

SEACHANGE INTERNATIONAL INC
Form 10-Q
September 11, 2006
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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 July 31, 2006

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
(State or other jurisdiction of
incorporation or organization)

50 Nagog Park, Acton, MA 01720

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (978) 897-0100

04-3197974
(IRS Employer
Identification No.)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 September 6, 2006 was 29,010,022.

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

| | July 31, 2006 (unaudited) | January 31, 2006 (unaudited) |
|---|---------------------------------|------------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21,190 | \$ 21,594 |
| Restricted cash | | 500 |
| Marketable securities | 8,180 | 14,596 |
| Accounts receivable, net of allowance for doubtful accounts of \$506 at July 31, 2006 and \$405 at January 31, 2006 | 36,777 | 30,109 |
| Unbilled receivables | 5,103 | 4,363 |
| Inventories, net | 19,890 | 19,299 |
| Income taxes receivable | 2,781 | 2,781 |
| Prepaid expenses and other current assets | 3,789 | 4,594 |
| Total current assets | 97,710 | 97,836 |
| Property and equipment, net | 30,214 | 27,191 |
| Marketable securities | 14,336 | 24,689 |
| Investments in affiliates | 13,086 | 12,812 |
| Intangible assets, net | 15,763 | 18,904 |
| Goodwill | 22,681 | 20,379 |
| Other assets | 5,257 | 5,363 |
| | \$ 199,047 | \$ 207,174 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 12,617 | \$ 10,016 |
| Income taxes payable | 664 | 2,843 |
| Accrued litigation reserve | | 7,986 |
| Other accrued expenses | 5,593 | 8,408 |
| Customer deposits | 4,051 | 2,170 |
| Deferred revenues | 18,899 | 20,045 |
| Deferred tax liabilities | 437 | 556 |
| Total current liabilities | 42,261 | 52,024 |
| Deferred tax liabilities, long-term | 1,192 | 1,353 |
| Total liabilities | 43,453 | 53,377 |
| Commitments and contingencies (Note 11) | | |
| Stockholders equity: | | |
| Convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized, none issued or outstanding | | |

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| | | |
|--|------------|------------|
| Common stock, \$0.01 par value; 100,000,000 shares authorized; 28,966,084 and 28,451,930 shares issued and outstanding at July 31, 2006 and January 31, 2006, respectively | 290 | 285 |
| Additional paid-in capital | 181,193 | 176,238 |
| Accumulated deficit | (25,660) | (22,264) |
| Accumulated other comprehensive loss | (229) | (462) |
| Total stockholders' equity | 155,594 | 153,797 |
| | \$ 199,047 | \$ 207,174 |

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

Table of Contents**SEACHANGE INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands, except per share data)*

| | Three months ended July 31, | | Six months ended July 31, | |
|---|--------------------------------|-------------------|------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (unaudited) | | | |
| Revenues: | | | | |
| Hardware, software and systems | \$ 29,291 | \$ 14,448 | \$ 47,322 | \$ 34,515 |
| Services | 16,475 | 11,747 | 31,685 | 23,192 |
| | 45,766 | 26,195 | 79,007 | 57,707 |
| Cost of revenues: | | | | |
| Hardware, software and systems | 13,296 | 10,224 | 22,812 | 21,747 |
| Services | 8,654 | 6,790 | 16,998 | 13,271 |
| | 21,950 | 17,014 | 39,810 | 35,018 |
| Gross profit | 23,816 | 9,181 | 39,197 | 22,689 |
| Operating expenses: | | | | |
| Research and development | 10,687 | 8,459 | 20,894 | 16,339 |
| Selling and marketing | 5,913 | 4,584 | 11,130 | 9,590 |
| General and administrative | 4,773 | 3,476 | 9,397 | 6,089 |
| Amortization of intangibles | 1,410 | 332 | 2,820 | 391 |
| | 22,783 | 16,851 | 44,241 | 32,409 |
| Income (loss) from operations | 1,033 | (7,670) | (5,044) | (9,720) |
| Interest income | 295 | 528 | 689 | 1,097 |
| Interest expense | (73) | (6) | (82) | (14) |
| Income (loss) before income taxes and equity income in earnings of affiliates | 1,255 | (7,148) | (4,437) | (8,637) |
| Income tax expense (benefit) | 467 | (544) | (721) | (1,125) |
| Equity income in earnings of affiliates | 171 | 48 | 320 | 378 |
| Net income (loss) | \$ 959 | \$ (6,556) | \$ (3,396) | \$ (7,134) |
| Basic income (loss) per share | \$ 0.03 | \$ (0.23) | \$ (0.12) | \$ (0.25) |
| Diluted income (loss) per share | \$ 0.03 | \$ (0.23) | \$ (0.12) | \$ (0.25) |
| Weighted average common shares outstanding: | | | | |
| Basic | 28,695 | 28,286 | 28,581 | 28,232 |
| Diluted | 28,812 | 28,286 | 28,581 | 28,232 |

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

Table of Contents**SEACHANGE INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS***(in thousands)*

| | Six months ended | |
|---|------------------|-----------------|
| | July 31, | July 31, |
| | 2006 | 2005 |
| | (unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (3,396) | \$ (7,134) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 3,562 | 3,186 |
| Amortization of intangibles and capitalized software | 3,220 | 391 |
| Inventory valuation charge | 462 | 404 |
| Allowance for (recovery of) doubtful accounts receivable | 203 | (190) |
| Amortization of premiums on marketable securities | 23 | 189 |
| Equity income in earnings of affiliates | (320) | (378) |
| Stock-based compensation | 1,739 | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (6,871) | 5,149 |
| Unbilled receivables | (740) | (926) |
| Inventories | (2,740) | (5,792) |
| Prepaid expenses and other assets | 879 | (5,450) |
| Accounts payable | 2,601 | (1,989) |
| Income taxes payable | (2,179) | (1,325) |
| Accrued expenses | (11) | 902 |
| Accrued litigation reserve | (7,986) | 48 |
| Customer deposits | 1,881 | 6,466 |
| Deferred revenues | (1,146) | (1,856) |
| Other | (329) | (4) |
| Net cash used in operating activities | (11,148) | (8,309) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (4,785) | (10,907) |
| Purchases of marketable securities | (6,772) | (7,948) |
| Proceeds from sale and maturity of marketable securities | 23,628 | 10,507 |
| Acquisition of businesses | (3,046) | (23,747) |
| Investments in affiliates | | (9,993) |
| Decrease in restricted cash | 500 | 500 |
| Net cash provided by (used in) investing activities | 9,525 | (41,588) |