators and media companies. 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. and Rogers Communications, Inc.; telecommunications companies, such as Verizon Communications, Inc., AT&T, Inc. and Frontier Communications Corporation; satellite operators such as Direct TV and Dish Network Corporation; and media companies such as Filmbank Media.

Our products and services are designed to empower video providers to create, manage and monetize the increasingly personalized, highly engaging experiences that viewers demand. Using our products and services, we believe customers can increase revenues by offering services such as video-on-demand (“VOD”) programming on a variety of consumer devices, including televisions (“TVs”), mobile telephones (“smart phones”), personal computers (“PCs”), tablets and OTT streaming players. Our solutions enable 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 multiscreen viewing is increasing, consumer device options are evolving rapidly, and viewing habits are shifting. The primary driver of our business is enabling the delivery of video assets in the changing multiscreen television environment. Through strategic collaborations, 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 also position us to further support and maintain our existing service provider customer base. Providing our customers with more scalable software platforms enables them to further reduce their infrastructure costs, improve reliability and expand service offerings to their customers. Additionally, we believe we are well positioned to capitalize on new customers entering the multiscreen marketplace and increasingly serving adjacent markets, such as 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 activity across multiple devices.

On May 5, 2016, we acquired a 100% share of DCC Labs in exchange for an aggregate of \$2.7 million in newly issued shares of SeaChange common stock and \$5.2 million in cash, net of cash acquired, resulting in a total net purchase price of \$7.9 million. DCC Labs is a developer of set-top and multiscreen device software. The acquisition of DCC Labs in fiscal 2017 enabled us to optimize the operations of our In-Home business, which developed home video gateway software including SeaChange’s Nucleus and NitroX products. In addition, the acquisition brought market-ready products, including an optimized television software stack for Europe’s Digital Video Broadcasting community, and an HTML5 framework for building additional user experience client applications across a variety of CPE devices, including Android TV STBs, tablets, mobile and computer devices. During fiscal 2018, the In-Home business became the center of engineering and expanded to include product development for backoffice, advertising and legacy products. The Poland operation became the prime engineering location and as of the end of fiscal 2018, was the largest location by number of engineers. In addition, the engineering efforts were combined and the teams were re-organized into a single global team in fiscal 2018, which spans a reduced number of locations globally compared to fiscal 2017. As part of the engineering transition, organizational improvements were implemented in

order to focus on software quality, reliability and pre-integration, in order to de-risk deployments and improve go-to-market time for new solutions and existing upgrades. The global engineering team introduced DevOps practices with a customer-centric view of technology improvements across all products within the SeaChange solution. Along with operational improvements, engineering introduced changes to process and workflow which enabled more accurate effort estimations and velocity tracking. With the introduction of common agile project methodology across all teams and products, the efficiency of software engineering increased, which allowed more engineering resources to focus on innovation and development of industry leading features and enhancements to existing products as well as new product releases that expand the SeaChange technology franchise. At the same time, improved efficiency and better allocation of software developers enabled a more lean and targeted approach to supporting existing deployments and delivering upon support commitments for legacy products using a cost-optimized workforce.

In conjunction with the DCC Labs acquisition and an additional company-wide cost savings program established in the second half of fiscal 2017, SeaChange commenced a restructuring program (“Restructuring Program”), which has allowed us to achieve approximately \$38 million in annualized cost savings since its commencement. The Restructuring Program resulted in aggregate charges of \$9.2 million as of January 31, 2018 in severance and other restructuring costs. These charges include costs for workforce reductions, facility closings and other costs to complete the restructuring, such as legal and consulting fees. As of January 31, 2018, the Restructuring Program has been completed and has helped us improve operations and optimize our cost structure since its



inception. Any remaining costs related to the Restructuring Program will be expensed as incurred to severance and other restructuring costs in our consolidated statements of operations and comprehensive income (loss) in future quarters.

## PRODUCTS AND SERVICES

Our business is focused on the following product areas: video platform (including content management), advertising and user experience. Our revenue sources consist of product revenue from these areas, as well as related services.

### Video Platform

SeaChange Adrenalin Multiscreen Video Backoffice Platform. Adrenalin is a comprehensive software platform that enables service providers to manage, monetize and deliver a seamless viewing experience to subscribers across TVs, PCs, tablets, smart phones and other IP-enabled devices. Adrenalin is a modular software solution allowing customers to gradually adopt new functionality and features to expand multiscreen television distribution capabilities. We offer our Adrenalin platform under two deployment options: through onsite software licenses and on a cloud-based offering through software-as-a-service (“SaaS”). With an onsite software license model, revenue is derived from perpetual software licenses, maintenance and support fees and professional services. In a SaaS offering, we license our product offerings and customers pay us on a monthly recurring basis based on the total number of subscribers deployed by the customer.

SeaChange AssetFlow Content Management Solution. In today’s multiscreen viewing environment, programming or advertisements are reproduced with numerous variants to serve the unique requirements of multiple network types, consumer devices and geographies. Metadata, such as poster, description and pricing, associated with the programming, is also managed by the platform. At the point of content ingest, our AssetFlow software is used to receive, manage and publish video content for 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 processing.

End-to-End Integrated Platforms. Leveraging the experience gained through our SeaChange Rave™ offering, we continue to expand our offerings in the integrated platform service/solution market.

### Advertising

SeaChange Infusion Advanced Advertising Platform. As more video content is served to multiple consumer devices, the ability to generate additional revenue by inserting advertising across multiple platforms 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 multiscreen, broadcast, on-demand and OTT viewing and reach their audiences while viewers watch content across multiple devices.

### User Experience

Nucleus. Nucleus ports to third-party set-top boxes, or other customer on-premises equipment hardware and system on a chip, and acts as a hub for all video distribution to any IP- connected device in the home, such as tablets, smart phones and game consoles. SeaChange capitalizes on open software and networking technologies to offer Nucleus, a fully customizable foundation for rich multiscreen services running on the chipset and hardware. Nucleus enables the service providers to select the chipset, hardware and set-top box vendor of their choice. Nucleus extends providers’ video services to a wide range of video consumer devices through its support for Digital Living Network Alliance networking protocols. This enhances the 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 use open technologies to more rapidly introduce and support service innovations.

SeaChange NitroX. NitroX empowers service providers and content owners to optimize live and on-demand video consumption on multiscreen and OTT services. Its features and functionality allow service providers to fully leverage the extensive content management, delivery and monetization capabilities of Seachange's platforms. NitroX products provide a ready-to-deploy multiscreen user experience that is pre-integrated with SeaChange's widely deployed Adrenalin or third-party multiscreen video platform and Nucleus.

#### Services

SeaChange offers comprehensive professional services, maintenance and support for all its products. We have developed extensive capabilities in systems integration, implementation and customer engineering. 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 multiscreen capabilities.

## STRATEGY

Our goal is to strengthen our position as a leading global provider of multiscreen video delivery solutions by enabling service providers and content owners to increase revenue opportunities by delivering transformative multiscreen video services to their end users. Key elements of our strategy include:

- We intend to continue providing our current and future customer base with industry-leading solutions through our focus on product innovation and substantial investment in research and development for our latest feature-rich software products and services;
- We intend to provide pre-packaged integrated solutions, known as end-to-end solutions, with the goal of better enabling new and existing customers to drive the adoption of subscription-based, SaaS models through service offerings hosted and/or managed by us;
- We intend to continue pursuing strategic collaborations that we believe will strengthen our industry leadership position, expand our geographic presence, open new markets or allow us to expand to new products or services, or enhance our existing ones;
- We may enter strategic relationships to help our customers address deficiencies in their market space;
- We intend to continue to focus on both selling our products to support a single screen and to upgrade our services to support multiple devices as service providers expand their reach. We intend to continue to be able to scale to enable platforms as part of the initial sale; and
- We intend to expand our customer base in Asia Pacific and Latin America as well as market segments such as mobile, satellite, telecommunications and media companies.

## RESEARCH AND DEVELOPMENT

We have focused and streamlined our research and development efforts in recent years. Our research and development costs were \$23.2 million in fiscal 2018, \$30.1 million in fiscal 2017 and \$33.7 million in fiscal 2016. We believe that our success will depend on our ability to develop and timely introduce new integrated solutions and enhancements to our existing products that meet changing customer requirements in our current and future customer base as well as new markets. We have made substantial investments in developing and bringing to market our next generation products. Our current research and development activities are focused on developing multiscreen television platforms, content management solutions, additional user experience applications, advertising solutions 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 significant research and development efforts are performed at our Acton, Massachusetts headquarters, in Warsaw, Poland and in Eindhoven, Netherlands.

During fiscal 2018, 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 multiscreen video platforms. As of January 31, 2018, we had a research and development staff of 104 full-time employees and 67 contract employees.

## SELLING AND MARKETING

Our sales cycle tends to be long, in some instances 12-24 months, and purchase orders can be more than one million dollars. It is sometimes difficult to predict in what quarter or fiscal year our sales will occur. Considering the complexity of our video products, we primarily utilize a direct sales process. We sell and market our products

worldwide through a combination of a direct sales organization and sales representatives and partners. 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 their specific needs.

We use several marketing programs to support the sale and distribution of our products. We also market certain of our products to systems integrators and value-added resellers. 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 their awareness. In fiscal 2018 and 2017, to increase software sales in North America and EMEA, we increased our sales efforts in those regions. We also increased our sales efforts in other geographic areas such as Asia Pacific and Latin America. As of January 31, 2018, we had a selling and marketing staff of 41 employees.

#### 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. As of January 31, 2018 we had a manufacturing staff of 4 employees, reflecting our transition to being a company that primarily provides software solutions.

#### OUR CUSTOMERS

We currently sell our products primarily to video service providers, such as cable system operators and telecommunications companies, as well as content providers. Our customer base is highly concentrated among a limited number of large service provider customers. 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, 2018, LGI was the only customer that 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 because 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 accepted 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 time is meaningful as an indicator of our future level of revenue for any specific future period. Because of the requirements of some customers, orders may require substantive acceptance criteria prior to revenue being recognized, resulting in the related revenues not being 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. If our sales growth increases or we experience business model changes, our backl