

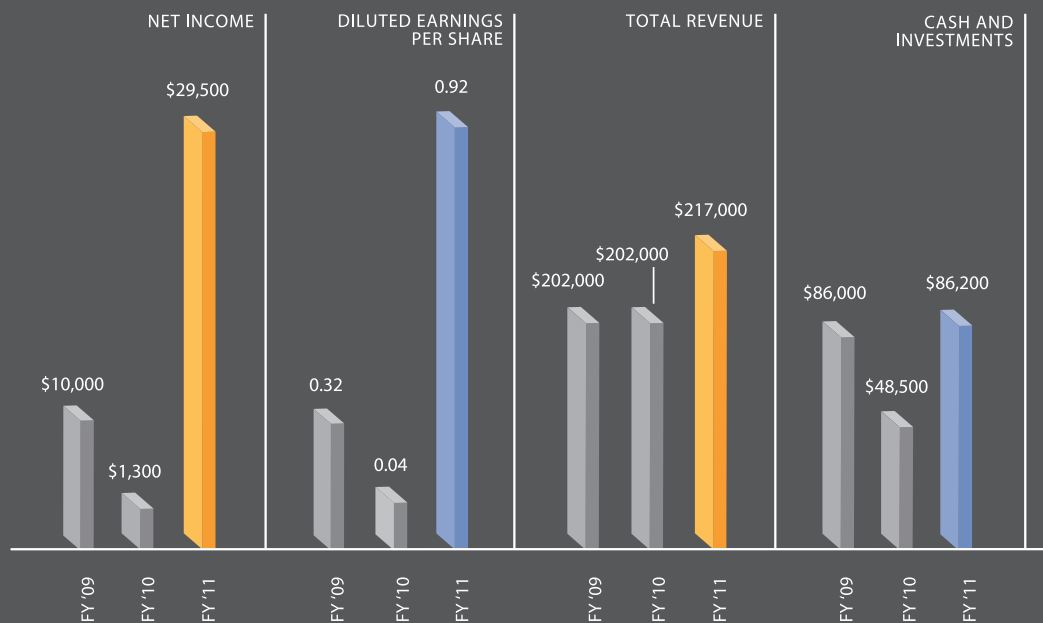


2011 ANNUAL REPORT AND PROXY

Video. Personal. Everywhere.



## SEACHANGE INTERNATIONAL, INC. FINANCIAL HIGHLIGHTS



(all numbers in thousands, except diluted earnings per share)

## LETTER FROM THE CEO

Dear Fellow Shareholders,

This fiscal year the industry advanced significantly in the evolution of video delivery to multiple screens and SeaChange made great progress in supplying solutions for early deployments and trials. We climbed further up in the *Software Magazine* Software 500, our Media Services division launched major mobile video services, and our Streaming and Storage business launched the new dense Universal Media Library solution.

We ended fiscal year 2011 with revenue of \$271 million and non-GAAP EPS \$0.43 per share, significantly higher than \$0.25 per share for fiscal year 2010. Our cash position improved substantially over the year to end at \$86.2 million.

Our concentration on financial performance throughout the year yielded key results including 60% recurring revenue and the divestiture of our investments in two companies, Casa Systems and InSite One, which led to a combined pre-tax gain of \$27.1 million. We completed the integration of our acquisitions of eventIS and Mobix, introducing our next generation software platform, Adrenalin, in October.

Additionally, we took further steps to increase our bottom line by beginning the move of our Streaming and Storage business unit to China and the Philippines. Operating expenses in this business unit declined by nearly 20%, excluding restructuring charges, in fiscal 2011 with further reductions expected in fiscal 2012 as the transition is completed. Note: R&D declined \$2M or 4% from fiscal 2010.

### **Software**

Our concentration on expanding our software product line and improving the operating margins was a major

focus. We rolled out multi-screen support for two major international service providers: Virgin Media in the U.K. and StarHub in Singapore. These are among the world's first deployments to support all three devices - TVs, PCs and mobile handsets.

The software segment grew revenues 32% in the fourth quarter and 19% for the year with revenues of \$46.1 million and \$157 million respectively.

SeaChange was ranked #168 in *Software Magazine's* 2010 Largest Global Software Companies list. The Company expects to place higher in 2011 and further improve its strategic position in the growth of video everywhere, anytime.

### **Media Services**

Our Media Services division saw phenomenal growth of 42% overall last year. This unit is engaged in delivering content services to multi-system operators such as OTE in Greece, du in Dubai, Turk Telekom and others. As operators around the world begin to roll out video-on-demand services, the key to success is the availability of quality content. Much of this content comes not only from Hollywood studios but it also includes local and ethnic content. Our On Demand Group division in London deals in content rights acquisition, content processing, advertising, distribution and marketing. Their capability includes a comprehensive facility for content digitizing and preparation. The Media Services division has made great strides in helping our operator customers increase subscriber buy rates. Recent data shows that their marketing and customization campaigns have increased subscriber buy rates threefold. The division continues to innovate and our content and metadata library is now quite substantial.

Currently On Demand Group supports nine languages in 12 territories. I expect continued growth from this business unit as they roll out in more territories worldwide.

### ***Streaming and Storage***

We made a conscious decision to de-emphasize our involvement in the hardware business as the competition heated up and the revenue and margins began to fall off.

Revenue for the Streaming and Storage unit was down 28% for the fourth quarter year over year and 37% for the year. However, margins rose to 55% for the fourth quarter vs. 33% in the prior year and the division was break-even on a non-GAAP basis in the fourth quarter. We had targeted the third quarter of this year to have the business unit show a profit, so we are well on our way to meeting that goal.


### ***Looking Forward***

This next fiscal year looks to be an exciting one. We're seeing the launch of tablets and smartphones become a more widespread reality and video is a key differentiator for service providers on these devices. Our investment in mobile streaming, HTML-5, home gateways, and the enablement of streaming to multiple screens will become an important facet of fiscal 2012. We're already beginning deployments and trials of more multi-screen services and we're seeing an increased interest in video sharing outside of the home.

Our unique ability to provide content services through On Demand Group to kick-start many of these launches, combined with our comprehensive software suite for back office and application management, differentiates SeaChange as a partner. We are seeing a greater focus by the industry on our unique ability to merge the content and consumer services through our software solutions. By leveraging the consumer knowledge, our software stands out as having a unique ability to optimize subscriber buy rates and to reduce churn. The strength of our global installed base will continue to drive our leadership position.

I look forward to sharing more with all of you on our progress in this trend throughout the year.

With best regards,



**Bill Styslinger**

Chief Executive Officer and Chairman of the Board  
SeaChange International, Inc.



**SEACHANGE INTERNATIONAL, INC.**  
**50 Nagog Park**  
**Acton, Massachusetts 01720**

**NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON JULY 20, 2011**

The Annual Meeting of Stockholders of SeaChange International, Inc. ("SeaChange" or the "Company") will be held at SeaChange's offices, located at 50 Nagog Park, Acton, Massachusetts 01720, on Wednesday, July 20, 2011 at 10:00 a.m., local time, to consider and act upon each of the following matters:

1. To elect the three members named in the proxy statement to the Board of Directors to serve for three-year terms as Class III Directors.
2. To conduct an advisory vote on the compensation of the Company's named executive officers.
3. To conduct an advisory vote on the frequency of the shareholder advisory vote on the compensation of the Company's named executive officers.
4. To approve the Company's 2011 Compensation and Incentive Plan.
5. To ratify the appointment of SeaChange's independent registered public accounting firm.
6. To transact such other business as may properly come before the meeting and any adjournments thereof.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on May 23, 2011, the record date fixed by the Board of Directors for such purpose.

**IF YOU PLAN TO ATTEND:**

Please call Martha Schaefer at (978) 897-0100 if you plan to attend. Please bring valid picture identification, such as a driver's license or passport. Stockholders holding stock in brokerage accounts ("street name" holders) will also need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, cell phones, recording devices and other electronic devices will not be permitted at the meeting.

By Order of the Board of Directors

Kevin M. Bisson  
*Chief Financial Officer, Secretary, Treasurer and Senior  
Vice President, Finance and Administration*

Acton, Massachusetts  
May 31, 2011

**Whether or not you expect to attend the meeting, please complete, date and sign the enclosed proxy and mail it promptly in the enclosed envelope to ensure representation of your shares. No postage need be affixed if the proxy is mailed in the United States. If you are the registered holder of the shares, you may rather choose to vote via the Internet or by telephone. If your shares are held in a bank or brokerage account, you may be eligible to vote electronically or by telephone. Please refer to the enclosed form for instructions.**

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**2011 ANNUAL MEETING OF STOCKHOLDERS  
PROXY STATEMENT  
TABLE OF CONTENTS**

Information Regarding Voting and Proxies.....	1
<b>OWNERSHIP OF SECURITIES .....</b>	<b>3</b>
Securities Ownership Of Certain Beneficial Owners And Management .....	3
<b>PROPOSAL NO. I - ELECTION OF DIRECTORS.....</b>	<b>6</b>
Class III Directors (Terms Expire at 2011 Annual Meeting).....	6
Class I Directors (Terms Expire at 2012 Annual Meeting) .....	7
Class II Directors (Terms Expire at 2013 Annual Meeting) .....	8
Arrangements or Understandings Regarding the Selection of Certain Directors .....	9
<b>CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS .....</b>	<b>11</b>
Determination of Director Independence .....	11
Stockholder Proposals .....	11
Availability of Corporate Governance Documents.....	11
Board Meetings .....	12
Board Leadership Structure and the Lead Director .....	12
Board Oversight of Risk .....	12
Board Committees .....	12
Audit Committee.....	13
Compensation Committee.....	13
Corporate Governance and Nominating Committee .....	13
Qualifications of Director Candidates.....	14
Procedures for Stockholders to Recommend Director Candidates .....	14
Process for Stockholders to Communicate with Directors.....	14
Compensation of Directors .....	15
Report of the Audit Committee .....	17
<b>INFORMATION CONCERNING EXECUTIVE OFFICERS .....</b>	<b>19</b>
<b>COMPENSATION DISCUSSION AND ANALYSIS .....</b>	<b>21</b>
Summary Compensation Table.....	32
Grants of Plan-Based Awards.....	34
Outstanding Equity Awards at Fiscal Year-End.....	34
Option Exercises and Stock Vested.....	36

Pension Benefits .....	36
Nonqualified Deferred Compensation .....	36
Potential Payments upon Termination or Change in Control .....	37
Compensation Committee Report.....	39
Compensation Committee Interlocks and Insider Participation.....	39
<b>PROPOSAL NO. II - ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS.....</b>	<b>40</b>
<b>PROPOSAL NO. III - ADVISORY VOTE ON WHETHER THE ADVISORY VOTE ON APPROVAL OF COMPENSATION OF NAMED EXECUTIVE OFFICERS SHOULD OCCUR EVERY ONE, TWO OR THREE YEARS.....</b>	<b>42</b>
<b>PROPOSAL NO. IV - APPROVAL OF THE ADOPTION OF SEACHANGE’S 2011 COMPENSATION AND INCENTIVE PLAN.....</b>	<b>43</b>
<b>PROPOSAL NO. V - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.....</b>	<b>53</b>
Independent Registered Public Accounting Firm for Fiscal Year 2012 .....	53
Principal Accountant Fees and Services.....	53
<b>OTHER MATTERS.....</b>	<b>54</b>
Expenses and Solicitation .....	54
Section 16(a) Beneficial Ownership Reporting Compliance .....	54
Certain Relationships and Related Transactions.....	55



**SEACHANGE INTERNATIONAL, INC.  
50 Nagog Park  
Acton, Massachusetts 01720**

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**PROXY STATEMENT  
FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON JULY 20, 2011**

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*May 31, 2011*

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors (the “Board”) of SeaChange International, Inc. for use at the Annual Meeting of Stockholders (the “Annual Meeting”) to be held on Wednesday, July 20, 2011, at 10:00 a.m., local time, at SeaChange’s offices, located at 50 Nagog Park, Acton, Massachusetts 01720.

Only stockholders of record as of the close of business on May 23, 2011 (the “Record Date”) will be entitled to vote at the Annual Meeting and any adjournments thereof.

SeaChange is pleased to take advantage of the U.S. Securities and Exchange Commission (the “SEC”) rules that allow companies to furnish their proxy materials over the Internet. We believe that this process allows SeaChange to provide its stockholders with the information they need in a timelier manner, while reducing the environmental impact and lowering the costs of printing and distributing its proxy materials.

As a result, SeaChange is mailing to most of its stockholders of record entitled to vote at the annual meeting on or about June 8, 2011, a Notice Regarding the Availability of Proxy Materials (sometimes referred to as the “Notice”) instead of a paper copy of this proxy statement and SeaChange’s 2011 Annual Report. The Notice contains instructions on how to access those documents over the Internet. The balance of SeaChange’s stockholders entitled to vote at the annual meeting will be mailed on or about June 8, 2011 a printed copy of the proxy materials together with a copy of the Notice.

**Information Regarding Voting and Proxies**

Stockholders may vote in one of the following three ways:

- (1) if you receive a copy of the proxy materials by mail, by completing, signing and dating the enclosed proxy card and returning it in the enclosed postage paid envelope by return mail;
- (2) by completing a proxy using the toll-free telephone number listed on the proxy card or Notice; or

(3) by completing a proxy on the Internet at the address listed on the proxy card or Notice.

Any proxy may be revoked by a stockholder at any time before its exercise by either delivering written revocation or a later dated proxy to the Secretary of SeaChange, entering a new vote by Internet or telephone, or attending the Annual Meeting of Stockholders and voting in person.

**Only your latest dated proxy will count.**

All properly completed proxy forms returned in time to be cast at the Annual Meeting will be voted. With respect to the election of the Class III Directors, any stockholder submitting a proxy has a right to withhold authority to vote for a nominee by indicating this in the space provided on the proxy. The stockholders will also consider and vote upon an advisory vote on the compensation of the Company's named executive officers, an advisory vote on the frequency of the stockholder advisory vote on the compensation of the Company's named executive officers, the approval of the Company's 2011 Compensation and Incentive Plan, and the ratification of the selection of SeaChange's independent registered public accounting firm. Where a choice has been specified on the proxy card with respect to each proposal, the shares represented by the proxy will be voted in accordance with your specifications. If no specification is indicated on the proxy card, the shares represented by the proxy will be voted **FOR** the nominees named herein for election to the Board of Directors to serve as Class III Directors, **FOR** approval of the compensation of the Company's named executive officers, **FOR** the shareholder advisory vote on the compensation of the Company's named executive officers to be conducted every year, **FOR** approval of SeaChange's 2011 Compensation and Incentive Plan, and **FOR** the ratification of the selection of SeaChange's independent registered public accounting firm.

A majority-in-interest of the outstanding shares represented at the Annual Meeting in person or by proxy shall constitute a quorum for the transaction of business. Votes withheld from any nominee, abstentions and broker "non-votes" are counted as present or represented for purposes of determining the presence or absence of a quorum for the meeting. A "non-vote" occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Directors are elected by a plurality of the votes cast by stockholders entitled to vote at the meeting. On all other matters being submitted to stockholders, an affirmative vote of at least a majority of the shares present, in person or represented by proxy, and voting on that matter is required for approval or ratification. An automated system administered by SeaChange's transfer agent tabulates the votes. The vote on each matter submitted to stockholders is tabulated separately. Abstentions, as well as broker "non-votes" are not considered to have been voted for such matters and have the practical effect of reducing the number of affirmative votes required to achieve a majority for such matters by reducing the total number of shares from which the majority is calculated.

The Board of Directors knows of no other matter to be presented at the Annual Meeting. If any other matter should be presented at the Annual Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Board of Directors will be voted with respect thereto in accordance with the judgment of the persons named as proxies and in accordance with the SEC's proxy rules. See "Stockholder Proposals" herein at page 11. The

persons named as proxies, William C. Styslinger, III and Kevin M. Bisson, were selected by the Board of Directors and are officers of SeaChange.

## OWNERSHIP OF SECURITIES

### Securities Ownership Of Certain Beneficial Owners And Management

The following table sets forth information regarding the beneficial ownership of SeaChange common stock as of May 23, 2011 by:

- each person or entity who is known by SeaChange to beneficially own more than 5% of the common stock of SeaChange;
- each of the directors of SeaChange and each of the executive officers of SeaChange named in the Summary Compensation Table on page 33; and
- all of the directors and executive officers of SeaChange as a group.

Except for the named executive officers and directors, none of these persons or entities has a relationship with SeaChange, except as disclosed below under “Certain Relationships and Related Transactions.” Unless otherwise indicated, the address of each person or entity named in the table is c/o SeaChange International, Inc., 50 Nagog Park, Acton, Massachusetts 01720, and each person or entity has sole voting power and investment power (or shares such power with his or her spouse), with respect to all shares of capital stock listed as owned by such person or entity.

The number and percentage of shares beneficially owned is determined in accordance with the rules of the SEC, and is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which a person has sole or shared voting power or investment power and also any shares of common stock underlying restricted stock units, options or warrants that are exercisable by that person within 60 days of May 23, 2011. However, these shares underlying options or warrants are not treated as outstanding for the purpose of computing the percentage ownership of any other person or entity. Percentage of beneficial ownership is based on 32,127,044 shares of SeaChange’s common stock outstanding as of May 23, 2011.

Name	Amount and Nature of Beneficial Ownership(1)	Percent of Common Stock Outstanding
William C. Styslinger, III (2) .....	2,150,164	6.7%
Kevin M. Bisson .....	74,037	*
Ira Goldfarb .....	198,987	*
Yvette M. Kanouff.....	138,280	*
Anthony Kelly (3).....	423,628	*
Bruce Mann (4).....	27,061	*
Edward Dunbar(5) .....	91,125	*
Mary Palermo Cotton .....	54,500	*
Peter Feld (6) (8) .....	2,639,342	8.2%
Thomas F. Olson .....	66,500	*

<b>Name</b>	<b>Amount and Nature of Beneficial Ownership(1)</b>	<b>Percent of Common Stock Outstanding</b>
Raghu Rau .....	6,000	*
Carlo Salvatori .....	16,000	*
Edward Terino .....	16,000	*
Carmine Vona.....	81,387	*
Dimensional Fund Advisors LP (7) Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746 .....	1,979,920	6.2%
Starboard Value LP (8) 599 Lexington Avenue, 20 <sup>th</sup> Floor New York, NY 10022.....	2,639,342	8.2%
Wellington Management Company, LLP (9) 75 State Street Boston, MA 02109 .....	1,935,480	6.0%
TAMRO Capital Partners LLC (10) 1701 Duke Street, Suite 250 Alexandria, VA 22314.....	2,070,380	6.4%
All executive officers and directors as a group (15 persons) (11) .....	3,522,424	11.0%

\* Less than 1%

- (1) Includes shares of Common Stock which have not been issued but are subject to options which either are presently exercisable or will become exercisable within 60 days of May 23, 2011, as follows: Mr. Styslinger, 261,875 shares; Ms. Kanouff, 65,500 shares; Mr. Goldfarb, 89,900 shares; Ms. Cotton, 5,000 shares; Mr. Olson, 17,500 shares; and Mr. Vona, 17,500 shares. Includes restricted stock units that will have vested within 60 days of May 23, 2011, as follows: Mr. Rau, 6,000 restricted stock units; and Mr. Terino, 6,000 restricted stock units.
- (2) Includes (i) 17,500 shares of common stock owned by Merrill Lynch, Trustee f/b/o William C. Styslinger, III, IRA and (ii) 171,500 shares of common stock owned by CGM IRA Rollover Custodian f/b/o William C. Styslinger, III, IRA. Excludes (i) 86,429 shares of common stock owned by Charles Jankovski as Trustee of The Styslinger Family Trust; (ii) 49,295 shares of common stock owned by his wife, Joyce Styslinger; and (iii) 29,500 shares of Common Stock owned by his daughter, Kimberly J. Styslinger. Mr. Styslinger disclaims beneficial ownership of the shares held by The Styslinger Family Trust; by his wife, Joyce Styslinger; and by his daughter, Kimberly J. Styslinger.
- (3) Excludes 38,424 shares of common stock owned by his spouse, Judith Kelly. Mr. Kelly disclaims beneficial ownership of such shares.
- (4) As disclosed in SeaChange's Form 8-K filed on October 21, 2010, Mr. Mann left SeaChange effective October 19, 2010. Mr. Mann is a named executive officer for the fiscal year ended January 31, 2011, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (5) As disclosed in SeaChange's Form 8-K filed March 11, 2010, Mr. Dunbar left SeaChange effective March 15, 2010. Mr. Dunbar is a named executive officer for the fiscal year ended January 31, 2011, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (6) Includes 2,252,822 shares held by Starboard Value and Opportunity Fund Ltd ("Value and Opportunity Fund") and 386,250 shares held by Starboard Value LP ("Starboard Value LP"). Mr. Feld may be deemed to share beneficial ownership and voting and dispositive control of such shares due to Mr. Feld's status as a member of Starboard Principal Co GP LLC ("Principal Co GP"), the general partner of Starboard Principal

Co LP ("Principal Co"), and as a member of the Management Committees of Principal Co GP and Starboard Value GP LLC ("Starboard Value GP"), the general partner of Starboard Value LP. Mr. Feld expressly disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

- (7) According to an amended Schedule 13G filed on February 11, 2011, Dimensional Fund Advisors LP may be deemed to have sole voting power with respect to 1,911,600 of the above-mentioned shares and sole dispositive power over all of the above-mentioned shares. Dimensional Fund Advisors LP serves as investment advisor to four investment companies and serves as investment manager to certain other commingled group trusts and investment accounts, which own the above-mentioned shares. Dimensional Fund Advisors LP disclaims beneficial ownership of such shares.
- (8) Based on information contained in an amended Schedule 13D filed on April 5, 2011 by Starboard Value LP on behalf of itself and other reporting persons named therein. According to the Schedule 13D/A, as of the close of business on April 1, 2011, (i) Value and Opportunity Fund had beneficial ownership and voting and dispositive control of 2,252,822 shares, (ii) Starboard Value LP, as the holder of 386,250 shares and the investment manager of Value and Opportunity Fund, may be deemed to have beneficial ownership and voting and dispositive control of 2,639,342 shares, (iii) Starboard Value GP, as the general partner of Starboard Value LP, may be deemed to have beneficial ownership and voting and dispositive control over the shares held by Value and Opportunity Fund and Starboard Value LP, (iv) Principal Co, as a member of Starboard Value GP, may be deemed to have beneficial ownership and voting and dispositive control over the shares held by Value and Opportunity Fund and Starboard Value LP, and (v) Principal Co GP, as the general partner of Principal Co, may be deemed to have beneficial ownership and voting and dispositive control over the shares held by Value and Opportunity Fund and Starboard Value LP. In addition, as members of Principal Co GP and the Management Committees of Starboard Value GP and Principal Co GP, Jeffrey C. Smith, Mark Mitchell, and Peter A. Feld may each be deemed to share beneficial ownership and voting and dispositive control of the shares held by Value and Opportunity Fund and Starboard Value LP.
- (9) According to an amended Schedule 13G filed on February 14, 2011, Wellington Management Company, LLP shares voting power with respect to 1,188,206 of the above-mentioned shares with its clients and shares dispositive power over all of the above-mentioned shares with its clients.
- (10) According to a Schedule 13G filed on February 10, 2011, TAMRO Capital Partners LLC may be deemed to have sole voting power with respect to 1,651,972 of the above-mentioned shares and shared dispositive power with respect to all of the above-mentioned shares. The securities reported on such Schedule 13G are beneficially owned by clients of TAMRO Capital Partners LLC which clients may include investment companies registered under the Investment Company Act and/or employee benefit plans, pension funds, endowment funds or other institutional clients.
- (11) This group is comprised of those individuals named in the Summary Compensation Table on page 33, the remaining executive officers of SeaChange and those persons who were directors of SeaChange as of May 23, 2011. Includes an aggregate of 652,607 shares of Common Stock which the directors and executive officers, as a group, have the right to acquire by exercise of stock options or will acquire upon vesting of restricted stock units within 60 days of May 23, 2011. Includes an aggregate of 12,000 restricted stock units held by directors and executive officers, as a group, that will have vested within 60 days of May 23, 2011.

## **PROPOSAL NO. I**

### **ELECTION OF DIRECTORS**

SeaChange's Board of Directors currently consists of eight members, seven of whom are independent, non-employee directors. The Board of Directors is divided into three classes. Each class serves for a term of three years, with the terms of office of the directors in the respective classes expiring in successive years. The present term of the Class III Directors expires at the Annual Meeting. The Board of Directors, based on the recommendation of the Corporate Governance and Nominating Committee, has nominated Ms. Cotton and Messrs. Feld and Rau for re-election as Class III Directors. The Board of Directors knows of no reason why any of these nominees should be unable or unwilling to serve, but if that should be the case, proxies will be voted for the election of some other person, or for fixing the number of directors at a lesser number. Ms. Cotton and Messrs. Feld and Rau have each consented to being named in this proxy statement as a nominee to be a Class III Director and to serving in that capacity, if elected.

**The Board of Directors unanimously recommends a vote "FOR" the Nominees listed below.**

The following table sets forth, for each nominee to be elected at the Annual Meeting and each of the other current directors, the year the nominee or director was first appointed or elected a director, the principal occupation of the nominee or director during at least the past five years, any other public company boards on which the nominee or director serves or has served in the past five years, the nominee's or director's qualifications to serve on the Board and the age of the nominee or director. In addition, included in the information presented below is a summary of each nominee's or director's specific experience, qualifications, attributes and skills that led the Board to the conclusion that he or she should serve as a director.

#### **Class III Director Nominees (Terms Expire at 2011 Annual Meeting)**

<b>Nominee's Name and Year First Became Director</b>	<b>Position and Principal Occupation and Business Experience During the Past Five Years</b>
Mary Palermo Cotton (2004)	<p>Director</p> <p>Mary Palermo Cotton, 53, has served as a Director of SeaChange since September 2004. Currently Ms. Cotton is Chief Executive Officer of iDirect Technologies, a leading provider of satellite based IP communications technology. Previously, Ms. Cotton was a Senior Vice President of SAP, an enterprise software provider, as a result of SAP's June 2006 acquisition of Frictionless Commerce. Prior to the acquisition, Ms. Cotton had been the Chief Executive Officer of Frictionless Commerce, a company providing supplier relationship management software, since February 2005. From February 2003 to July 2004, Ms. Cotton was a Senior Advisor to Aspen Technology, a software service provider, and previously served as Aspen's Chief Operating Officer from January 2001 to January 2003. Ms. Cotton additionally served on the Board of Directors of Precise Software Solutions from June 2000 to June 2003 when Precise Software Solutions was acquired by VERITAS Software.</p> <p>Ms. Cotton contributes extensive executive experience in the global software industry as well as extensive financial reporting expertise.</p>

Peter Feld (2010)

Director

Peter Feld, 32, is a Member of Starboard Principal Co GP LLC and a member of the Management Committees of Starboard Value GP LLC and Starboard Principal Co GP LLC. Previously, Mr. Feld served as a Managing Director of Ramius LLC and a Portfolio Manager of Ramius Value and Opportunity Master Fund Ltd between November 2008 and April 2011. Prior to becoming a Managing Director, Mr. Feld served as a Director at Ramius LLC from February 2007 to November 2008. Mr. Feld joined Ramius LLC as an Associate in February 2005. From June 2001 to June 2004, Mr. Feld was an investment banking analyst at Banc of America Securities, LLC. Mr. Feld previously served on the Board of Directors of CPI Corp. from July 2008 to July 2009 and on the Board of Directors of Sharper Image Company from August 2007 to January 2008.

Mr. Feld contributes extensive knowledge of the capital markets and corporate governance practices as a result of his investment and private equity background.

Raghu Rau (2010)

Raghu Rau, 62, is a strategic advisor specializing in global marketing, business strategy and venture capital and market development for high-technology companies. Mr. Rau has served on the Board of Directors of Aviat Networks, Inc. since November 2010, and previously served on the Board of Directors of Microtune, Inc., prior to its acquisition by Zoran, Inc., from May 2010 to December 2010. From 1992 to 2008, Mr. Rau held a number of positions with Motorola, Inc., including leadership positions in marketing and strategy, most recently serving as the Senior Vice President, Mobile TV Solutions Business from 2007 to 2008.

Mr. Rau contributes experience in the areas of managing a rapidly expanding business, the integration of strategic acquisitions and joint ventures, and the implementation of corporate strategy.

### **Class I Directors (Terms Expire at 2012 Annual Meeting)**

<b>Director's Name and Year First Became Director</b>	<b>Position and Principal Occupation and Business Experience During the Past Five Years</b>
William C. Styslinger, III (1993)	<p>Chief Executive Officer, Chairman of the Board and Director</p> <p>William C. Styslinger, III, 65, is a founder of SeaChange and has served as the Chief Executive Officer and a Director since the inception of SeaChange in July 1993 and as Chairman of the Board since January 1995. He additionally served as President of the Company from inception through April 2009. Prior to forming SeaChange in 1993, Mr. Styslinger was employed at Digital Equipment Corporation since March 1978, serving as manager of the Cable Television Business Unit from October 1991 to May 1993.</p> <p>Mr. Styslinger contributes valuable executive experience from his decades of work in the cable television industry and his leadership of SeaChange since its founding in 1993.</p>

Carmine Vona (1995)

Director and Independent Lead Director

Carmine Vona, 73, has served as a Director of SeaChange since January 1995. In addition, since December 2001, Mr. Vona has served as Chairman of Metrosoft, Inc., a New Jersey based company specializing in providing software products to the mutual funds industry, having also served as its Chief Executive Officer from December 2001 through December 2002. From 1996 to 2009, Mr. Vona also served as the President and Chief Executive Officer of Vona Information Systems, Inc., a consulting firm specializing in technical software architectures for the financial industry. From August 2000 to December 2002, Mr. Vona served as a member of the Board of Directors of E-LAB, an Italian bank wholly owned by Banca INTESA. From November 1969 to June 1996, Mr. Vona was employed by Bankers Trust Co., during which time he held positions as Executive Vice President and Senior Managing Director for worldwide technology. From August 1986 to June 1996, Mr. Vona was Chairman of BT-FSIS, a software development company and a wholly-owned subsidiary of Bankers Trust Co.

Mr. Vona contributes extensive experience in software development, front and back-office re-engineering and risk management, and in the formulation, execution and control of entity-wide software strategies.

## **Class II Directors (Terms Expire at 2013 Annual Meeting)**

<b>Nominee's Name and Year First Became Director</b>	<b>Position and Principal Occupation and Business Experience During the Past Five Years</b>
Thomas F. Olson (2001)	<p>Director</p> <p>Thomas F. Olson, 62, has served as a Director of SeaChange since May 2001. In addition, from January 1999 to December 2003, Mr. Olson served as the Chief Executive Officer of National Cable Communications, a company specializing in cable television advertising time sales. From January 1995 to May 1998, Mr. Olson was Managing Partner of National Cable Communications and Chief Executive Officer of Katz Media Group, a radio, broadcast television and cable television national sales representation firm. Mr. Olson was with Katz Media Group for 23 years. Since 2005, Mr. Olson has also served on the board of Sarkes Tarzian, Inc., a private company that owns and operates television and radio stations.</p> <p>Mr. Olson contributes valuable executive experience within the cable and broadcast television industry and with the issues confronting companies within that industry.</p>
Carlo Salvatori (2009)	<p>Director</p> <p>Carlo Salvatori, 70, has served as a Director of SeaChange since February 2009. In addition, Mr. Salvatori has served as the Chairman of Lazard Italy, the financial advisory and asset management firm, since June 1, 2010. Prior to that, from July 2006 until May 2010, Mr. Salvatori served as the Managing Director and Chief Executive Officer of Unipol Gruppo Finanziario, an insurance and banking firm in Bologna, Italy. He was Chairman of Bank Austria Creditanstalt, a banking firm based in Vienna, Austria, from January 2006 until June</p>



2006, and prior to that served as Chairman of Unicredit Group, a banking company based in Milan, Italy, from May 2002 until January 2006. Further, Mr. Salvatori served as the Deputy Chairman of Mediobanca, a banking company in Milan, from May 2002 until June 2002. Mr. Salvatori was appointed Chief Executive Officer of Cariplo in 1996, which later became Banca INTESA, which at the time was the largest bank in Italy, with Mr. Salvatori continuing as its Chief Executive Officer until 2001.

Mr. Salvatori contributes valuable international business experience, extensive financial expertise and contacts in the financial and industrial community throughout Europe.

Edward Terino (2010)

Director

Edward Terino, 57, has served as President of GET Advisory Services, LLC, a strategic and financial management consulting firm focused on the maritime and technology industries, since March 2009. Mr. Terino has served as a Director of S1 Corporation, a leading provider of integrated banking solutions, since April 2007 and is Chairman of the Audit Committee and a member of the Compensation Committee of S1 Corporation. Mr. Terino has served as a director of Baltic Trading Ltd., an international dry bulk shipping company, since March 2010, where he is the Chairman of the Audit Committee and a member of the Compensation Committee. From November 2009 until November 2010, Mr. Terino served as a Director of Phoenix Technologies Ltd., a BIOS software company, where he was the Chairman of the Audit Committee and a member of the Compensation Committee. From October 1999 until March 2006, Mr. Terino served as a Director of EBT International Inc., a Web content management software company, where he was Chairman of the Audit Committee and a member of the Compensation Committee. Previously, Mr. Terino was the CEO, President and CFO of Arlington Tankers Ltd., an international seaborne transporter of crude oil and petroleum products, a position he held from July 2005 until December 2008. Prior to this, Mr. Terino served as Senior Vice President, Chief Financial Officer, Treasurer and Secretary of Art Technology Group, Inc., a provider of Internet-based e-commerce software focused on the Global 1000 market, from September 2001 until June 2005.

Mr. Terino contributes experience as a “financial expert”, in mergers and acquisitions, in cost restructurings, investor relations, and in implementing financial measures and controls in software companies.

### **Arrangements or Understandings Regarding the Selection of Certain Directors**

On June 3, 2010, SeaChange entered into an agreement (the “First Ramius Agreement”) with Ramius Value and Opportunity Master Fund Ltd., funds managed by it and certain of its affiliates including Ramius LLC (collectively, “Ramius”), as further described in the Current Report on Form 8-K filed by SeaChange with the Securities and Exchange Commission on June 3, 2010.

Pursuant to the First Ramius Agreement, SeaChange agreed, among other things, to nominate Mr. Terino for election to the Board as a Class II Director at the 2010 Annual Meeting,

to elect Raghu Rau to the Board to serve as a Class III Director (with a term to expire at the 2011 Annual Meeting), and to maintain the size of the Board at eight members until the conclusion of the 2011 Annual Meeting.

Ramius agreed, among other things, to withdraw the letter previously submitted to SeaChange nominating members to the Board and to support the proposals supported by SeaChange being put to a vote of stockholders at the 2010 Annual Meeting. Ramius also agreed that if, at any time prior to the conclusion of the 2011 Annual Meeting, Ramius were to own less than three percent (3.0%) of SeaChange's outstanding common stock, Mr. Rau would resign from the Board and Ramius would lose its director election rights under the First Ramius Agreement with respect to the seat previously held by Mr. Rau.

On December 16, 2010, SeaChange entered into an agreement (the "Second Ramius Agreement") with Ramius, as further described in the Current Report on Form 8-K filed by SeaChange with the Securities and Exchange Commission on December 16, 2010.

Pursuant to the Second Ramius Agreement, SeaChange agreed, among other things, to reconstitute the Board such that Mr. Vona became a Class I director with a term expiring at the Company's 2012 Annual Meeting, to appoint Mr. Feld as a Class III director to fill the vacancy in the Board created by the resignation of ReiJane Huai as a director of the Company, to nominate Messrs. Rau and Feld for election at the 2011 Annual Meeting as Class III directors (with terms to expire at the 2014 Annual Meeting), and to maintain the size of the Board at eight members until the conclusion of the 2012 Annual Meeting. SeaChange also agreed to establish an Independent Advisory Committee composed of four independent directors including Peter Feld (as Chair), Raghu Rau, Thomas Olson and Carmine Vona.

Pursuant to the Second Ramius Agreement, Ramius agreed, among other things, to vote in favor of SeaChange's nominees for director and the ratification of SeaChange's independent registered public accounting firm at the 2011 Annual Meeting.

## **CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS**

### **Determination of Director Independence**

The Board of Directors has determined that Messrs. Feld, Olson, Rau, Salvatori, Terino and Vona and Ms. Cotton are “independent” directors, meeting all applicable independence requirements of the SEC, including Rule 10A-3(b)(1) pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Marketplace Rules of The Nasdaq Stock Market (“Nasdaq”). In making this determination, the Board of Directors affirmatively determined that none of such directors has a relationship that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and that neither the identification of Messrs. Feld, Rau, and Terino as director nominees by Ramius nor the terms of either the First Ramius Agreement or the Second Ramius Agreement precluded a determination that each of Mr. Feld, Mr. Rau, and Mr. Terino qualified as “independent”.

### **Stockholder Proposals**

Proposals of stockholders intended to be presented at the 2012 Annual Meeting of Stockholders must be received no later than the close of business on February 8, 2012 at SeaChange’s principal executive offices in order to be included in the SeaChange proxy statement for that meeting. Any such stockholder proposals should be submitted to SeaChange International, Inc., 50 Nagog Park, Acton, Massachusetts, 01720, Attention: Secretary. Under the By-Laws of SeaChange, stockholders who wish to make a proposal at the 2012 Annual Meeting - other than one that will be included in SeaChange’s proxy materials - must notify SeaChange no earlier than January 9, 2012, and no later than February 8, 2012. If a stockholder who wishes to present a proposal fails to notify SeaChange by February 8, 2012, the stockholder will not be entitled to present the proposal at the meeting. If, however, notwithstanding the requirements of the By-Laws of SeaChange, the proposal is brought before the meeting, then under the SEC’s proxy rules the proxies solicited by management with respect to the 2012 Annual Meeting will confer discretionary voting authority with respect to the stockholder’s proposal on the persons selected by management to vote the proxies. If a stockholder makes a timely notification, the proxies may still exercise discretionary voting authority under circumstances consistent with the SEC’s proxy rules.

In order to curtail controversy as to the date on which a proposal will be marked as received by SeaChange, it is suggested that stockholders submit their proposals by Certified Mail—Return Receipt Requested.

### **Availability of Corporate Governance Documents**

SeaChange’s Code of Ethics and Business Conduct (“Ethics Policy”) for all directors and all employees of SeaChange, including executive officers, and the charters for the Audit, Compensation, Corporate Governance and Nominating Committees of the Board of Directors are available on SeaChange’s website at [www.schange.com](http://www.schange.com) under the “Corporate Governance” section of the “Investor Relations” link. SeaChange will ensure that amendments, if any, to these

documents are disclosed and posted on this website within four (4) business days of any such amendment.

### **Board Meetings**

The Board of Directors of SeaChange met sixteen times and acted by written consent twice during the fiscal year ended January 31, 2011. During the fiscal year ended January 31, 2011, each director attended at least 75% of the total number of meetings of the Board of Directors and meetings of all the committees of the Board on which they serve. SeaChange has a policy that its Board of Directors attend SeaChange's Annual Meeting of Stockholders. Last year, all of the directors attended the Annual Meeting of Stockholders that was held on July 15, 2010.

### **Board Leadership Structure and the Lead Director**

While SeaChange's Chief Executive Officer serves as the Chairman of the Board of Directors, the Board of Directors has appointed an independent director to serve as Lead Director. The Board has adopted this structure to strike an effective balance between management and independent leadership participation in the Board process. The function of the Lead Director is to facilitate and improve communication between the independent directors and SeaChange by serving as the interface between SeaChange's Chief Executive Officer, senior management and the independent directors. The Lead Director works with the chairperson of the Compensation Committee, if a separate person, to establish goals for the Chief Executive Officer each fiscal year and conducts the annual Chief Executive Officer evaluation. Mr. Vona currently serves as the Lead Director.

### **Board Oversight of Risk**

The Board oversees the business and strategic risks of SeaChange. The Audit Committee oversees financial reporting and compliance risks confronting SeaChange. The Compensation Committee oversees risks associated with SeaChange's compensation policies and practices, including performance-based compensation and change in control plans. The Corporate Governance and Nominating Committee oversees risks relating to corporate governance and the process governing the nomination of members of the Board.

SeaChange provides a detailed description of the risk factors impacting its business in its Annual Report on Form 10-K and its Quarterly Reports on Form 10-Q filed with the SEC.

### **Board Committees**

The Board has a standing Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee. The members of each committee are appointed by the Board based on the recommendation of the Corporate Governance and Nominating Committee. The members are set forth below in this proxy statement. Actions taken by any committee of the Board are reported to the Board, usually at the next Board meeting following a committee meeting. Each of these standing committees is governed by a committee-specific charter that is reviewed periodically by the applicable committee pursuant to the rules set forth in each charter.

The Board annually conducts a self-evaluation of each of its committees. All members of all committees are independent directors.

#### *Audit Committee*

The Audit Committee members are Ms. Cotton (Chair) and Messrs. Olson, Terino, and Vona each of whom meet the independence requirements of the SEC and Nasdaq, as described above. In addition, SeaChange's Board has determined that each member of the Audit Committee is financially literate and that Ms. Cotton satisfies the requirement of the Marketplace Rules applicable to Nasdaq-listed companies that at least one member of the Audit Committee possess financial sophistication and that Ms. Cotton is an "audit committee financial expert" as defined in the rules and regulations promulgated under the Exchange Act. The Audit Committee's oversight responsibilities include matters relating to SeaChange's financial disclosure and reporting process, including the system of internal controls, the performance of SeaChange's internal audit function, compliance with legal and regulatory requirements, and the appointment and activities of SeaChange's independent auditors. The Audit Committee met five times and acted by unanimous written consent one time during fiscal year 2011. The responsibilities of the Audit Committee and its activities during fiscal year 2011 are more fully described in the Audit Committee Report contained in this proxy statement.

#### *Compensation Committee*

The Compensation Committee members are Messrs. Olson (Chair), Rau, and Vona, each of whom meet the independence requirements of the SEC and Nasdaq, as described above. Among other things, the Compensation Committee determines the compensation, including stock options, restricted stock units and other equity compensation, of SeaChange's management and key employees, administers and makes recommendations concerning SeaChange's equity compensation plans, and ensures that appropriate succession planning takes place for all levels of management, department heads and senior management. The Compensation Committee met nine times and acted by unanimous written consent six times during fiscal year 2011. The responsibilities of the Compensation Committee and its activities during fiscal year 2011 are more fully described in the Compensation Discussion and Analysis contained in this proxy statement.

#### *Corporate Governance and Nominating Committee*

The Corporate Governance and Nominating Committee members are Messrs. Olson, Salvatori, Terino, and Vona (Chair) and Ms. Cotton, each of whom meet the independence requirements of the SEC and Nasdaq, as described above. The Corporate Governance and Nominating Committee is responsible for oversight of corporate governance at SeaChange, recommending to the Board of Directors persons to be nominated for election or appointment as directors of SeaChange and monitoring compliance with SeaChange's Code of Ethics and Business Conduct. The Corporate Governance and Nominating Committee identifies Board candidates through numerous sources, including recommendations from existing Board members, executive officers, and stockholders of SeaChange. Additionally, the Corporate Governance and Nominating Committee may identify candidates through engagements with executive search firms. The Corporate Governance and Nominating Committee met six times during fiscal year 2011.

### *Qualifications of Director Candidates*

In evaluating the suitability of individuals for Board membership, the Corporate Governance and Nominating Committee takes into account many factors, including whether the individual meets the requirements for independence, his or her professional expertise and educational background, and the potential to contribute to the diversity of viewpoints, backgrounds or experiences of the Board as a whole including diversity of experience, gender, race, ethnicity and age. The Corporate Governance and Nominating Committee evaluates each individual in the context of the entire Board, with the objective of recommending nominees who can best further the success of SeaChange's business and represent stockholder interests. The Corporate Governance and Nominating Committee does not assign specific weights to particular criteria for prospective nominees. SeaChange believes that the backgrounds and qualifications of directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board of Directors to fulfill its responsibilities. As part of the consideration in fiscal year 2011 by the Corporate Governance and Nominating Committee of candidates for election to the Board, these criteria were reviewed. No changes to these criteria were recommended as a result of such review.

### *Procedures for Stockholders to Recommend Director Candidates*

Stockholders wishing to suggest candidates to the Corporate Governance and Nominating Committee for consideration as potential director nominees may do so by submitting the candidate's name, experience, and other relevant information to the SeaChange Corporate Governance and Nominating Committee, 50 Nagog Park, Acton, Massachusetts 01720. SeaChange stockholders wishing to nominate directors may do so by submitting a written notice to the Secretary of SeaChange at the same address in accordance with the nomination procedures set forth in SeaChange's By-Laws. The procedures are summarized in this proxy statement under the heading "Stockholder Proposals." The Secretary will provide the notice to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee does not distinguish between nominees recommended by stockholders and other nominees. All nominees must meet, at a minimum, the qualifications described in "Qualifications of Director Candidates" above. The Committee did not receive any stockholder nominee recommendations for this annual meeting.

### *Process for Stockholders to Communicate with Directors*

Stockholders may write to the Board or a particular Board member by addressing such communication to the Chairman of the Board, if directed to the Board as whole, or to an individual director, if directed to that particular Board member, care of SeaChange's Chief Financial Officer, at SeaChange's offices at 50 Nagog Park, Acton, Massachusetts 01720. Unless such communication is addressed to an individual director, SeaChange will forward any such communication to each of the directors.

## **Compensation of Directors**

During the fiscal year ended January 31, 2011, directors who were employees of SeaChange received no cash compensation for their services as directors, except for reimbursement of expenses incurred in connection with attending meetings. During fiscal year 2011, SeaChange directors who were not employees of SeaChange earned a fee of \$9,000 per quarter and were reimbursed for their reasonable out-of-pocket expenses incurred in attending Board meetings. The Lead Director is entitled to receive an additional cash payment of \$10,000 per quarter in consideration of service as Lead Director. Mr. Olson served as Lead Director until July 15, 2010 at which time Mr. Vona became the Lead Director. Accordingly, for fiscal 2011, Mr. Olson earned \$20,000 for his service as Lead Director in addition to earning \$36,000 for his service as a director and Mr. Vona earned \$20,000 for his service as Lead Director in addition to earning \$36,000 for his service as a director.

The Chair of the Audit Committee of the Board of Directors is entitled to receive an additional cash payment of \$3,750 per quarter. Accordingly, for fiscal 2011, Ms. Cotton earned \$15,000 for her service as Chairperson of the Audit Committee in addition to earning \$36,000 for service as a director. The Chairs of the Corporate Governance and Nominating Committee and of the Compensation Committee are each entitled to receive an additional cash payment of \$2,500 per quarter. The Lead Director is not eligible to receive additional fees for service as chair of a committee. Accordingly, for fiscal 2011, Mr. Vona earned \$5,000 for his service as Chair of the Corporate Governance and Nominating Committee during the period of fiscal 2011 in which he did not serve as Lead Director, and Mr. Olson earned \$5,000 for his service as Chair of the Compensation Committee during the period of fiscal 2011 in which he did not serve as Lead Director.

In accordance with the compensation policy for non-employee directors adopted by the Compensation Committee in December, 2005 and amended in July, 2008, each non-employee director is entitled to receive an annual grant of 12,000 restricted stock units that vests in equal installments over three years. The annual grant of 12,000 restricted stock units with respect to fiscal 2011 was made in December, 2010.

In February, 2009, the Board adopted a policy to award new non-employee directors the following awards at the time they join the Board: (i) an initial equity award of restricted stock units for 12,000 shares of SeaChange's common stock, to vest annually over three years on the anniversary of the date the non-employee director joins the Board, and (ii) the annual restricted stock unit award made to non-employee directors described in the immediately preceding paragraph which, at the discretion of the Board, may be prorated for partial year service. Accordingly, upon Messrs. Rau and Terino joining the Board in July, 2010, each of Mr. Rau and Mr. Terino received a grant of 18,000 restricted stock units; and upon Mr. Feld joining the Board in January, 2011, Mr. Feld received a grant of 24,000 restricted stock units.

**Director Compensation  
Fiscal Year 2011**

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (1) (\$)	Total (\$)
Mary Palermo Cotton	\$51,000	\$191,400	\$242,400
Peter Feld	-	\$211,920	\$211,920
ReiJane Huai(2)	\$27,000	\$90,480	\$117,480
Thomas F. Olson	\$61,000	\$191,400	\$252,400
Raghu Rau	\$21,000	\$263,460	\$284,460
Carlo Salvatori	\$36,000	\$191,400	\$227,400
Ed Terino	\$21,000	\$263,460	\$284,460
Carmine Vona	\$61,000	\$191,400	\$252,400

- (1) Includes awards made in respect of both fiscal 2010, which were awarded in March 2010 and for which vesting commenced December 1, 2009, and fiscal 2011, which were awarded in December 2010, and for which vesting commenced December 1, 2010. Messrs. Feld, Rau and Terino were each granted awards of restricted stock units upon their election to the Board during fiscal 2011. The grant date fair value for each of these awards, aggregated in the above table, is as follows:

Name	Date of Grant	Stock Awards (# RSUs)	Grant Date Fair Value	Total Grant Date Fair Value
Mary Palermo Cotton	March 10, 2010	12,000	\$90,480	\$191,400
	December 6, 2010	12,000	\$100,920	
Peter Feld	January 19, 2011	24,000	\$211,920	\$211,920
ReiJane Huai(2)	March 10, 2010	12,000	\$90,480	\$90,480
Thomas F. Olson	March 10, 2010	12,000	\$90,480	\$191,400
	December 6, 2010	12,000	\$100,920	
Raghu Rau	July 15, 2010	18,000	\$162,540	\$263,460
	December 6, 2010	12,000	\$100,920	
Carlo Salvatori	March 10, 2010	12,000	\$90,480	\$191,400
	December 6, 2010	12,000	\$100,920	
Ed Terino	July 15, 2010	18,000	\$162,540	\$263,460
	December 6, 2010	12,000	\$100,920	
Carmine Vona	March 10, 2010	12,000	\$90,480	\$191,400
	December 6, 2010	12,000	\$100,920	

- (2) As disclosed in SeaChange's Form 8-K filed on November 16, 2010, SeaChange accepted Mr. Huai's resignation as a director of SeaChange effective November 11, 2010.

The table below shows the aggregate number of stock awards and options outstanding for each non-employee director as of January 31, 2011. Stock awards consist of unvested restricted stock units. Upon vesting, the units are paid in the form of shares of our common stock.



Name	Aggregate Stock Awards Outstanding (#)	Aggregate Stock Options Outstanding (#)
Mary Palermo Cotton	24,000	5,000
Peter Feld	24,000	0
ReiJane Huai(1)	0	0
Thomas F. Olson	24,000	27,562
Raghu Rau	30,000	0
Carlo Salvatori	36,000	0
Edward Terino	30,000	0
Carmine Vona	24,000	22,563

- (1) As disclosed in SeaChange's Form 8-K filed on November 16, 2010, SeaChange accepted Mr. Huai's resignation as a director of SeaChange effective November 11, 2010.

## Report of the Audit Committee

The Audit Committee currently consists of Ms. Cotton (chair) and Messrs. Olson, Terino and Vona.

The Audit Committee's primary duties and responsibilities are to:

- Appoint, compensate and retain SeaChange's independent registered public accounting firm, and oversee the work performed by the independent registered public accounting firm.
- Assist the Board of Directors in fulfilling its responsibilities by reviewing the financial reports provided by SeaChange to the SEC and SeaChange's stockholders.
- Monitor the integrity of SeaChange's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance.
- Recommend, establish and monitor procedures designed to improve the quality and reliability of the disclosure of SeaChange's financial condition and results of operations.
- Provide an avenue of communication among the independent registered public accounting firm, management and the Board of Directors.

The Board of Directors has adopted a written charter setting out the functions the Audit Committee is to perform. A copy of this may be found on SeaChange's website at [www.schange.com](http://www.schange.com) under the "Corporate Governance" section of the "Investor Relations" link.

Management has primary responsibility for SeaChange's consolidated financial statements and the overall reporting process, including SeaChange's system of internal controls.

The independent registered public accounting firm audits the annual consolidated financial statements prepared by management, expresses an opinion as to whether those consolidated

financial statements fairly present, in all material respects, the financial position, results of operations and cash flows of SeaChange in conformity with accounting principles generally accepted in the United States of America, expresses an opinion on the effectiveness of internal control over financial reporting and discusses with the Audit Committee any issues the independent registered public accounting firm believes should be raised with SeaChange.

For fiscal year 2011, the Audit Committee reviewed the audited consolidated financial statements of SeaChange and met with both management and Grant Thornton LLP, SeaChange's independent registered public accounting firm, to discuss those consolidated financial statements. Management has represented to the Audit Committee that the consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and that there were no material deficiencies in the design or operation of internal controls which could adversely affect SeaChange's ability to record, process, summarize and report financial data and that there was no fraud, whether or not material, that involved management or other employees who have a significant role in SeaChange's internal controls.

The Committee has received from and discussed with Grant Thornton LLP the written disclosure and the letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding Grant Thornton LLP's communications with the audit committee concerning independence, and has discussed with Grant Thornton LLP the independent accountant's independence. The Committee also discussed with Grant Thornton LLP the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements of SeaChange be included in its Annual Report on Form 10-K for the fiscal year ended January 31, 2011. The Audit Committee also decided to retain Grant Thornton LLP as SeaChange's independent registered public accounting firm for the 2012 fiscal year.

RESPECTFULLY SUBMITTED BY THE AUDIT  
COMMITTEE OF THE BOARD OF DIRECTORS

Mary Palermo Cotton, Chair  
Thomas F. Olson  
Edward Terino  
Carmine Vona

The information contained in this Audit Committee Report shall not be deemed to be "soliciting material." No portion of this Audit Committee Report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, through any general statement incorporating by reference in its entirety the Proxy Statement in which this report appears, except to the extent that SeaChange specifically incorporates this report or any portion of it by reference. In addition, this report shall not be deemed to be filed under either the Securities Act or the Exchange Act.

## INFORMATION CONCERNING EXECUTIVE OFFICERS

In addition to Mr. Styslinger, SeaChange's Chief Executive Officer, Chairman of the Board and Director, whose biographical information is set forth above at page 7, SeaChange's executive officers are:

Executive Officer's Name	Position and Principal Occupation and Business Experience During the Past Five Years
Yvette Kanouff	<p>President and Chief Strategy Officer</p> <p>Yvette Kanouff, 45, joined SeaChange in September 1997. Ms. Kanouff was elected President of SeaChange in March 2010 and, since March 2006, has served as SeaChange's Chief Strategy Officer. Previously, Ms. Kanouff served from July 2005 to March 2006 as Senior Vice President, Strategic Planning and Business Development, and as Vice President, Interactive Television Management from August 2003 to July 2005. Ms. Kanouff served as Vice President, Technology from July 2001 to August 2003, and as Director, Interactive Technology from September 1997 to July 2001. Prior to that, Ms. Kanouff served as Director of Interactive Technologies for Time Warner Cable and worked as a signal processing mathematician at Lockheed Martin.</p>
Kevin M. Bisson	<p>Chief Financial Officer, Treasurer, Secretary and Senior Vice President, Finance and Administration</p> <p>Kevin M. Bisson, 49, joined SeaChange on March 13, 2006 as the Senior Vice President, Finance and Administration, Secretary and Treasurer. Mr. Bisson assumed the role of Chief Financial Officer in April 2006. Prior to joining SeaChange, Mr. Bisson served from May 2003 until March 2006 as the Senior Vice President and Chief Financial Officer of American Superconductor Corporation, an energy technologies company, and was also the Treasurer of American Superconductor Corporation from January 2004 until March 2006. Prior to joining American Superconductor Corporation, Mr. Bisson served from 2000 to 2003 as Vice President, Controller and Treasurer for Axcelis Technologies, Inc., a semiconductor equipment manufacturing company. Prior to joining Axcelis Technologies, Mr. Bisson served for ten years in a number of financial capacities with United Technologies Corporation.</p>
Steven M. Davi	<p>Senior Vice President, Software Engineering</p> <p>Steven M. Davi, 47, joined SeaChange in November 1997 and, since July 2005, has served as Senior Vice President, Software Engineering. Mr. Davi previously served as Vice President, Engineering from August 2003 to July 2005, as Manager, Engineering from August 1998 to August 2003 and as Consulting Software Engineer from November 1997 to August 1998. Prior to joining SeaChange, Mr. Davi served from September 1990 until November 1997 in various engineering and managerial positions at Banyan Systems Inc., a network operating system software company that specialized in enterprise scale directory and messaging products. Prior to joining Banyan Systems, Mr. Davi served from June 1985 until September 1990 in various engineering positions within the networking division at Data General.</p>

Erwin van Dommelen	<p>President, SeaChange Software</p> <p>Erwin van Dommelen, 44, joined SeaChange upon the closing of SeaChange's acquisition of eventIS Group B.V. on September 1, 2009 as Chief Executive Officer and President of eventIS Group B.V. Mr. van Dommelen was appointed President, SeaChange Software Division in March 2010. Mr. van Dommelen previously worked with eventIS Software Solutions, an entity affiliated with eventIS Group B.V., serving as the Chief Executive Officer of eventIS Software Solutions since April 2002.</p>
Ira Goldfarb	<p>Senior Vice President, Worldwide Sales</p> <p>Ira Goldfarb, 53, has served as Executive Vice President of Worldwide Sales and Service since October 2010. Previously, Mr. Goldfarb served as Senior Vice President, Worldwide Sales from August 2003 to October 2010, Vice President, Worldwide Sales since January 1998, Vice President, U.S. Systems Sales from August 1997 to January 1998, as Vice President, Eastern Region from January 1997 to August 1997, and as Vice President, Central Region, from August 1994 to January 1997. Prior to joining SeaChange, Mr. Goldfarb held several sales management positions at Digital Equipment Corporation from September 1983 to July 1994.</p>
Anthony William Kelly	<p>Senior Vice President</p> <p>Anthony Kelly, 49, has served as Senior Vice President of SeaChange since September 2005, concurrent with SeaChange's acquisition of ODG. Mr. Kelly also serves as Chief Executive Officer of ODG, a position he has held since 1996. Prior to assuming the role of Chief Executive Officer of ODG, Mr. Kelly served as a director of the Lambie Nairn Group from May 1992 to December 1994 and as an executive at Video Networks Limited from December 1992 to April 1995. Prior to that, from July 1990 to April 1992, Mr. Kelly served as CEO of the Palace Group, a major UK independent film producer and distributor. Before joining Palace, Mr. Kelly was Head of Program Finance at British Satellite Broadcasting from 1987 to June 1990.</p>

Executive officers of SeaChange are appointed by, and serve at the discretion of, the Board of Directors, and serve until their successors have been duly elected and qualified. There are no family relationships among any of the executive officers or directors of SeaChange. Each executive officer is a full time employee of SeaChange.

## COMPENSATION DISCUSSION AND ANALYSIS

### Executive Summary

We have implemented an executive compensation program that rewards performance. Our executive compensation program is designed to attract, retain and motivate the key individuals who are most capable of contributing to our success and building long-term value for our stockholders. The elements of our executives' total compensation are base salary, incentive compensation and other employee benefits. We have designed a compensation program that makes a substantial portion of executive pay variable, subject to increase when performance targets are achieved, and subject to reduction when performance targets are not achieved.

#### *Fiscal 2011 Business Results*

We improved our operating results in fiscal 2011 and at the same time made significant progress in our transition to a software and services company. Our Software and Media Services business units represented 85% of our total revenue in fiscal 2011 compared to 75% in fiscal 2010. Overall, GAAP revenue increased 7% in fiscal 2011, from \$201.7 million to \$216.7 million, and non-GAAP net income increased in fiscal 2011 from \$8.0 million or \$0.25 per share to \$13.7 million or \$0.43 per share.

This financial performance is reflected in the increase in our stock price over the past fiscal year. The closing price of our stock on the last business day of fiscal 2011 was \$8.28 per share, a 28% increase over the \$6.47 per share closing price of our stock on the last business day of fiscal 2010.

#### *Pay for Performance*

We believe that the historical payouts under our executive compensation incentive plan are evidence of the pay for performance structure of these plans. For example, under our fiscal 2010 compensation plan, no payouts were made to our named executive officers related to the fiscal 2010 revenue or net income objectives due to our failure to meet the fiscal 2010 GAAP revenue target of \$210 million and the fiscal 2010 GAAP net income target of \$5 million or the fiscal 2010 GAAP net income threshold of \$2.5 million. Notably, even though the \$200 million GAAP revenue threshold with respect to the fiscal 2010 compensation plan was exceeded, the Compensation Committee (the "Committee") exercised discretion not to make a payout due to our overall financial performance. In contrast, based on the improvement in operating results in fiscal 2011, payouts were made to our named executive officers under our fiscal 2011 compensation plan related to both the fiscal 2011 revenue and non-GAAP net income objectives, based on exceeding the \$215 million GAAP revenue threshold (but not the \$225 million GAAP revenue target) and the \$8 million non-GAAP net income target.

We believe that the variability in these payouts indicates that our annual compensation plans effectively reward our executive officers for superior performance, while appropriately adjusting compensation downward for less-than-superior performance.

## **Compensation Objectives**

We structure our executive compensation to reflect individual responsibilities and contributions, while providing incentives to achieve overall business and financial objectives. The Committee has responsibility for establishing, implementing and monitoring adherence to this philosophy.

The Committee has designed an executive compensation plan that rewards the achievement of specific financial and non-financial goals through a combination of cash and stock-based compensation. This bifurcation between financial and non-financial objectives and between cash and stock-based compensation creates alignment with stockholder interests and provides a structure in which executives are rewarded for achieving results that the Committee believes will enhance stockholder value.

The Committee believes that stockholder interests are best served by compensating our employees at industry competitive rates, enabling us to attract and retain the best available talent, recognizing superior performance while providing incentives to achieve overall business and financial objectives. By doing so, we believe that our ability to achieve financial and non-financial goals is enhanced.

## **Setting Executive Compensation**

When setting the annual compensation plan for our executive officers, the Committee begins with a breakdown of each compensation component for our Chief Executive Officer. This breakdown includes the dollar amount of each component of compensation payable to the Chief Executive Officer related to the relevant period, together with the related metrics for performance-based compensation. The overall purpose of this breakdown is to bring together, in one place, all of the elements of fixed and contingent compensation, so that the Committee may analyze both the individual elements of compensation (including the compensation mix) as well as the aggregate amount of actual and projected compensation.

The Committee then presents this breakdown to the Chief Executive Officer, who provides input to the Committee on the reasonableness, feasibility and effectiveness of the compensation components, including performance metrics, proposed by the Committee. The Chief Executive Officer then creates similar compensation component breakdowns for the other executive officers, presenting compensation recommendations of both base and performance-based compensation related to the relevant period, together with the associated performance metrics. These recommendations are then reviewed and, once agreed upon, approved by the Committee. The Committee can exercise its discretion in modifying any recommended compensation to executives, and exercises this discretion in active consultation with the Chief Executive Officer.

Prior to setting executive compensation for fiscal 2011, the Committee engaged Pearl Meyer & Partners to assist the Committee in reviewing our existing executive compensation plan,

updating the list of peer companies we reference in setting compensation, and reviewing general compensation trends within the industry in which we operate. The Committee decided to engage Pearl Meyer and undertake this review based on our continued transition to a software company and the significant commentary in recent years regarding executive compensation trends and practices, including that published by Institutional Shareholder Services.

Based on this review, we updated our list of peer companies to eliminate companies that either had been acquired or whose product or service offerings were no longer similar to ours, and to add companies believed to be similar to us either in terms of product or service offerings, or whose relative leadership position, size as measured by market capitalization and business complexity were similar to ours. The updated list of our peer companies is as follows:

- ARRIS Group, Inc.
- BigBand Networks, Inc.
- Concurrent Computer Corporation
- Harmonic Inc.
- iRobot Corp.
- Isilon Systems Inc.
- Limelight Networks Inc.
- Mercury Computer Systems, Inc.
- Netscout Systems, Inc.
- Network Engines, Inc.
- Progress Software Corp.
- Sonic Solutions
- Sonus Networks, Inc.
- Sycamore Networks, Inc.
- TiVo Inc.

Similar to the process completed in prior years in determining executive compensation, we made reference to the compensation paid by these peer companies in establishing fiscal 2011 executive compensation but did not benchmark compensation to these companies.

The Committee endeavors to establish a compensation program that is internally consistent and equitable to enable our achievement of overall corporate objectives. Within this framework, the level of the Chief Executive Officer's compensation will differ from that of the other executives because of the difference in his role and responsibilities and the compensation practices at peer companies.

### **Fiscal 2011 Executive Compensation Components**

For the fiscal year ended January 31, 2011, the principal components of compensation for the named executive officers were:

- base salary;
- performance-based incentive compensation;
- change in control and termination benefits; and
- general employee welfare benefits.

As discussed below, the Committee believed that this mix of compensation would allow us to pay our executive officers competitive levels of compensation that best reflect individual responsibilities and contributions, while providing incentives to achieve overall business and financial objectives.

### *Base Salary*

We provide named executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Base salary ranges for named executive officers are determined individually for each executive.

During its review of base salaries for executives, the Committee primarily considers:

- individual performance of the executive;
- our overall past operating and financial performance and future expectations;
- internal review of the executive's compensation, both individually and relative to other executive officers; and
- market data regarding peer companies.

The Committee does not give a specific weighting among these various factors but rather considers the factors collectively in setting base salary. Salary levels are typically considered on an annual basis as part of the performance review process, as well as upon a promotion or other change in job responsibility. We try to provide an allocation between base and performance-based incentive compensation that reflects market conditions and appropriately ensures alignment of individual performance with our objectives.

In setting the executive compensation plan for fiscal 2011, the Committee made adjustments to the base salaries of our named executive officers. With respect to Ms. Kanouff and Mr. Goldfarb, an adjustment was made to reflect that, subsequent to the first quarter of fiscal 2011 during which the fiscal 2011 compensation plan was established, each would no longer be eligible for sales-based commissions and, in the case of Ms. Kanouff, the additional responsibilities assumed in connection with being named the President of SeaChange. Adjustments were also made to the base salaries of Messrs. Styslinger, Bisson, Kelly and Mann reflecting changes in market compensation, generally.

### *Performance-Based Incentive Compensation*

The Committee believes that performance-based incentive compensation motivates the achievement of critical annual performance objectives aimed at enhancing stockholder value. The performance-based incentive compensation plans established for each of Messrs. Bisson, Goldfarb, Kelly, Mann and Styslinger and Ms. Kanouff provide for a cash base salary and eligibility for an equity and/or cash-based incentive bonus. No performance-based incentive compensation plan with respect to fiscal 2011 was established for Mr. Dunbar, as he ceased to be an employee as of March 15, 2010, prior to the establishment of our fiscal 2011 compensation plans.

Performance-based compensation for each of the named executive officers pursuant to our fiscal 2011 plan included the overall company financial objectives related to:

- GAAP revenue for fiscal 2011; and
- non-GAAP net income for fiscal 2011.



Performance-based objectives also included, in the case of Mr. Bisson, the ability to reduce general and administrative expenses; in the case of Ms. Kanouff, the restructuring of the servers and storage business; and, in the case of Mr. Kelly, ON Demand Group Ltd. exceeding a net income target of \$500,000 for fiscal 2011.

As indicated above, unlike the compensation plan for fiscal 2010, neither Ms. Kanouff nor Mr. Goldfarb were eligible to receive sales commissions subsequent to the first quarter of fiscal 2011 during which the fiscal 2011 compensation plan was established. The Committee made this change to align the compensation structure of Ms. Kanouff and Mr. Goldfarb with our other named executive officers. In connection with this change, the Committee made a corresponding increase to the base salary of Ms. Kanouff and Mr. Goldfarb.

In determining the targets and payouts at target performance levels for each of the objectives, the Committee considered the probability of achieving that target and the corresponding level of individual and group effort that would be required to achieve that target. Within that framework, the Committee set a fiscal 2011 GAAP revenue target of \$225 million and a fiscal 2011 non-GAAP net income target of \$8 million. The Committee retained discretion to adjust these targets during the year, including discretion to reflect unusual or non-recurring items. The Committee did not establish limits for itself with respect to exercise of this discretion, and believes that this discretion is important in order to retain the ability to compensate executive officers in a manner that reflects overall corporate performance relative to the market conditions.

In establishing financial targets and potential payout targets for the named executive officers, the Committee provided for additional cash and/or RSU payouts in the event that the revenue or non-GAAP net income targets were exceeded, while establishing an upward limit on compensation awarded for exceeding the revenue target. The Committee also provided for a decreasing amount of cash and/or RSU payouts in the event that the revenue or non-GAAP net income target, as applicable, were not met, while establishing a floor with respect to each objective below which no corresponding payout would be made. These provisions were established to provide incentive to our officers to exceed the financial targets, as well as to provide some form of payout for performance that approaches but may not meet the established targets. The Committee implemented this structure to ensure that our compensation programs support our overall compensation objectives.

The Committee structured the performance-based compensation to be a mixture of cash and/or equity awards in the form of RSUs. In determining an allocation between equity and cash incentive-based compensation, the Committee generally seeks to have recipients earn greater value from equity awards than from cash awards. This weighting toward equity awards is done because the Committee believes that equity-based incentive compensation further aligns the interests of the executive officers with those of the stockholders, increases executive ownership of our stock, discourages excessive levels of risk taking, and enhances executive retention in a challenging business environment and competitive labor market.

Both the revenue and non-GAAP net income thresholds established pursuant to the fiscal 2011 compensation plans were exceeded, resulting in the Committee making the determination that incentive compensation payouts be made. Consistent with the Committee's general desire to strengthen the alignment of interests between the named executive officers and the stockholders, the Committee decided to issue RSUs to the executive officers to satisfy the incentive compensation awards that otherwise would have been satisfied in cash.

As disclosed in our Annual Report on Form 10-K, while there remained 603,719 shares available for issuance as of January 31, 2011 under our Amended and Restated 2005 Equity Compensation and Incentive Plan, only 87,995 shares were available for the issuance of RSUs. Accordingly, the grants of RSUs made to our executive officers with respect to fiscal 2011 incentive compensation are contingent on stockholder approval of our proposed new 2011 Compensation and Incentive Plan, as described in this proxy statement, as there did not remain a sufficient number of RSUs available for grant under SeaChange's Amended and Restated 2005 Equity Compensation and Incentive Plan to fulfill these awards. In total, an aggregate of 280,041 RSUs have been committed to be issued to our named executive officers with respect to our fiscal 2011 performance-based incentive compensation plans, with such RSUs to vest over a three year period.

Similar to prior years, because the grant date for purposes of FASB ASC Topic 718 of the performance-based compensation was after fiscal year-end, these awards are not reflected in the Summary Compensation Table. Rather, the amounts reflected in the Summary Compensation Table on page 33 under the heading "Stock Awards" for a given fiscal year, such as 2011, are the grants or awards for which the grant date for purposes of FASB ASC Topic 718 occurred in that year, being the grants made with respect to the prior year's performance-based compensation plan.

Because of this difference, we have included the table below that instead presents all compensation amounts related to a given fiscal year in a single line item, so that both equity and cash payments under the fiscal 2011 performance-based compensation plan are presented as fiscal 2011 compensation amounts, regardless of whether determined and/or paid during or subsequent to fiscal 2011. Amounts for fiscal 2010 and 2009 are presented on the same basis as fiscal 2011.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$ (1))	Stock Awards (\$ (2))	Option Awards (\$ (3))	Non-Equity Incentive Plan Compensation (\$ (4))	All Other Compensation (\$ (5))	Total (\$)
William C. Styslinger, III <i>Chief Executive Officer, Chairman of the Board, Director</i>	2011	452,083	-	938,828	-	-	-	1,390,911
	2010	420,000	-	-	-	-	-	420,000
	2009	438,750	-	551,321	-	408,960	-	1,399,031
Yvette Kanouff <i>President and Chief Strategy Officer</i>	2011	359,081	-	437,838	-	49,918	-	846,837
	2010	236,323	-	151,101	-	283,486	-	670,910
	2009	231,634	-	221,902	-	487,888	26,508	967,932

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$ (1))	Stock Awards (\$ (2))	Option Awards (\$ (3))	Non-Equity Incentive Plan Compensation (\$ (4))	All Other Compensation (\$ (5))	Total (\$)
Kevin M. Bisson <i>Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary</i>	2011	341,979	-	254,685	-	-	-	596,664
	2010	330,750	-	-	-	-	-	330,750
	2009	324,188	-	144,987	-	-	-	469,175
Ira Goldfarb <i>Senior Vice President, Worldwide Sales</i>	2011	300,000	-	382,031	-	99,836	-	781,867
	2010	150,000	-	-	-	392,972	-	542,972
	2009	150,000	-	170,130	-	417,344	-	737,474
Anthony Kelly <i>Senior Vice President, ODG (6)</i>	2011	301,896	-	305,358	-	-	-	607,254
Bruce Mann (7) <i>Former Senior Vice President, Network Storage Engineering</i>	2011	209,764	-	-	-	-	103,594	313,358
	2010	279,588	-	-	-	80,790	-	360,378
Edward Dunbar (8) <i>Former President and Chief Operating Officer</i>	2011	56,250	-	-	-	-	416,131	472,381
	2010	361,442	400,000	-	192,431	-	-	953,873

- (1) Reflects a bonus to Mr. Dunbar in accordance with his initial employment offer, paid \$200,000 on the commencement of Mr. Dunbar's employment and \$200,000 on February 1, 2010, earned based on Mr. Dunbar's continuous employment with SeaChange through that date.
- (2) Amounts in the Stock Awards column reflect the grant date fair value of the restricted stock units earned by the officer relating to the applicable fiscal year, as computed in accordance with FASB ASC Topic 718 disregarding any estimates of forfeitures relating to service-based vesting conditions. With respect to the awards relating to fiscal 2011, grant date fair value was calculated using an assumed grant date of January 31, 2011, as the actual grant of these awards is contingent upon stockholder approval of the 2011 Compensation and Incentive Plan.
- (3) This expense represents the grant date fair value of the applicable option awards, as computed in accordance with FASB ASC Topic 718 disregarding any estimates of forfeitures relating to service-based vesting conditions.
- (4) The Non-Equity Incentive Plan Compensation column reflects the cash awards made to the named executive officers under the fiscal 2011, 2010, and 2009 performance-based compensation plans. For fiscal years 2011, 2010 and 2009, the Non-Equity Incentive Plan Compensation column includes \$49,918, \$196,486 and \$215,840, respectively, in sales commissions earned by Ms. Kanouff. For Messrs. Goldfarb and Mann, all of the amounts included in the Non-Equity Incentive Plan Compensation column represent sales commissions earned relating to the fiscal years shown.
- (5) The All Other Compensation column includes Company contributions to a Named Executive Officer's 401(k) Plan account, perquisites and other personal benefits received by a Named Executive Officer to the extent such benefits exceeded \$10,000 in the aggregate relating to the fiscal year. In the case of Mr. Mann, the amount includes \$103,594 paid to Mr. Mann in fiscal 2011 pursuant to his separation agreement dated October 19, 2010; and in the case of Mr. Dunbar, the amount includes \$416,131 paid to Mr. Dunbar in fiscal 2011, pursuant to his separation agreement dated March 10, 2010.

- (6) Compensation information related to Mr. Kelly is presented solely with respect to fiscal 2011, as Mr. Kelly was not a named executive officer in the fiscal years ended January 31, 2009 and January 31, 2010.
- (7) As disclosed in SeaChange's Form 8-K filed October 21, 2010, Mr. Mann left SeaChange, effective October 19, 2010. Mr. Mann is a named executive officer for the fiscal year ended January 31, 2011, but is no longer an executive officer or employee as of the date hereof. Compensation information related to Mr. Mann is presented solely with respect to fiscal 2011 and 2010, as Mr. Mann was not a named executive officer in the fiscal year ended January 31, 2009.
- (8) As disclosed in SeaChange's Form 8-K filed March 11, 2010, Mr. Dunbar left SeaChange, effective March 15, 2010. Mr. Dunbar is a named executive officer for the fiscal year ended January 31, 2011, but is no longer an executive officer or employee of SeaChange as of the date hereof.

Compensation paid to our named executive officers is subject to a policy regarding compensation reimbursement, or a "clawback" policy, as described in our Code of Ethics and Business Conduct, a copy of which is available on our website of [www.schange.com](http://www.schange.com) under the "Corporate Governance" section of the "Investor Relations" link. The policy provides that in the event that our financial results are significantly restated, the Board of Directors will review any compensation, other than base salary, paid or awarded to any executive officer found to have engaged in fraud or intentional misconduct that caused the need for the restatement. The Board will, to the extent permitted by law, require the executive officer to repay any such compensation if:

- the amount of such compensation was calculated based upon the achievement of certain financial results that were subsequently the subject of the restatement; and
- such compensation would have been lower than the amount actually awarded had the financial results been properly reported.

Compensation paid to our named executive officers in the form of equity is also subject to our stock retention and ownership guidelines that apply to our directors and senior officers, as described in our Corporate Governance Guidelines, a copy of which is available on our website at [www.schange.com](http://www.schange.com) under the "Corporate Governance" section of the "Investor Relations" link. These guidelines provide that by the later of December 16, 2015 and six years following appointment to office:

- each non-employee director is expected to retain ownership of vested shares of SeaChange stock in a minimum amount equal to 40,000 shares;
- the Chief Executive Officer retain ownership of vested shares of SeaChange stock in a minimum amount equal to 250,000 shares;
- the President and the Chief Financial Officer retain ownership of vested shares of SeaChange stock in a minimum amount equal to 75,000 shares; and
- each Senior Vice President that is an executive officer retain ownership of vested shares of SeaChange stock in a minimum amount equal to 50,000 shares.

Prior to meeting the stock ownership targets, each non-employee director and senior executive officer is encouraged, but is not required, to retain a meaningful portion of shares of stock acquired by the non-employee director or officer in order to progress toward the stock ownership targets, other than shares of stock sold to pay taxes and/or applicable exercise price with respect

to an equity award. Upon meeting the stock ownership targets, each non-employee director and senior executive officer is required thereafter to retain not less than 25% of all shares of stock acquired by the non-employee director or officer, other than shares of stock sold to pay taxes and/or the applicable exercise price with respect to an equity award. In addition, upon any termination of service for a non-employee director and upon voluntary termination of service for a senior executive officer, such director or officer must wait at least 90 days before selling any shares. In the case of hardship or other compelling personal requirements, the stock ownership targets may be waived to permit the sale of shares by the affected person.

We have made, and from time to time continue to make, grants of stock options and RSUs to eligible employees based upon our overall financial performance and their individual contributions. Stock options and RSUs are designed to align the interests of our executives and other employees with those of our stockholders by encouraging them to enhance the value of SeaChange. In addition, the vesting of stock options and RSUs over a period of time is designed to defer the receipt of compensation by the recipient, creating an incentive for the individual to remain an employee. We do not have a program, plan or practice to select equity grant dates in connection with the release of favorable or negative news.

#### *Change in Control and Termination Benefits*

We have entered into change in control severance agreements with each of our North America based named executive officers. Mr. Kelly is not party to a change in control severance agreement, but is party to an executive service agreement, dated as of September 23, 2005, with us that provides for payment of 12 months base salary on termination without cause, whether or not in connection with a change of control.

Each of our change in control severance agreements was amended, effective December 21, 2009, to remove the “parachute payment” tax gross-up under Section 280G of the Internal Revenue Code of 1986, as amended. In addition, on June 1, 2010, we amended Mr. Styslinger’s change in control severance agreement to increase the amount payable to Mr. Styslinger upon a Covered Termination, as defined in the existing agreement, from two times base salary and one times the annual bonus, to three times base salary and one times the annual bonus. The specific terms of these arrangements, as well as an estimate of the compensation that would have been payable had they been triggered as of fiscal 2011 year-end, are described in detail on page 38 under the heading entitled “Potential Payments Upon Termination or Change in Control.”

The change-in-control agreements are designed to provide an incentive to remain an employee leading up to and following a change in control. As discussed below, the agreements are tailored to provide for incremental benefits upon a change in control and upon termination of employment in the period subsequent to a change in control. The Committee believes that this layered method of compensation enhances stockholder value by providing the incentives for an executive officer to remain an employee through a change in control.

Given the range in individual situations among our executive officers and the desire to provide a relatively uniform basis of benefits among these individuals, the Committee has determined that

it is appropriate for each of the executive officers to continue to be party to these change-in-control severance agreements.

In connection with Mr. Dunbar ceasing to be an employee of SeaChange, effective March 15, 2010, we entered into a separation agreement with Mr. Dunbar pursuant to which Mr. Dunbar continued to receive his base salary through April 13, 2011 and the 60,000 stock options previously granted to Mr. Dunbar upon joining SeaChange were accelerated to be fully vested and exercisable through March 15, 2011.

In connection with Mr. Mann ceasing to be an employee of SeaChange, effective October 19, 2010, we entered into a separation agreement with Mr. Mann pursuant to which Mr. Mann will receive a gross amount equal to 32 weeks of his base salary, payable in equal installments on our regular payroll schedule, and RSUs for 31,170 shares of our stock previously granted to Mr. Mann were accelerated to be fully vested.

#### *General Employee Welfare Benefits*

We also have various broad-based employee benefit plans. Executive officers participate in these plans on the same terms as eligible, non-executive employees, subject to any legal limits on the amounts that may be contributed or paid to executive officers under these plans. We offer a 401(k) retirement plan, which permits employees to invest in a choice of mutual funds on a pre-tax basis. We also maintain medical, disability and life insurance plans and other benefit plans for our employees.

#### **Fiscal 2012 Executive Compensation Components**

Prior to setting executive compensation for fiscal 2012, the Committee again consulted with Pearl Meyer & Partners to confirm the suitability of the existing compensation framework and to make recommendations with respect to the adoption of SeaChange's proposed 2011 Compensation and Incentive Plan, as described herein. Based on this consultation, the Committee determined to continue the existing compensation framework for fiscal 2012, and to continue to make reference to the same peer company group, adjusted for companies that had been acquired in the past year.

The principal components of fiscal 2012 executive compensation are as follows, the same as existed for fiscal 2011 executive compensation:

- base salary;
- performance-based incentive compensation;
- change in control and termination benefits; and
- general employee welfare benefits.

Within this framework, the Committee established the specific compensation programs for our executive officers. Under the fiscal year 2012 plans, Mr. Styslinger will be eligible for a target bonus of a grant of 125,000 restricted stock units (RSUs) and additional RSUs with a value of \$330,000 as of January 31, 2012; Ms. Kanouff will be eligible for a target bonus of a grant of

48,000 RSUs, additional RSUs with a value of \$275,000 as of January 31, 2012 and a cash award of \$75,000; Mr. Bisson will be eligible for a target bonus of a grant of 40,000 RSUs, additional RSUs with a value of \$88,000 as of January 31, 2012 and a cash award of \$75,000; Mr. Goldfarb will be eligible for a target bonus of a grant of 38,000 RSUs, additional RSUs with a value of \$275,000 as of January 31, 2012 and a cash award of \$75,000; and Mr. Kelly will be eligible for a target bonus of a grant of 40,000 RSUs, additional RSUs with a value of \$247,500 as of January 31, 2012 and a cash award of £66,670 (\$100,005).

This performance-based compensation is earned based on our achievement of overall company financial objectives for fiscal 2012 related to revenue and non-GAAP net income. In the case of Messrs. Styslinger, Bisson, Goldfarb and Kelly and Ms. Kanouff, a portion of their respective target incentive compensation is based on individualized performance-based objectives. These objectives will be further discussed in our proxy statement relating to our 2012 annual meeting of stockholders.

Similar to prior years, grants or awards of fiscal 2012 performance-based compensation will be determined by the Committee upon conclusion of our 2012 fiscal year, with the RSUs to vest in equal annual installments over three years. All of the grants of RSUs are subject to availability of RSUs for grant under SeaChange's proposed 2011 Compensation and Incentive Plan, as described herein. The fiscal 2012 performance-based compensation plans also provide that the Committee has the discretion to determine the amount, if any, of incentive compensation awarded under the plans whether or not the criteria are satisfied, and also provide that the amount of the incentive compensation may be adjusted upward or downward in predetermined amounts if actual performance exceeds or is below the target financial criteria.

### **Tax and Accounting Implications**

The financial reporting and income tax consequences to SeaChange of individual compensation elements are important considerations for the Committee when it is analyzing the overall level of compensation and the mix of compensation among individual elements. Overall, the Committee seeks to balance its objective of ensuring an effective compensation package for named executive officers with the need to maximize the immediate deductibility of compensation – while ensuring an appropriate and transparent impact on reported net income and other closely followed financial measures.

In making its compensation decisions, the Committee has considered that Internal Revenue Code Section 162(m) limits deductions for compensation paid in excess of \$1 million. As a result, the Committee has designed much of the total compensation packages for the named executive officers to qualify for the exemption of “performance-based” compensation from the deductibility limit. However, the Committee does have the discretion to design and use compensation elements that may not be deductible under Section 162(m), if the Committee considers the tax consequences and determines that nevertheless those non-deductible elements are in our best interests.

## Summary Compensation Table

The following table sets forth summary information regarding the compensation of SeaChange's named executive officers in fiscal 2011, 2010 and 2009.

As described above in Compensation Discussion and Analysis, grants or awards of performance-based compensation are made after fiscal year-end, when performance against the previously established metrics may be assessed by the Committee. With respect to SeaChange's performance-based compensation plans, this has resulted in the grant date for purposes of FASB ASC Topic 718 being after the fiscal year-end to which the grant relates, such that the amounts reflected below under the headings "Stock Awards" for a given fiscal year, such as 2011, are the grants or awards made against the prior year's performance-based compensation plan. However, performance-based compensation paid in cash after fiscal year-end but earned in the prior fiscal year is reflected below under the heading "Non-Equity Incentive Plan Compensation" or "Bonus," as applicable, in the fiscal year in which that compensation was earned, regardless of when paid. Because of this difference, we have included at page 27 a supplemental table that presents all compensation amounts related to a given fiscal year in a single line item.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$ (1))	Stock Awards (\$ (2))	Option Awards (\$ (3))	Non-Equity Incentive Plan Compensation (\$ (4))	All Other Compensation (\$ (5))	Total (\$)
William C. Styslinger, III <i>Chief Executive Officer, Chairman of the Board, Director</i>	2011	452,083	-	-	-	-	-	452,083
	2010	420,000	-	551,321	-	-	-	971,321
	2009	438,750	-	664,302	-	408,960	-	1,512,012
Yvette Kanouff <i>President and Chief Strategy Officer</i>	2011	359,081	-	151,101	-	49,918	-	560,100
	2010	236,323	-	221,902	-	283,486	-	741,711
	2009	231,634	-	186,346	-	487,888	26,508	932,376
Kevin M. Bisson <i>Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary</i>	2011	341,979	-	-	-	-	-	341,979
	2010	330,750	-	144,987	-	-	-	475,737
	2009	324,188	-	301,955	-	-	-	626,143
Ira Goldfarb <i>Senior Vice President, Worldwide Sales</i>	2011	300,000	-	-	-	99,836	-	399,836
	2010	150,000	-	170,130	-	392,972	-	713,102
	2009	150,000	-	252,834	-	417,344	-	820,178
Anthony Kelly (6) <i>Senior Vice President, ODG</i>	2011	301,896	-	-	-	-	-	301,896
Bruce Mann (7) <i>Former Senior Vice President, Network Storage Engineering</i>	2011	209,764	-	-	-	-	103,594	313,358
	2010	279,588	-	165,064	-	80,790	-	525,442
Edward Dunbar (8) <i>Former President and Chief Operating Officer</i>	2011	56,250	-	-	-	-	416,131	472,381
	2010	361,442	400,000	-	192,431	-	-	953,873



- (1) Reflects a bonus to Mr. Dunbar in accordance with his initial employment offer, paid \$200,000 on the commencement of Mr. Dunbar's employment and \$200,000 on February 1, 2010, earned based on Mr. Dunbar's continuous employment with SeaChange through that date.
- (2) This expense represents the grant date fair value of the applicable restricted stock unit awards as computed in accordance with FASB ASC Topic 718 disregarding any estimates of forfeitures relating to service-based vesting conditions.
- (3) This expense represents the grant date fair value of the applicable option awards, as computed in accordance with FASB ASC Topic 718 disregarding any estimates of forfeitures relating to service-based vesting conditions.
- (4) The Non-Equity Incentive Plan Compensation column reflects the cash awards made to the named executive officers under the fiscal 2011, 2010, and 2009 performance-based compensation plans. For fiscal years 2011, 2010 and 2009, the Non-Equity Incentive Plan Compensation column includes \$49,918, \$196,486 and \$215,840, respectively, in sales commissions earned by Ms. Kanouff. For Messrs. Goldfarb and Mann, all of the amounts included in the Non-Equity Incentive Plan Compensation column represent sales commissions earned relating to the fiscal years shown.
- (5) The All Other Compensation column includes Company contributions to a Named Executive Officer's 401(k) Plan account, perquisites and other personal benefits received by a Named Executive Officer to the extent such benefits exceeded \$10,000 in the aggregate relating to the fiscal year. In the case of Mr. Mann, the amount includes \$103,594 paid to Mr. Mann in fiscal 2011 pursuant to his separation agreement dated October 19, 2010; and in the case of Mr. Dunbar, the amount includes \$416,131 paid to Mr. Dunbar in fiscal 2011, pursuant to his separation agreement dated March 10, 2010.
- (6) Compensation information related to Mr. Kelly is presented solely with respect to fiscal 2011, as Mr. Kelly was not a named executive officer in the fiscal years ended January 31, 2009 and January 31, 2010.
- (7) As disclosed in SeaChange's Form 8-K filed October 21, 2010, Mr. Mann left SeaChange, effective October 19, 2010. Mr. Mann is a named executive officer for the fiscal year ended January 31, 2011, but is no longer an executive officer or employee as of the date hereof. Compensation information related to Mr. Mann is presented solely with respect to fiscal 2011 and 2010, as Mr. Mann was not a named executive officer in the fiscal year ended January 31, 2009.
- (8) As disclosed in SeaChange's Form 8-K filed March 11, 2010, Mr. Dunbar left SeaChange, effective March 15, 2010. Mr. Dunbar is a named executive officer for the fiscal year ended January 31, 2011, but is no longer an executive officer or employee of SeaChange as of the date hereof.

## Grants of Plan-Based Awards

No equity awards were granted under the fiscal year 2011 performance-based incentive plan during fiscal 2011. Awards of restricted stock units under the fiscal year 2011 performance-based incentive plan were made in March 2011, subject to stockholder approval of the 2011 Compensation and Incentive Plan. Accordingly, these awards are not reflected in the Summary Compensation Table above or the Grant of Plan-Based Awards table below.

Listed below is the grant of restricted stock units made during the fiscal year ended January 31, 2011 with respect to the fiscal year 2010 performance-based incentive plan.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$)
William C. Styslinger, III	-	-	-
Yvette Kanouff	4/5/2010	20,120	\$151,101
Kevin M. Bisson	-	-	-
Ira Goldfarb	-	-	-
Anthony Kelly	-	-	-
Bruce Mann	-	-	-
Edward Dunbar	-	-	-

## Outstanding Equity Awards at Fiscal Year-End

The following table sets forth summary information regarding the outstanding equity awards at January 31, 2011 granted to each of SeaChange's named executive officers.

Name	Option Awards(1)				Stock Awards(2)	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
William C. Styslinger, III	2,380	-	18.75	4/20/11	29,310	242,687
	52,620	-	18.75	4/20/11		
	55,000	-	13.76	4/4/12		
	46,875	-	7.00	3/5/13		
	40,000	-	15.59	11/4/13		
	20,000	-	14.56	12/4/13		
	20,000	-	15.62	3/4/14		
	40,000	-	12.21	5/24/14		

Name	Option Awards(1)				Stock Awards(2)	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
	20,000	-	14.47	8/4/14		
	20,000	-	17.39	11/4/14		
Yvette Kanouff	7,000	-	13.76	4/4/12	25,211	208,747
	3,500	-	13.24	5/24/12		
	4,500	-	10.72	5/27/13		
	4,500	-	10.33	8/4/13		
	4,500	-	15.59	11/4/13		
	5,000	-	15.62	3/4/14		
	2,118	-	12.21	5/24/14		
	2,882	-	12.21	5/24/14		
	5,000	-	14.47	8/4/14		
	5,000	-	17.39	11/4/14		
Kevin Bisson	-	-	-	-	7,708	63,822
Ira Goldfarb	9,000	-	13.76	4/4/12	9,044	74,884
	4,500	-	13.24	5/24/12		
	4,500	-	6.20	8/5/12		
	4,500	-	6.05	11/4/12		
	16,000	-	7.00	3/5/13		
	4,500	-	10.72	5/27/13		
	4,500	-	10.33	8/4/13		
	4,500	-	15.59	11/4/13		
	6,250	-	15.62	3/4/14		
	6,250	-	12.21	5/24/14		
	6,045	-	14.47	8/4/14		
	205	-	14.47	8/4/14		
	6,250	-	17.39	11/4/14		
Anthony Kelly	-	-	-	-	10,628	88,000
Bruce Mann	-	-	-	-	-	-
Edward Dunbar	60,000	-	6.23	3/15/11	-	-

- (1) All options in the table above, other than with respect to Mr. Dunbar, were granted under the Company's Amended and Restated 1995 Stock Option Plan (the "1995 Plan"). Under the 1995 Plan, one quarter of the options vest and become exercisable after one year and the balance vest and become exercisable over the next three years quarterly in equal installments. In fiscal 2006, the Company accelerated the vesting of certain unvested stock options with exercise prices equal to or greater than \$9.00 per share that were previously awarded under the 1995 Plan. The options in the table above with respect to Mr. Dunbar were granted under the Company's Amended and Restated 2005 Equity Compensation and Incentive Plan, with one-third vesting after one year and the balance becoming exercisable over the next two years quarterly in equal installments.

- (2) These columns show the number of shares of Common Stock represented by unvested restricted stock units at January 31, 2011. Each of these restricted stock units was granted as part of an award that provided for vesting over a period of three years. The remaining vesting dates for these unvested restricted stock units are as follows:

Name	Number of Restricted Stock Units That Have Not Vested	Date of Grant	Vesting Dates
William C. Styslinger, III	29,310	4/30/09	1/31/12
Yvette Kanouff	11,797 13,414	4/30/09 4/5/10	1/31/12 1/31/12, 1/31/13
Kevin M. Bisson	7,708	4/30/09	1/31/12
Ira Goldfarb	9,044	4/30/09	1/31/12
Anthony Kelly	10,628	4/30/09	1/31/12
Bruce Mann	-	-	-
Edward Dunbar	-	-	-

## Option Exercises and Stock Vested

The following table summarizes the option exercises and vesting of stock awards for each of SeaChange's named executive officers for fiscal 2011.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (1)
William C. Styslinger, III	-	-	59,274	490,789
Yvette Kanouff	-	-	26,908	222,798
Kevin M. Bisson	-	-	21,328	176,596
Ira Goldfarb	-	-	20,449	169,318
Anthony Kelly	-	-	10,629	88,008
Bruce Mann	-	-	31,170	234,087
Edward Dunbar	-	-	-	-

- (1) The value realized upon vesting of the restricted stock units shown in the table above was calculated as the product of the closing price of a share of our common stock on the vesting date multiplied by the number of shares vested.

## Pension Benefits

SeaChange does not offer defined benefit plans to its employees.

## Nonqualified Deferred Compensation

SeaChange does not offer nonqualified defined contribution or other nonqualified deferred compensation plans to its employees.

## Potential Payments upon Termination or Change in Control

As explained above, SeaChange has entered into change in control severance agreements with each of its North America based named executive officers. Mr. Kelly is not party to a change in control severance agreement, but is party to an executive service agreement, dated as of September 23, 2005, with SeaChange that provides for payment of 12 months base salary on termination without cause, whether or not in connection with a change of control.

Under the change in control severance agreements that SeaChange is a party to with its named executive officers, other than Mr. Kelly, a “change in control” means any of the following:

- the members of the Board of Directors of SeaChange at the beginning of any consecutive 12-calendar month period (“Incumbent Directors”) ceasing for any reason other than death to constitute at least a majority of the Board, provided that any director whose election, or nomination for election, was approved by at least a majority of the members of the Board then still in office who were members of the Board at the beginning of the 12-calendar month period shall be deemed to be an Incumbent Director;
- any consolidation or merger whereby the stockholders of SeaChange immediately prior to the consolidation or merger do not, immediately after the consolidation or merger, beneficially own shares representing 50% or more of the combined voting power of the securities of the corporation (or its ultimate parent corporation) issuing cash or securities in the consolidation or merger;
- any sale or other transfer of all or substantially all of the assets of SeaChange to another entity, other than an entity of which at least 50% of the combined voting power is owned by stockholders in substantially the same proportion as their ownership of SeaChange prior to the transaction;
- any approval by the stockholders of SeaChange of a plan for liquidation or dissolution of SeaChange; or
- any corporation or other person acquiring 40% or more of the combined voting power of SeaChange.

Upon a change in control, pursuant to the change in control severance agreements all of the executive’s unvested stock options and stock appreciation rights will automatically vest and become immediately exercisable, and any and all restricted stock and restricted stock rights then held by the executive shall fully vest and become immediately transferable free of restriction, other than those imposed by applicable law. In the event of a subsequent termination of the executive’s employment for any reason, all of the stock options and stock appreciation rights then held by the executive shall become exercisable for the lesser of (i) the remaining applicable term of the particular award or (ii) three years from the date of termination. In addition, if within one or two years following a Change in Control the employment of the executive is terminated (i) by SeaChange other than for specified causes, death or disability, or (ii) by the executive for specified good reason, the executive shall be entitled to the following:

- (i) for Mr. Styslinger, three times his annual base salary plus one times his bonus for the preceding year, or, if larger, the year prior to that, and (ii) for executives other than Mr. Styslinger, two times his or her annual base salary plus one times his or her bonus for the preceding year, or, if larger, the year prior to that;

- for a period of two years, continued health, life and disability benefits;
- outplacement services for up to one year following termination;
- up to \$5,000 of financial planning services; and
- accrued vacation pay.

As discussed above in Compensation Discussion and Analysis, each of the change-in-control severance agreements was amended, effective December 21, 2009, to remove the “parachute payment” tax gross-up under Section 280G under the Internal Revenue Code of 1986, as amended. Mr. Styslinger’s change-in-control severance agreement was further amended, effective June 1, 2010, to change the multiple of his base salary that is payable under the conditions set forth in the agreement from two times his annual base salary to three times his annual base salary.

As a condition to the receipt by the executive of any payment or benefit under the change-in-control severance agreement, the executive must first execute a valid, binding and irrevocable general release in favor of SeaChange and in a form reasonably acceptable to SeaChange.

The following table shows the payments to which SeaChange’s named executive officers, other than Messrs. Dunbar and Mann, would have been entitled pursuant to his or her change-in-control severance agreement or, in the case of Mr. Kelly, his executive service agreement, had employment been terminated as of January 31, 2011 in circumstances that would have triggered the change-in control severance agreement or executive service agreement, as applicable.

**Potential Payments Upon Termination or Change in Control**

Name	Salary \$(1)	Non-Equity Incentive Plan Compensation\$(1)	Equity Incentive Plan Compensation\$(1)	Benefits\$( (2)	Equity Awards \$(3)
William C. Styslinger, III	1,425,000	408,960	551,321	46,809	242,687
Yvette Kanouff	800,000	272,048	221,902	56,278	208,747
Kevin M. Bisson	700,000	-	144,987	56,278	63,822
Ira Goldfarb	700,000	-	170,130	56,278	74,884
Anthony Kelly	310,252	-	-	-	-

- (1) For Mr. Styslinger, reflects three times his base salary and one times his bonus. For executives other than Mr. Styslinger and Mr. Kelly, reflects two times the executive’s base salary and one times the executive’s bonus. For executives other than Mr. Styslinger and Mr. Kelly, the salary and bonus payment may not exceed the amount to which Mr. Styslinger is entitled. For Mr. Kelly, reflects 12 months base salary.
- (2) Reflects the continuation of each named executive officer’s benefits under group benefit plans consisting of medical, dental, group life and disability and outplacement and financial planning services.
- (3) Reflects the value of all unvested stock options and restricted stock units that would vest as a result of the termination. The amounts are based on (i) in the case of accelerated options, the excess of the SeaChange January 31, 2011 closing common stock price over the applicable exercise price, and (ii) in the case of accelerated restricted stock units, the SeaChange closing common stock price as of January 31, 2011 multiplied by the number of unvested restricted stock units as of January 31, 2011. The grant date fair value of restricted stock unit awards have previously been disclosed in the Summary Compensation Table.

As disclosed in SeaChange’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2010, in connection with the termination of Mr. Dunbar’s

employment, SeaChange and Mr. Dunbar entered into a separation agreement, dated as of March 10, 2010 pursuant to which Mr. Dunbar continued to receive his base salary through April 13, 2011 and the 60,000 stock options previously granted to Mr. Dunbar upon joining SeaChange were accelerated to be fully vested and exercisable through March 15, 2011. In addition, Mr. Dunbar remains bound by the terms of his previously executed Noncompetition, Nondisclosure and Developments Agreement which provides for a one-year post-employment noncompetition and nonsolicitation period.

As disclosed in SeaChange's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2010, in connection with the termination of Mr. Mann's employment, SeaChange and Mr. Mann entered into a separation agreement, dated as of October 19, 2010 pursuant to which Mr. Mann will continue to receive \$184,616 (less applicable deductions) in 16 bi-weekly equal installments on SeaChange's regular payroll schedule and the 31,170 unvested restricted stock units previously granted to Mr. Mann were accelerated to be fully vested. In addition, Mr. Mann remains bound by the terms of the Noncompetition, Nondisclosure and Developments Agreements which provides for a one-year post-employment noncompetition and nonsolicitation period.

### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

#### **THE COMPENSATION COMMITTEE**

Thomas F. Olson, Chair  
Raghu Rau  
Carmine Vona

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee consists of Messrs. Olson, Rau and Vona. No person who served as a member of the Compensation Committee was, during the past fiscal year, an officer or employee of SeaChange or any of its subsidiaries, was formerly an officer of SeaChange or any of its subsidiaries, or had any relationship requiring disclosure herein. No executive officer of SeaChange served as a member of the compensation committee of another entity (or other committee of the Board of Directors performing equivalent functions or, in the absence of any such committee, the entire Board of Directors), one of whose executive officers served as a director of SeaChange.

## **PROPOSAL NO. II**

### **ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS**

The Company is providing shareholders with the opportunity at the 2011 Annual Meeting to vote on the following advisory resolution, commonly known as “Say-on-Pay”:

RESOLVED, that the shareholders of the Company approve, in a non-binding, advisory vote, the compensation of the Company’s named executive officers as disclosed in the Company’s proxy statement under the heading “Compensation Discussion and Analysis.”

The Board has implemented an executive compensation program that rewards performance and is designed to attract, retain and motivate the key individuals who are most capable of contributing to SeaChange’s success and building long-term value for its stockholders. This compensation program that makes a substantial portion of executive pay variable, subject to increase when performance targets are achieved, and subject to reduction when performance targets are not achieved. SeaChange believes that the variability in these payouts indicates that its annual compensation plans effectively reward its executive officers for superior performance, while appropriately adjusting compensation downward for less-than-superior performance. The Compensation Committee retains discretion as to final payouts under the incentive compensation plans to ensure the goals of the overall program are met. SeaChange believes that the compensation program is centered on a pay-for-performance philosophy and is strongly aligned with the long-term interests of shareholders.

The historical payouts under the executive compensation incentive plan are evidence of the pay for performance structure of SeaChange’s compensation program. For example, under the fiscal 2010 compensation plan, no payouts were made to the named executive officers related to the fiscal 2010 revenue or net income objectives due to the failure to meet the fiscal 2010 GAAP revenue target, the fiscal 2010 GAAP net income target, or the fiscal 2010 GAAP net income threshold. Notably, even though the GAAP revenue threshold with respect to the fiscal 2010 compensation plan was exceeded, the Compensation Committee exercised discretion not to make a payout due to SeaChange’s overall financial performance. In contrast, based on the improvement in operating results in fiscal 2011, payouts were made to the named executive officers under the fiscal 2011 compensation plan related to both the fiscal 2011 revenue and non-GAAP net income objectives.

The Board urges stockholders to read the Compensation Discussion and Analysis beginning on page 22 of this proxy statement, which describes in more detail how the Company’s executive compensation policies and procedures operate and are designed to achieve our compensation objectives, and which includes the Summary Compensation Table and other related compensation tables and narrative, appearing on pages 33 through 40 of this proxy statement, which provide detailed information on the compensation of our named executive officers. The Compensation Committee and the Board believe that the policies and procedures articulated in the Compensation Discussion and Analysis are effective in achieving our goals and that the compensation of our named executive officers reported in this proxy statement reflects and supports these compensation policies and procedures.



While the vote is advisory, the Board and the Compensation Committee will consider the outcome of the vote when considering future executive compensation arrangements.

**The Board of Directors unanimously recommends a vote “FOR” the approval of the Company’s executive compensation.**

### **PROPOSAL NO. III**

#### **ADVISORY VOTE ON WHETHER THE ADVISORY VOTE ON APPROVAL OF COMPENSATION OF NAMED EXECUTIVE OFFICERS SHOULD OCCUR EVERY ONE, TWO OR THREE YEARS**

The Company is providing stockholders with the opportunity at the annual meeting to vote on the following advisory resolution, commonly known as “Say-on-Frequency”:

RESOLVED, that the stockholders of the Company approve, in a non-binding, advisory vote, that the frequency with which the stockholders of the Company shall have an advisory vote on the compensation of the Company’s named executive officers set forth in the Company’s proxy statement is:

- Choice 1 – Every year;
- Choice 2 – Every two years;
- Choice 3 – Every three years; or
- Choice 4 – Abstain.

The Board believes that voting every year on “say-on-pay” would be the choice best suited for the Company because, among other things, an annual vote provides a regular, consistent means for the Company’s shareholders to provide feedback to the Board regarding the Company’s efforts to structure executive compensation programs that are centered on a pay-for-performance philosophy and are strongly aligned with the long-term interests of shareholders.

While the vote is advisory, the Board and the Compensation Committee will consider the outcome of the vote when considering how frequently to hold “say-on-pay” advisory votes in the future. The Company will report the results of the vote in a Form 8-K following the annual meeting. In addition, the Company will disclose in a Form 8-K to be filed no later than December 17, 2011, 150 days subsequent to the date of the annual meeting, the decision by the Company as to the frequency of stockholder votes on executive compensation in light of the results of this advisory vote.

**The Board of Directors recommends a vote “FOR” having the advisory vote to approve the compensation of the Company’s named executive officers EVERY YEAR.**

## PROPOSAL NO. IV

### APPROVAL OF THE ADOPTION OF SEACHANGE'S 2011 COMPENSATION AND INCENTIVE PLAN

Currently, SeaChange has no meaningful further ability to make grants of restricted stock, restricted stock units ("RSUs") or other non-stock option awards under the Company's Amended and Restated 2005 Equity Compensation and Incentive Plan (the "2005 Plan"). As disclosed in our Annual Report on Form 10-K, while as of January 31, 2011, there remained 603,719 shares available for issuance under the 2005 Plan, only 87,995 shares remain available for the issuance of restricted stock units (RSUs). The Board of Directors believes that equity-based and other performance-based compensation will continue to be essential to permit SeaChange to successfully continue the pursuit of its business objectives. Accordingly, the Board is proposing for adoption by stockholders the 2011 Compensation and Incentive Plan (the "2011 Plan") to permit the continued issuance by SeaChange of equity-based compensation and to provide for cash awards. Upon approval of the 2011 Plan, the 2005 Plan will be terminated, and no further awards will be granted pursuant to the 2005 Plan.

**The Board of Directors strongly believes that the grant of equity awards, and of RSUs in particular, is in the stockholder's best interests because these awards provide an enhanced ability to recruit, retain and motivate SeaChange's employees, and that without a continued ability to make such grants SeaChange would suffer a severe competitive disadvantage. Approval of the 2011 Plan will also constitute shareholder approval of the material terms of the 2011 Plan for purposes of Section 162(m) of the Code so that Awards would be deductible for tax purposes, as further described below.**

**The Board of Directors unanimously recommends a vote "FOR" the approval of the 2011 Plan.**

The principal features of the 2011 Plan include:

- **Minimum Vesting Periods:** Generally, stock options granted under the 2011 Plan will have a minimum vesting period of no less than six (6) months and restricted stock, restricted stock units and other full value awards granted under the 2011 Plan will have a minimum vesting period of no less than one (1) year for awards granted subject to performance goals and no less than three (3) years for all other awards. No more than 10% of the maximum aggregate shares authorized for issuance under the 2011 Plan may be granted in the form of Awards that do not comply with these minimum vesting periods.
- **No Discount Stock Options:** The 2011 Plan prohibits the grant of a stock option with an exercise price less than the fair market value of SeaChange's stock on the date of grant.
- **Maximum Ten-Year Option Term:** The 2011 Plan provides that stock options may not have a term greater than ten years.

- **No Liberal Share Counting:** The 2011 Plan does not permit the number of shares available for grant to be increased by actions such as the tendering of shares in payment of a stock option, the withholding of shares to satisfy tax withholding obligations, and shares repurchased with option proceeds.
- **No Repricing of Stock Options:** The 2011 Plan prohibits the repricing of stock options without stockholder approval.
- **Performance-Based Awards:** The 2011 Plan enables SeaChange to grant equity and cash awards that constitute “performance-based compensation” under Section 162(m) of the Internal Revenue Code (the “Code”), and includes categories of performance goals on which SeaChange may base an executive’s performance-based incentive compensation.
- **Independent Committee Administration:** The 2011 Plan is administered by a committee of the Board whose members satisfy the independence requirements of applicable rules and regulations (the “Committee”).
- **Material Amendments to the 2011 Plan Require Stockholder Approval:** The 2011 Plan provides that a material amendment to the 2011 Plan is not effective unless approved by SeaChange’s stockholders.
- **Awards Subject to Recovery:** Awards and shares of Common Stock (and proceeds therefrom) obtained pursuant to or on exercise of such awards under the 2011 Plan are subject to forfeiture, setoff, recoupment or other recovery if the Committee determines in good faith that such action is required by applicable law or Company policy.

### **Summary of the 2011 Plan**

The following description of the 2011 Plan is a summary only. SeaChange strongly recommends that you read the complete text of the 2011 Plan which is attached as Appendix A hereto.

The purpose of the 2011 Plan is to provide equity ownership and compensation opportunities in SeaChange (each, an “Award”) to employees, officers, directors, consultants and advisors of SeaChange and its subsidiaries, all of whom are eligible to receive Awards under the 2011 Plan. Any person to whom an Award is granted will be called a “Participant.”

#### *Administration*

The 2011 Plan is administered by a committee composed solely of members of SeaChange’s board of directors that are “independent” under applicable rules and regulations (the “Committee”). The Committee has the authority to grant and amend Awards, to establish performance goals with respect to such Awards, to adopt, amend and repeal rules relating to the 2011 Plan, to interpret and correct the provisions of the 2011 Plan and any Award, and to subject Awards to forfeiture, setoff, recoupment or other recovery if the Committee determines in good faith that such action is required by applicable law or Company policy. The 2011 Plan also

provides that, subject to certain limits provided for in the 2011 Plan, authority to grant Awards to employees may be delegated to one or more officers of SeaChange.

#### *Authorized Shares*

The number of shares (the “Authorized Shares”) of Common Stock that may be delivered in satisfaction of Awards granted under the 2011 Plan is (i) 2,800,000 shares of Common Stock plus (ii) the number of shares that would have become available for issuance under the 2005 Plan following the adoption of the 2011 Plan due to the expiration, termination, surrender or forfeiture of an award under the 2005 Plan. If any Award expires, or is terminated, surrendered or forfeited, in whole or in part, the unissued shares covered by such Award will again be available for the grant of Awards under the 2011 Plan, provided that in no event shall the following shares of Common Stock be added to the foregoing plan limit: (i) shares of Common Stock tendered in payment of an option, whether granted pursuant to the 2011 Plan or the 2005 Plan; (ii) shares of Common Stock withheld by SeaChange to satisfy any tax withholding obligation, whether pursuant to the 2011 Plan or the 2005 Plan; or (iii) shares of Common Stock that are repurchased by SeaChange with proceeds of options, whether granted pursuant to the 2011 Plan or the 2005 Plan. Upon approval of the 2011 Plan, the 2005 Plan will be terminated and no further awards will be granted pursuant to the 2005 Plan.

#### *Eligibility*

Employees, officers, directors, consultants and advisors of SeaChange and its subsidiaries are eligible to be granted Awards under the 2011 Plan. Under present law, however, incentive stock options within the meaning of Section 422 of the Code may only be granted to employees of SeaChange and parent or subsidiaries of SeaChange. The maximum number of shares with respect to which Awards may be granted to any one Participant under the 2011 Plan is 500,000 shares in any fiscal year. Approximately 1125 persons were eligible to participate in the 2011 Plan as of January 31, 2011.

#### *Types of Awards*

Awards under the 2011 Plan may be in the form of incentive stock options, non-qualified stock options, restricted stock, restricted stock units, any other equity-based interests as the Committee shall determine, cash awards, or any combination thereof. Awards may be granted subject to time-based vesting schedules and/or performance-based vesting measured by performance goals.

#### *Stock Options*

Stock options represent the right to purchase shares of Common Stock within a specified period of time at a specified price. The exercise price for options will be not less than 100% (110% for an incentive stock option granted to a 10% or more stockholder) of the fair market value of Common Stock on the date of grant. The aggregate fair market value, determined on the date the option is granted, of the stock for which any person may be granted incentive stock options which become exercisable for the first time by such person in any calendar year cannot exceed the sum of \$100,000 (determined on the date such option is granted). No incentive stock option will be granted to a person who is not an “employee” as defined in the applicable provisions of the Internal Revenue Code of 1986, as amended, (the “Code”), and regulations issued

thereunder. Options will expire no later than ten years (five years in the case of an incentive stock option granted to a 10% or more stockholder) after the date of grant. No stock options can be granted under the 2011 Plan after July 20, 2021, but options granted before that date may be exercised thereafter.

Payment for the exercise of options under the 2011 Plan may be made by one or any combination of the following forms of payment:

- by cash or by check payable to the order of SeaChange;
- at the discretion of the Committee through delivery of shares of Common Stock having fair market value equal as of the date of exercise to the cash exercise price of the option; or
- at the discretion of the Committee, by delivery of a sufficient amount of the proceeds from the sale of the Common Stock acquired upon exercise of the option by the optionee's broker or selling agent.

Generally, options granted under the 2011 Plan shall have a minimum vesting period of no less than six (6) months. Each option or installment may be exercised at any time or from time to time, in whole or in part, for up to the total number of shares with respect to which it is then exercisable.

#### *Restricted Stock, Restricted Stock Units and Other Equity Awards*

The 2011 Plan provides the flexibility to grant other forms of Awards based upon the Common Stock, having the terms and conditions established at the time of grant by the Committee. Restricted stock is Common Stock that is subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. Restricted stock units represent the right to receive shares of Common Stock in the future, with the right to future delivery of the shares subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. All of the shares being approved for issuance under the 2011 Plan may be granted as Awards of restricted stock, restricted stock units or other non-stock option Awards.

Generally, restricted stock, restricted stock units and other full value Awards under the 2011 Plan shall have a minimum vesting period of no less than one (1) year for Awards granted subject to performance goals and no less than three (3) years for all other Awards.

Subject to any restrictions applicable to the Award, a Participant holding restricted stock, whether vested or unvested, will be entitled to enjoy all rights of a stockholder with respect to such restricted stock, including the right to receive dividends and to vote the shares. A Participant holding restricted stock units may not vote the shares represented by a restricted stock unit and is not entitled to received any dividends with respect to shares represented by a restricted stock unit.

### *Cash Awards*

The 2011 Plan provides the flexibility to grant cash Awards either alone, in addition to, or in tandem with other Awards granted under the 2011 Plan. The Committee shall determine the terms and conditions of any such cash Award. From time to time, the Committee shall establish administrative rules and procedures governing the administration of Cash Awards, provided that no Participant may be granted a cash Award under the 2011 Plan that would result in a payment of more than \$2 million during any one fiscal year of SeaChange. SeaChange has included the flexibility to grant cash Awards pursuant to the 2011 Plan to enhance the ability to deduct the full value of compliant cash Awards, as described below under “Deductibility Under Section 162(m).”

### *Deductibility Under Section 162(m)*

Section 162(m) of the Code places a limit of \$1,000,000 on the amount SeaChange may deduct in any one year for compensation paid to its principal executive officer and its other three most highly-compensated executive officers other than SeaChange’s principal financial officer. There is, however, an exception to this limitation for certain performance-based compensation. For awards under the 2011 Plan to qualify for this exception, stockholders must approve the material terms of the 2011 Plan under which the Awards are paid. The material terms of the 2011 Plan include (i) the employees eligible to receive Awards under the plan, (ii) a description of the business criteria on which the performance goals are based, and (iii) the maximum amount of compensation that could be paid to any employee if the performance goals are attained. Performance goals will be based on one or more of the following business criteria determined with respect to SeaChange and its subsidiaries on a group-wide basis or on the basis of subsidiary, business platform, or operating unit results, in each case on a GAAP or non-GAAP basis: (i) earnings per share (on a fully diluted or other basis), (ii) pretax or after tax net income, (iii) operating income, (iv) gross or net revenue, (v) profit margin, (vi) stock price targets or stock price maintenance, (vii) working capital, (viii) free cash flow, (ix) cash flow, (x) return on equity, (xi) return on capital or return on invested capital, (xii) earnings before interest, taxes, depreciation, and amortization (EBITDA), (xiii) economic value added, (xiv) strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market penetration, geographic business expansion goals, cost targets, or objective goals relating to acquisitions or divestitures, or (xv) any combination of these measures.

### *Transferability*

Except as the Committee may otherwise determine or provide in an Award, Awards may be transferred only by will or by the laws of descent and distribution; provided, however, that nonstatutory stock options may be transferred pursuant to a qualified domestic relations order or to a grantor-retained annuity trust or a similar estate-planning vehicle under which the trust is bound by all provisions of the option which are applicable to the holder thereof.

### *Adjustment*

In the event of any stock split, stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off,

split-up, or other similar change in capitalization or event, the following shall be equitably adjusted:

- the number and class of securities available for stock-based Awards under the 2011 Plan and the per-Participant share limit;
- the number and class of securities, vesting schedule and exercise price per share subject to each outstanding option;
- the repurchase price per security subject to repurchase; and
- the terms of each other outstanding stock-based Award shall be adjusted by SeaChange (or substituted Awards may be made) to the extent the Committee shall determine, in good faith, that such an adjustment (or substitution) is appropriate.

#### *Treatment upon Acquisition*

Unless otherwise expressly provided in the applicable Award, upon the occurrence of an acquisition of SeaChange, appropriate provision is to be made for the continuation or the assumption by the surviving or acquiring entity of all Awards. In addition to or in lieu of the foregoing, the Committee may provide that one or more Awards granted under the 2011 Plan must be exercised by a certain date or shall be terminated, that any such Awards shall be terminated in exchange for a cash payment, or that any out of the money stock-based Awards be terminated.

#### *Effect of Termination, Disability or Death*

The Committee determines the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the Participant's legal representative, conservator, guardian or designated beneficiary, may exercise rights under the Award, subject to applicable law and the provisions of the Code related to incentive stock options.

#### *Amendment of Awards*

The Committee may, without stockholder approval, amend, modify or terminate any outstanding Award, *provided that*, the Participant's consent to such action shall be required unless the Committee determines that the action, taking into account any related action, would not materially and adversely affect the Participant. In addition, other than in the case of equitable adjustments to outstanding Awards, without the prior approval of SeaChange's stockholders, (i) no option or other stock-based Award that is not a full value Award may be amended to reduce the price at which such option or Award is exercisable, (ii) no option or other stock-based Award that is not a full value Award may be canceled in exchange for an option or other stock-based Award that is not a full value Award with an exercise price that is less than the exercise price of the original option or stock-based Award that is not a full value Award, (iii) no option or other stock-based Award that is not a full value Award with an exercise price above the then current Fair Market Value may be canceled in exchange for cash or other securities, and (iv) no option or



other stock-based Award that is not a full value Award may be amended to extend the period of time for which such previously-issued Award shall be exercisable beyond the expiration date of such Award.

#### *Termination of 2011 Plan; Amendments*

Awards may be granted under the 2011 Plan at any time prior to July 20, 2021. The Committee may amend, suspend or terminate the 2011 Plan or any portion thereof at any time, *provided, however*, that any “material amendment” as defined by the 2011 Plan will not be effective unless approved by SeaChange’s stockholders. If any Award expires, or is terminated, surrendered or forfeited, in whole or in part, the unissued shares covered by such Award shall again be available for the grant of Awards under the 2011 Plan.

### **Federal Income Tax Consequences**

#### *Incentive Stock Options*

The following general rules are applicable under current United States federal income tax law to incentive stock options (“ISOs”) granted under SeaChange’s 2011 Plan.

1. In general, no taxable income results to the optionee upon the grant of an ISO or upon the exercise of the ISO, and no corresponding federal tax deduction is allowed to SeaChange upon either the grant or exercise of an ISO.
2. If shares acquired upon exercise of an ISO are not disposed of within (i) two years following the date the option was granted or (ii) one year following the date the shares are issued to the optionee pursuant to the ISO exercise (the “Holding Periods”), the difference between the amount realized on any subsequent disposition of the shares and the exercise price will generally be treated as long-term capital gain or loss to the optionee.
3. If shares acquired upon exercise of an ISO are disposed of before the Holding Periods are met (a “Disqualifying Disposition”), then in most cases the lesser of (i) any excess of the fair market value of the shares at the time of exercise of the ISO over the exercise price or (ii) the actual gain on disposition will be treated as compensation to the optionee and will be taxed as ordinary income in the year of such disposition.
4. In any year that an optionee recognizes ordinary income as the result of a Disqualifying Disposition, SeaChange generally should be entitled to a corresponding deduction for federal income tax purposes.
5. Any excess of the amount realized by the optionee as the result of a Disqualifying Disposition over the sum of (i) the exercise price and (ii) the amount of ordinary income recognized under the above rules will be treated as capital gain to the optionee.
6. Capital gain or loss recognized by an optionee upon a disposition of shares will be long-term capital gain or loss if the optionee’s holding period for the shares exceeds one year.

7. An optionee may be entitled to exercise an ISO by delivering shares of SeaChange's Common Stock to SeaChange in payment of the exercise price, if so provided by the Committee. If an optionee exercises an ISO in such fashion, special rules will apply.

8. In addition to the tax consequences described above, the exercise of an ISO may result in additional tax liability to the optionee under the alternative minimum tax rules. The Code provides that an alternative minimum tax (at a maximum rate of 28%) will be applied against a taxable base which is equal to "alternative minimum taxable income" reduced by a statutory exemption. In general, the amount by which the value of the Common Stock received upon exercise of the ISO exceeds the exercise price is included in the optionee's alternative minimum taxable income. A taxpayer is required to pay the higher of his or her regular tax liability or the alternative minimum tax. A taxpayer that pays alternative minimum tax attributable to the exercise of an ISO may be entitled to a tax credit against his or her regular tax liability in later years.

### *Nonstatutory Stock Options*

The following general rules are applicable under current federal income tax law to options that do not qualify as ISOs ("NSOs") granted under the 2011 Plan:

1. The optionee generally does not realize any taxable income upon the grant of a NSO, and SeaChange is not allowed a federal income tax deduction by reason of such grant.
2. The optionee generally will recognize ordinary income at the time of exercise of a NSO in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the exercise price.
3. When the optionee sells the shares acquired pursuant to a NSO, he or she generally will recognize a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and his or her basis in the shares (generally, the exercise price plus the amount taxed to the optionee as ordinary income). If the optionee's holding period for the shares exceeds one year, such gain or loss will be a long-term capital gain or loss.
4. SeaChange generally should be entitled to a corresponding tax deduction for federal income tax purposes when the optionee recognizes ordinary income.
5. An optionee may be entitled to exercise a NSO by delivering shares of SeaChange's Common Stock to SeaChange in payment of the exercise price, if so provided by the Committee. If an optionee exercises a NSO in such fashion, special rules will apply.

### *Restricted Stock and Restricted Stock Unit Awards*

The following general rules are applicable under current federal income tax law to Awards of restricted stock and restricted stock units under the 2011 Plan:

1. The recipient of restricted stock units will not recognize taxable income at the time of a grant of a restricted stock unit, and SeaChange will not be entitled to a tax deduction at

that time. The recipient will recognize compensation taxable as ordinary income, however, at the time of the settlement of the Award, equal to the fair market value of any shares delivered and the amount of cash paid. SeaChange will generally be entitled to a corresponding deduction, except to the extent that the deduction limits of Section 162(m) apply.

2. The recipient of restricted stock will not recognize taxable income at the time of a grant of a restricted stock Award, and SeaChange will not be entitled to a tax deduction at such time, unless the Participant makes an election under Section 83(b) of the Code to be taxed at that time. If that election is made, the Participant will recognize compensation taxable as ordinary income at the time of the grant, equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. If such election is not made, the Participant will recognize compensation taxable as ordinary income at the time the restrictions lapse, in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. SeaChange will generally be entitled to a corresponding deduction at the time the ordinary income is recognized by the recipient, except to the extent that the deduction limits of Section 162(m) of the Code apply.

In addition, a Participant receiving dividends with respect to restricted shares for which the above-described election has not been made, and prior to the time the restrictions lapse, will recognize compensation taxable as ordinary income rather than dividend income. SeaChange will generally be entitled to a corresponding deduction, except to the extent that the deduction limits of Section 162(m) apply.

#### *Cash Awards.*

The following general rules are applicable under current federal income tax law to cash Awards under the 2011 Plan:

1. Participants granted a cash Award generally will recognize ordinary income at the time of payment of the cash Award equal to the amount paid.
2. SeaChange will generally be entitled to a corresponding deduction, except to the extent that the deduction limits of Section 162(m) apply.

#### *Other Tax Considerations.*

A Participant who receives accelerated vesting, exercise or payment of Awards contingent upon or in connection with a change of control may be deemed to have received an “excess parachute payment” under Section 280G of the Code. In such event, the Participant may be subject to a 20% excise tax and SeaChange may be denied a tax deduction for such payments.

It is the intention of SeaChange that Awards will comply with Section 409A of the Code regarding nonqualified deferred compensation arrangements or will satisfy the conditions of applicable exemptions. However, if an Award is subject to and fails to comply with the requirements of Section 409A, the Participant may recognize ordinary income on the amounts deferred under the Award, to the extent vested, prior to the time when the compensation is

received. In addition, Section 409A imposes a 20% penalty tax, as well as interest, on the Participant with respect to such amounts.

The foregoing general tax discussion is intended for the information of SeaChange's shareholders considering how to vote with respect to this proposal, and not as tax guidance to Participants in the 2011 Plan.

### **Summary of Awards Committed to be Granted Pursuant to the 2011 Plan**

As previously disclosed, as of January 31, 2011, there remained only 603,719 shares available for issuance under the 2005 Plan, of which only 87,995 shares remained available for the issuance of RSUs. Accordingly, all grants of equity awards by SeaChange since January 31, 2011 have been made pursuant to the proposed 2011 Plan, contingent on stockholder approval of the 2011 Plan, including grants to SeaChange's named executive officers of 280,041 RSUs pursuant to SeaChange's fiscal 2011 performance-based incentive compensation plans and of 64,309 RSUs pursuant to discretionary grants otherwise made during fiscal 2012. Set forth below is a summary of the awards that the Committee has, as of the date hereof, committed to make pursuant to the 2011 Plan, subject to stockholder approval thereof, to the persons specified below.

**New Plan Benefits Table  
2011 Compensation and Incentive Plan**

Name and Position	Dollar value \$(a)	Number of RSUs(b)
William C. Styslinger, III <i>Chief Executive Officer, Chairman of the Board, Director</i>	\$1,338,826	161,694
Yvette Kanouff <i>President and Chief Strategy Officer</i>	\$462,678	55,879
Kevin M. Bisson <i>Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary</i>	\$337,485	40,759
Ira Goldfarb <i>Senior Vice President, Worldwide Sales</i>	\$406,871	49,139
Anthony Kelly <i>Senior Vice President, ODG</i>	\$305,358	36,879
All current executive officers as a group	\$3,943,292	476,243
All employees who are not executive officers as a group	\$1,683,423	203,312

(a) Represents the fair value as of January 31, 2011 for financial statement reporting purposes as computed in accordance with FASB ASC Topic 718 disregarding any estimates of forfeitures relating to vesting conditions.

(b) All RSUs will provide for vesting over a three year period.

**The Board of Directors unanimously recommends a vote "FOR" the approval of the 2011 Plan.**

## PROPOSAL NO. V

### RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Grant Thornton LLP currently serves as SeaChange's independent registered public accounting firm. The Board of Directors is seeking ratification of the Audit Committee's selection of Grant Thornton LLP to continue to serve as the registered public accounting firm for the fiscal year ending January 31, 2012.

#### **Independent Registered Public Accounting Firm for Fiscal Year 2012**

The Audit Committee of the Board of Directors has selected the firm of Grant Thornton LLP, independent accountants, to serve as the registered public accounting firm for the fiscal year ending January 31, 2012.

A representative of Grant Thornton LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and is expected to be available to respond to appropriate questions.

The Board of Directors has put the ratification of the selection of Grant Thornton LLP before the stockholders because the Board believes that seeking stockholder ratification of the selection of the independent registered public accounting firm is good corporate practice. If the appointment of Grant Thornton LLP is not ratified, the Audit Committee will first review the basis for the stockholder vote and SeaChange's relationship with Grant Thornton LLP and will then take such action as it deems necessary.

**The Board of Directors unanimously recommends a vote "FOR" ratification of the appointment of SeaChange's independent registered public accounting firm.**

#### **Principal Accountant Fees and Services**

##### *Fees for Services Provided by Grant Thornton LLP*

The following table sets forth the aggregate fees for services provided by Grant Thornton LLP, SeaChange's independent registered public accounting firm for the fiscal years ended January 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Audit Fees	\$1,327,776	\$1,010,328
Tax Fees	--	6,864
All Other Fees	--	--
Total:	<u>\$1,327,776</u>	<u>\$1,017,192</u>

*Audit Fees.* These are aggregate fees billed for professional services rendered by Grant Thornton LLP for the fiscal year ended January 31, 2011, and for the fiscal year ended January 31, 2010 for (a) the annual audit of SeaChange's financial statements for each such fiscal year including statutory audits of foreign subsidiaries and the accompanying attestation report regarding SeaChange's internal control over financial reporting contained in SeaChange's annual reports on Form 10-K, (b) reviews of the quarterly financial information included in SeaChange's Quarterly Reports on Form 10-Q for each such fiscal year and (c) reviews of SEC filings, as well as fees for audit services rendered by Grant Thornton LLP during fiscal 2010 in connection with SeaChange's acquisition of eventIS Group B.V. and VividLogic, Inc.

*Tax Fees.* These are fees billed for professional services for tax compliance, tax advice and tax planning for the fiscal year ended January 31, 2010.

The Audit Committee of the Board of Directors has determined that the provision of the services as set out above is compatible with maintaining Grant Thornton LLP's independence.

#### *Audit Committee Pre-Approval Policy*

The Audit Committee's policy is to pre-approve all audit, audit-related, tax and other non-audit services that may be provided by Grant Thornton LLP, the independent registered public accounting firm. The policy identifies the principles that must be considered by the Audit Committee in approving these services to ensure that Grant Thornton LLP's independence is not impaired; describes the audit and audit-related, tax and other services that may be provided; and sets forth pre-approval requirements for all permitted services. To date, Audit Committee pre-approval has been sought for the provision of all services by Grant Thornton LLP.

## **OTHER MATTERS**

### **Expenses and Solicitation**

All costs of solicitation of proxies will be borne by SeaChange. In addition to solicitations by mail, certain of SeaChange's directors, officers and regular employees, without additional remuneration, may solicit proxies by telephone, facsimile, e-mail and personal interviews. Brokers, custodians and fiduciaries will be requested to forward the Notice and proxy soliciting material to the owners of stock held in their names, and SeaChange will reimburse them for their reasonable out-of-pocket costs. SeaChange has also engaged The Proxy Advisory Group, LLC, to assist in the solicitation of proxies and provide related advice and informational support, for a services fee plus customary disbursements not expected to exceed \$10,000 in the aggregate.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act, requires SeaChange's directors, executive officers and holders of more than 10% of SeaChange's common stock (collectively, "Reporting Persons") to file with the SEC initial reports of ownership and reports of changes in ownership of common stock of SeaChange. Such persons are required by regulations of the SEC to furnish SeaChange with copies of all such filings. Based on its review of the copies of such filings received by it with respect to the fiscal year ended January 31, 2011, and written representations from certain Reporting Persons, SeaChange believes that all Reporting Persons complied with all Section

16(a) filing requirements in the fiscal year ended January 31, 2011, with the following exceptions: (1) William C. Styslinger, III's Statement of Changes in Beneficial Ownership filed on Form 4 on March 22, 2010, which reported a transaction that occurred on March 17, 2010, was required to be filed by March 19, 2010; (2) Edward Terino's Statement of Changes in Beneficial Ownership filed on Form 4 on July 20, 2010, which reported a transaction that occurred on July 15, 2010, was required to be filed by July 19, 2010; (3) Erwin van Dommelen's Statement of Changes in Beneficial Ownership filed on Form 4 on September 21, 2010, which reported a transaction that occurred on September 1, 2010, was required to be filed by September 3, 2010; and (4) Peter Feld's Statement of Changes in Beneficial Ownership filed on Form 4, on January 24, 2011, which reported a transaction that occurred on January 19, 2011, was required to be filed by January 21, 2011.

### **Certain Relationships and Related Transactions**

SeaChange has adopted a written policy pursuant to the Amended and Restated Charter of the Audit Committee and the Charter of the Corporate Governance and Nominating Committee that all transactions between SeaChange and its officers, directors, principal stockholders and affiliates will be approved by a majority of the Board of Directors, including a majority of the independent and disinterested outside directors on the Board of Directors, and will be on terms no less favorable to SeaChange than could be obtained from unaffiliated third parties.

On September 1, 2009, SeaChange completed its acquisition of eventIS Group B.V. ("eventIS") from a holding company in which Erwin van Dommelen, elected President of SeaChange Software in March 2010, has a 31.5% interest. SeaChange has to date made cash payments to the holding company of \$38.7 million and issued 75,000 restricted shares, which will vest in equal installments over three years beginning in fiscal 2012. SeaChange is obligated to make additional fixed payments to the holding company of deferred purchase price under the eventIS share purchase agreement on each of the second and third anniversaries of the closing date, each such payment to be in an aggregate amount of \$2.8 million with \$1.7 million payable in cash and \$1.1 million payable by the issuance of restricted shares of SeaChange common stock, which will vest in equal installments over three years starting on the first anniversary of the date of issuance. Under the earnout provisions of the eventIS share purchase agreement, if certain performance goals are met over each of the three periods ending January 31, 2013, SeaChange will be obligated to make additional cash payments to the holding company. For fiscal 2011, an earnout of \$340,000 was earned and paid to the former shareholder of eventIS during the Company's first quarter of fiscal 2012.

SeaChange is also party to agreements dated June 3 and December 16, 2010 with Ramius relating to the election of directors. A description of these agreements is set forth above under the heading "Arrangements or Understandings Regarding the Selection of Certain Directors."

**SEACHANGE INTERNATIONAL, INC.**

**2011 COMPENSATION AND INCENTIVE PLAN**

**1. Purpose and Eligibility.**

The purpose of this 2011 Compensation and Incentive Plan (the “Plan”) of SeaChange International, Inc. is to provide equity ownership and compensation opportunities in the Company (each an “Award”) to employees, officers, directors, consultants and advisors of the Company and its Subsidiaries, all of whom are eligible to receive Awards under the Plan. Any person to whom an Award has been granted under the Plan is called a “Participant”. Additional definitions are contained in Section 12.

**2. Administration.**

**a. Administration by Committee of Independent Members of the Board of Directors.**

The Plan will be administered by a committee (the “Committee”) composed solely of members of the Board of Directors of the Company that are “independent”, as defined pursuant to applicable rules and regulations; *provided, however*, that at any time and on any one or more occasions the Board may itself exercise any of the powers and responsibilities assigned the Committee under the Plan and when so acting shall have the benefit of all of the provisions of the Plan pertaining to the Committee’s exercise of its authorities hereunder. The Committee, in its sole discretion, shall have the authority to grant and amend Awards, to adopt, amend and repeal rules relating to the Plan and to interpret and correct the provisions of the Plan and any Award. All decisions by the Committee shall be final and binding on all interested persons. Neither the Company nor any member of the Committee shall be liable for any action or determination relating to the Plan.

**b. Delegation to Executive Officers.** To the extent permitted by applicable law, the Committee may delegate to one or more executive officers of the Company the power to grant Awards and exercise such other powers under the Plan as the Committee may determine; *provided, however*, that the Committee shall fix the maximum number and type of Awards to be granted and the maximum number of shares issuable to any one Participant pursuant to Awards granted by such executive officer or officers. The Committee may, by a resolution adopted by the Committee, authorize one or more officers of the Company to do one or both of the following: (i) designate employees of the Company or of any of its Subsidiaries to be recipients of Awards created by the Company and (ii) determine the number, type and terms of such Awards to be received by such employees; *provided, however*, that the resolution so authorizing such officer or officers shall specify the maximum number and type of Awards such officer or officers may so award. The Committee may not authorize an officer to designate himself or herself as a recipient of any such Awards and the Committee may not authorize an officer to grant Awards to other executive officers of the Company.



### 3. Stock Available for Awards.

a. Number of Shares. Subject to adjustment under Section 3(c), the aggregate number of shares (the “Authorized Shares”) of the Company’s common stock, \$0.01 par value per share (the “Common Stock”), that may be issued pursuant to the Plan shall be (i) 2,800,000 shares of Common Stock, *plus* (ii) the number of shares of Common Stock that would have become available for issuance under the Company’s Amended and Restated 2005 Equity Compensation and Incentive Plan (the “2005 Plan”) following the adoption of this Plan due to the expiration, termination, surrender or forfeiture of an award under the 2005 Plan. If any Award granted pursuant to this Plan expires, or is terminated, surrendered or forfeited, in whole or in part, the unissued Common Stock covered by such Award shall again be available for the grant of Awards under the Plan. Notwithstanding the foregoing, in no event shall the following shares of Common Stock be added to the foregoing plan limit: (i) shares of Common Stock tendered in payment of an Option, whether granted pursuant to this Plan or the 2005 Plan; (ii) shares of Common Stock withheld by the Company to satisfy any tax withholding obligation, whether pursuant to this Plan or the 2005 Plan; or (iii) shares of Common Stock that are repurchased by the Company with proceeds of Options, whether granted pursuant to this Plan or the 2005 Plan. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

b. Per-Participant Limit. Subject to adjustment under Section 3(c), no Participant may be granted Awards during any one fiscal year to acquire more than 500,000 shares of Common Stock.

c. Adjustment to Common Stock. In the event of any stock split, stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off, split-up, or other similar change in capitalization or event, (i) the number and class of securities available for Awards under the Plan and the per-Participant share limit, (ii) the number and class of securities, vesting schedule and exercise price per share subject to each outstanding Option (as defined below), (iii) the repurchase price per security subject to repurchase, and (iv) the terms of each other outstanding stock-based Award shall be adjusted by the Company (or substituted Awards may be made) to the extent the Committee shall determine, in good faith, that such an adjustment (or substitution) is appropriate. If Section 10(e)(i) applies for any event, this Section 3(c) shall not be applicable.

d. Fractional Shares. No fractional shares shall be issued under the Plan and the Participant shall receive from the Company cash in lieu of such fractional shares.

### 4. Stock Options.

a. General. The Committee may grant options to purchase Common Stock (each, an “Option”) and determine the number of shares of Common Stock to be covered by each Option, the exercise price of each Option and the conditions and limitations applicable to the exercise of each Option and the Common Stock issued upon the exercise of each Option, including vesting provisions, Performance Goals (as defined in Section 9(b)), repurchase provisions and restrictions relating to applicable federal or state securities laws, as it considers advisable.

b. Incentive Stock Options. An Option that the Committee intends to be an “incentive stock option” as defined in Section 422 of the Code (an “Incentive Stock Option”) shall be granted only to employees of the Company and shall be subject to and shall be construed consistently with the requirements of Section 422 of the Code. The Committee and the Company shall have no liability if an Option or any part thereof that is intended to be an Incentive Stock Option does not qualify as such. An Option or any part thereof that does not qualify as an Incentive Stock Option is referred to herein as a “Nonstatutory Stock Option.” Subject to adjustment under Section 3(c), no more than 2,800,000 shares shall be available for issuance as Incentive Stock Options under the Plan.

c. Dollar Limitation. For so long as the Code shall so provide, Options granted to any employee under the Plan (and any other plans of the Company) which are intended to constitute Incentive Stock Options shall not constitute Incentive Stock Options to the extent that such Options, in the aggregate, become exercisable for the first time in any one calendar year for shares of Common Stock with an aggregate Fair Market Value (as defined below) of more than \$100,000 (determined as of the respective date or dates of grant) or such other limit as may be imposed by Section 422 of the Code or other applicable regulation. To the extent that any such Incentive Stock Options exceed the \$100,000 limitation or such other limitation, such Options shall be Nonstatutory Stock Options.

d. Exercise Price. The Committee shall establish the exercise price (or determine the method by which the exercise price shall be determined) at the time each Option is granted and specify the exercise price in the applicable option agreement, *provided*, that the exercise price per share specified in the agreement relating to each Option granted under the Plan shall not be less than the Fair Market Value per share of Common Stock on the date of such grant. In the case of an Incentive Stock Option to be granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, the price per share specified in the agreement relating to such Incentive Stock Option shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the date of grant. For purposes of determining stock ownership under this subsection, the rules of Section 424(d) of the Code shall apply.

e. Duration of Options. Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may specify in the applicable option agreement; *provided*, that no Option shall be exercisable for a period of time greater than ten (10) years from the date of grant of such Option; *provided, further*, that Incentive Stock Options granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company shall be exercisable for a maximum of five (5) years from the date of grant of such option. For purposes of determining stock ownership under this subsection, the rules of Section 424(d) of the Code shall apply.

f. Vesting of Options. At the time of the grant of an Option, the Committee shall establish a vesting date or vesting dates with respect to the shares of Common Stock covered by such Options; *provided*, that all Options (other than Awards granted pursuant to Section 10(k), and subject to Sections 10(e) and 10(j)) shall have a minimum vesting period of no less than six

(6) months. The Committee may establish vesting dates based upon the passage of time and/or the satisfaction of Performance Goals or other conditions as deemed appropriate by the Committee.

g. Exercise of Option. Options may be exercised only by delivery to the Company at its principal office address or to such transfer agent as the Company shall designate of a written notice of exercise specifying the number of shares as to which such Option is being exercised, signed by the proper person, or by notification of the Company-designated third party commercial provider (the “Third Party Commercial Provider”), in accordance with the procedures approved by the Company and to which the holder of the Option shall have ongoing access by means of accessing such person’s account maintained with the Third Party Commercial Provider, together with payment in full as specified in Section 4(h) for the number of shares for which the Option is exercised.

h. Payment Upon Exercise. Common Stock purchased upon the exercise of an Option shall be paid for by one or any combination of the following forms of payment:

- (i) in United States dollars in cash or by check or by fund transfer from the Option holder’s account maintained with the Third Party Commercial Provider;
- (ii) at the discretion of the Committee, through delivery of shares of Common Stock having a Fair Market Value equal as of the date of the exercise to the cash exercise price of the Option;
- (iii) at the discretion of the Committee and consistent with applicable law, through the delivery of an assignment to the Company of a sufficient amount of the proceeds from the sale of the Common Stock acquired upon exercise of the Option and an authorization to the Third Party Commercial Provider to pay that amount to the Company, which sale shall be at the Participant’s direction at the time of exercise;
- (iv) at the discretion of the Committee, by any combination of (i), (ii), or (iii) above.

If the Committee exercises its discretion to permit payment of the exercise price of an Incentive Stock Option by means of the methods set forth in clauses (ii), (iii) or (iv) of the preceding sentence, such discretion shall be exercised in writing at the time of the grant of the Incentive Stock Option in question.

i. Notice to Company of Disqualifying Disposition. By accepting an Incentive Stock Option granted under the Plan, each optionee agrees to notify the Company in writing immediately after such optionee makes a disqualifying disposition of any stock acquired pursuant to the exercise of Incentive Stock Options granted under the Plan. A “disqualifying disposition” is generally any disposition occurring on or before the later of (a) the date two years following the date the Incentive Stock Option was granted or (b) the date one year following the date the Incentive Stock Option was exercised.

j. Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, each Option will terminate immediately prior to the consummation of such proposed action or at such other time and subject to such other conditions as shall be determined by the Committee.

k. Issuances of Securities. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to Options. No adjustments shall be made for dividends paid in cash or in property other than securities of the Company.

## 5. Restricted Stock.

a. Grants. The Committee may grant Awards entitling recipients to acquire shares of Common Stock, subject to (i) delivery to the Company by the Participant of a check in an amount at least equal to the par value of the shares purchased, and (ii) the right of the Company to repurchase all or part of such shares at their issue price or other stated or formula price from the Participant in the event that conditions specified by the Committee in the applicable Award are not satisfied prior to the end of the applicable restriction period or periods established by the Committee for such Award (each, a “Restricted Stock Award”).

b. Terms and Conditions. A Participant that is the holder of a Restricted Stock Award, whether vested or unvested, shall be entitled to enjoy all stockholder rights with respect to the shares of Common Stock underlying such Restricted Stock Award, including the right to receive dividends and vote such shares. Subject to Section 5(c) hereof, the Committee shall determine all other terms and conditions of any such Restricted Stock Award, including without limitation whether the shares of Common Stock underlying a Restricted Stock Award are represented by a stock certificate or are registered in electronic or book entry form without the issuance of a stock certificate. Any stock certificates issued in respect of a Restricted Stock Award shall be registered in the name of the Participant and, unless otherwise determined by the Committee, deposited by the Participant, together with a stock power endorsed in blank, with the Company (or its designee). After the expiration of the applicable restriction periods, the Company (or such designee) shall deliver the certificates no longer subject to such restrictions to the Participant or, if the Participant has died, to the beneficiary designated by the Participant, in a manner determined by the Committee, to receive amounts due or exercise rights of the Participant in the event of the Participant’s death (the “Designated Beneficiary”). In the absence of an effective designation by a Participant, Designated Beneficiary shall mean the Participant’s estate.

c. Vesting of Restricted Stock. At the time of the grant of a Restricted Stock Award, the Committee shall establish a vesting date or vesting dates with respect to the shares of Common Stock covered by such Restricted Stock Award; *provided*, that all Restricted Stock Awards (other than Awards granted pursuant to Section 10(k), and subject to Sections 10(e) and 10(j)), shall have a minimum vesting period of no less than one (1) year for Restricted Stock Awards granted subject to Performance Goals and no less than three (3) years for all other Restricted Stock Awards. The Committee may establish vesting dates based upon the passage of

time and/or the satisfaction of Performance Goals or other conditions as deemed appropriate by the Committee.

6. Restricted Stock Unit.

a. Grants. The Committee may grant Awards entitling recipients to acquire shares of Common Stock in the future, with the future delivery of the Common Stock subject to a risk of forfeiture or other restrictions that will lapse upon the satisfaction of one or more specified conditions (each, a “Restricted Stock Unit”).

b. Terms and Conditions. Subject to Section 6(c) hereof, the Committee shall determine the terms and conditions of any such Restricted Stock Unit. A Participant may not vote the shares represented by a Restricted Stock Unit and does not give the Participant a right to receive any dividends (whether paid in cash, stock or property) declared and paid by the Company with respect to shares of Common Stock subject to a Restricted Stock Unit Award.

c. Vesting of Restricted Stock Unit. At the time of the grant of a Restricted Stock Unit Award, the Committee shall establish a vesting date or vesting dates with respect to the shares of Common Stock covered by such Restricted Stock Unit Award; *provided*, that all Restricted Stock Unit Awards (other than Awards granted pursuant to Section 10(k), and subject to Sections 10(e) and 10(j)), shall have a minimum vesting period of no less than one (1) year for Restricted Stock Unit Awards granted subject to Performance Goals and no less than three (3) years for all other Restricted Stock Unit Awards. The Committee may establish vesting dates based upon the passage of time and/or the satisfaction of Performance Goals or other conditions as deemed appropriate by the Committee.

7. Other Stock-Based Awards.

The Committee shall have the right to grant other Awards based upon the Common Stock having such terms and conditions as the Committee may determine, including, without limitation, the grant of shares based upon certain conditions and/or Performance Goals, the grant of securities convertible into Common Stock and the grant of stock units. The Committee shall determine the terms and conditions of any such Awards; *provided*, that all Awards granted pursuant to this Section 7 (other than Awards granted pursuant to Section 10(k), and subject to Sections 10(e) and 10(j)) shall have a minimum vesting period of no less than six (6) months; *provided, further*, that all Awards granted pursuant to this Section 7 that are Full Value Awards (other than Awards granted pursuant to Section 10(k), and subject to Sections 10(e) and 10(j)) shall have a minimum vesting period of no less than one (1) year for Awards granted subject to Performance Goals and no less than three (3) years for all other Awards.

8. Cash Awards.

a. Grants. The Committee may grant cash awards (each, a “Cash Award”), either alone, in addition to, or in tandem with other Awards granted under the Plan.

b. Terms and Conditions. The Committee shall determine the terms and conditions of any such Cash Award. From time to time, the Committee shall establish administrative rules and procedures governing the administration of Cash Awards; *provided*, no Participant may be granted a Cash Award hereunder that would result in a payment of more than \$2 million during any one fiscal year of the Company.

9. Performance-Based Awards.

a. General. Subject to the terms of the Plan, the Committee shall have the authority to establish and administer performance-based grant, exercise, and/or vesting conditions and Performance Goals (as defined in Section 9(b) below) with respect to such Awards as it considers appropriate, which Performance Goals must be satisfied, as determined by the Committee, before the Participant receives or retains an Award or before the Award becomes exercisable or nonforfeitable, as the case may be. Where such Awards are granted to any person who is a “covered employee” within the meaning of Section 162(m) of the Code (“Section 162(m)”), the Committee (which in such case shall consist solely of those Committee members that are “outside directors” as defined by Section 162(m)) may designate the Awards as subject to the requirements of Section 162(m), in which case the provisions of the Awards are intended to conform with all provisions of Section 162(m) to the extent necessary to allow the Company to claim a Federal income tax deduction for the Awards as “qualified performance based compensation.” However, the Committee retains the sole discretion to grant Awards that do not so qualify and to determine the terms and conditions of such Awards including any performance-based vesting conditions that shall apply to such Awards. Prior to the occurrence of an Acquisition, the Committee may exercise its discretion in a uniform and non-discriminatory manner for similarly-situated Participants to reduce (but not increase) any Award otherwise payable under this Plan in accordance with objective or subjective factors if necessary or appropriate to limit the amount payable under an Award to an amount consistent with the purposes of the Plan and the intended economic benefits of participation in the Plan. No Award subject to Section 162(m) shall be paid or vest, as applicable, unless and until the date that the Committee has certified, in the manner prescribed by Section 162(m), the extent to which the Performance Goals for the Performance Period (as defined in Section 9(b) below) have been attained and has made its decisions regarding the extent, if any, of a reduction of such Award. The Committee’s determination will be final and conclusive.

b. Performance Goals. Performance goals (the “Performance Goals”) will be based exclusively on one or more of the following business criteria determined with respect to the Company and its Subsidiaries on a group-wide basis or on the basis of Subsidiary, business platform, or operating unit results, in each case on a GAAP or non-GAAP basis: (i) earnings per share (on a fully diluted or other basis), (ii) pretax or after tax net income, (iii) operating income, (iv) gross or net revenue, (v) profit margin, (vi) stock price targets or stock price maintenance, (vii) working capital, (viii) free cash flow, (ix) cash flow, (x) return on equity, (xi) return on capital or return on invested capital, (xii) earnings before interest, taxes, depreciation, and amortization (EBITDA), (xiii) economic value added, (xiv) strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market penetration, geographic business expansion goals, cost targets, or objective goals relating to acquisitions or divestitures, or (xv) any combination of these measures.

Each Performance Goal may be expressed in absolute and/or relative terms or ratios and may be based on or use comparisons with internal targets, the past performance of the Company (including the performance of one or more Subsidiaries, divisions, platforms, operating units and/or other business unit) and/or the past or current performance of other companies. In the case of earnings-based measures, Performance Goals may use comparisons relating to capital (including, but not limited to, the cost of capital), cash flow, free cash flow, shareholders' equity and/or shares outstanding, or to assets or net assets.

The Committee shall determine the period for which Performance Goals are set and during which performance is to be measured to determine whether a Participant is entitled to payment of an Award under the Plan (the "Performance Period"). Performance Periods may be of varying and overlapping durations, but each such period shall not be less than 12 months. To the extent that an Award is intended to constitute "qualified performance based compensation" within the meaning of Section 162(m), the Performance Goals must be established within 90 days of the beginning of the Performance Period.

The Committee may specify in an Award that Performance Goals shall be adjusted to include or exclude the effect of special one-time or extraordinary gains or losses and other one-time or extraordinary events, including without limitation changes in accounting principles, extraordinary, unusual, or nonrecurring items (such as material litigation, judgments and settlements), currency exchange rate fluctuations, changes in corporate tax rates, and the impact of acquisitions, divestitures, and discontinued operations.

#### 10. General Provisions Applicable to Awards.

a. Transferability of Awards. Except as the Committee may otherwise determine or provide in an Award, Awards shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the life of the Participant, shall be exercisable only by the Participant, *provided, however*, that Nonstatutory Stock Options may be transferred pursuant to a qualified domestic relations order (as defined in the Code) or to a grantor-retained annuity trust or a similar estate-planning vehicle in which the trust is bound by all provisions of the Option which are applicable to the Participant. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees.

b. Documentation. Each Award granted under the Plan, with the exception of Cash Awards, shall be evidenced by a written Award agreement in such form as the Committee shall from time to time approve. Award agreements shall comply with the terms and conditions of the Plan and may contain such other provisions not inconsistent with the terms and conditions of the Plan as the Committee shall deem advisable. In the case of an Incentive Stock Option, the Award agreement shall contain, or refer to, such provisions relating to exercise and other matters as are required of "incentive stock options" under the Code. Award agreements may be evidenced by an electronic transmission (including an e-mail or reference to a website or other URL) sent to the Participant through the Company's normal process for communicating electronically with its employees. As a condition to receiving an Award, the Committee may require the proposed

Participant to affirmatively accept the Award and agree to the terms and conditions set forth in the Award agreement by physically and/or electronically executing the Award agreement or by otherwise physically and/or electronically acknowledging such acceptance and agreement. With or without such affirmative acceptance, however, the Committee may prescribe conditions (including the exercise or attempted exercise of any benefit conferred by the Award) under which the proposed Participant may be deemed to have accepted the Award and agreed to the terms and conditions set forth in the Award agreement.

c. Committee Discretion. The terms of each type of Award need not be identical, and the Committee need not treat Participants uniformly.

d. Termination of Status. The Committee shall determine the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the Participant's legal representative, conservator, guardian or Designated Beneficiary, may exercise rights under the Award, subject to applicable law and the provisions of the Code related to Incentive Stock Options.

e. Acquisition of the Company.

(i) Consequences of an Acquisition. If the Company is to be consolidated with or acquired by another entity in a merger, tender offer or other reorganization or transaction in which the holders of the outstanding voting stock of the Company immediately preceding the consummation of such event, shall, immediately following such event, hold, as a group, less than a majority of the voting securities of the surviving or successor entity, or in the event of a sale of all or substantially all of the Company's assets or otherwise (each, an "Acquisition"), the Committee or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Committee"), shall, as to outstanding Awards, either (i) make appropriate provision for the continuation of such Awards by substituting on an equitable basis for the shares then subject to such Awards either (a) the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition, (b) shares of stock of the surviving or successor corporation or (c) such other securities as the Successor Committee deems appropriate, the Fair Market Value of which shall not exceed the Fair Market Value of the shares of Common Stock subject to such Awards immediately preceding the Acquisition and in each case subject to applicable tax withholding; (ii) upon written notice to the Participants, provide that all Awards must be exercised, to the extent then exercisable or to be exercisable as a result of the Acquisition, within a specified number of days of the date of such notice, at the end of which period the Awards shall terminate; (iii) terminate all Awards in exchange for a cash payment equal to the excess of the Fair Market Value of the shares subject to such Awards (to the extent then exercisable or to be exercisable as a result of the Acquisition) over the exercise price thereof, if any, subject to applicable tax withholding; (iv) if applicable, in the event the exercise price of an Award exceeds the Fair Market Value of the shares subject to such Award, terminate such Award without any consideration; or (v) in the case of Awards that may be settled in whole or in part in cash, provide for equitable treatment of such Awards.



(ii) Assumption of Awards Upon Certain Events. In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Committee may grant Awards under the Plan in substitution for stock and stock-based awards issued by such entity or an affiliate thereof. The substitute Awards shall be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

f. Withholding. Each Participant shall pay to the Company, or make provisions satisfactory to the Company for payment of, any taxes required by law to be withheld in connection with Awards to such Participant no later than the date of the event creating the tax liability. The Committee may allow Participants to satisfy such tax obligations in whole or in part by transferring shares of Common Stock, including shares retained from the Award creating the tax obligation, valued at their Fair Market Value. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to a Participant.

g. Amendment of Awards. The Committee may amend, modify or terminate any outstanding Award including, but not limited to, substituting therefor another Award of the same or a different type, changing the date of vesting or realization, modifying the exercise price, converting an Incentive Stock Option to a Nonstatutory Stock Option, and amending or modifying an Award such that it ceases to constitute “qualified performance based compensation” for purposes of Section 162(m); *provided that*, except as otherwise provided in Section 10(e)(i) or in the last sentence of this Section 10(g), the Participant’s consent to such action shall be required unless the Committee determines in its sole discretion that the action, taking into account any related action, would not materially and adversely affect the Participant. Notwithstanding the foregoing, other than as provided for in Section 3(c), without prior approval by the Company’s stockholders (a) no Option or other stock-based Award that is not a Full Value Award may be amended to reduce the price at which it is exercisable; (b) no Option or other stock-based Award that is not a Full Value Award may be canceled in exchange for an Option or other stock-based Award that is not a Full Value Award with an exercise price that is less than the exercise price of the original Option or stock-based Award that is not a Full Value Award; (c) no Option or stock-based Full Value Award with an exercise price above the then current Fair Market Value may be canceled in exchange for cash or other securities; and (d) no Option or stock-based Award that is not a Full Value Award may be amended to extend the period of time for which such previously-issued Award shall be exercisable beyond the expiration date of such Award.

h. Forfeiture. Notwithstanding any provision herein to the contrary, Awards and shares of Common Stock (and proceeds therefrom) obtained pursuant to or on exercise of such Awards hereunder are subject to forfeiture, setoff, recoupment or other recovery if the Committee determines in good faith that such action is required by applicable law or Company policy.

i. Conditions on Delivery of Stock. The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove restrictions from shares previously delivered under the Plan until (i) all conditions of the Award have been met or

removed to the satisfaction of the Company, (ii) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and any applicable stock exchange or stock market rules and regulations, (iii) the Participant has executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of the Plan and any applicable laws, rules or regulations, and (iv) the Participant has paid to the Company, or made provisions satisfactory to the Company for payment of, any taxes required by law to be withheld in connection with the Award.

j. Acceleration. The Committee may at any time subsequent to the grant of an Award provide that any Options shall become immediately exercisable in full or in part, that Awards that may be settled in whole or in part in cash may become exercisable in full or in part, that any Restricted Stock Awards shall be free of some or all restrictions, or that any other stock-based Awards may become exercisable in full or in part or free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be, despite the fact that the foregoing actions may (i) cause the application of Sections 280G and 4999, (ii) disqualify all or part of the Option as an Incentive Stock Option, or (iii) cause an Award to cease to constitute "qualified performance based compensation" for purposes of Section 162(m). In the event of the acceleration of the exercisability of one or more outstanding Options, including pursuant to Section 10(e)(i), the Committee may provide, as a condition of full exercisability of any or all such Options, that the Common Stock or other substituted consideration, including cash, as to which exercisability has been accelerated shall be restricted and subject to forfeiture back to the Company at the option of the Company at the cost thereof upon termination of employment or other relationship, with the timing and other terms of the vesting of such restricted stock or other consideration being equivalent to the timing and other terms of the superseded exercise schedule of the related Option.

k. Exception to Minimum Vesting Periods. The Committee may grant up to ten percent (10%) of the maximum aggregate shares of Common Stock authorized for issuance hereunder in the form of Options, Restricted Stock, Restricted Stock Units and other Awards based on Common Stock that do not comply with the minimum vesting periods set forth in Sections 4(f), 5(c), 6(c) and 7.

l. Compliance with Code Section 409A. It is the intention of the Company that this Plan and each Award comply with and be interpreted in accordance with Section 409A of the Code, the United States Department of Treasury regulations, and other guidance issued thereunder, including any applicable exemptions (collectively, "Section 409A"). Each payment in any series of payments provided to a Participant pursuant to this Plan or an Award will be deemed a separate payment for purposes of Section 409A. If any amount payable under this Plan or an Award is determined by the Company to constitute nonqualified deferred compensation for purposes of Section 409A (after taking into account applicable exemptions) and such amount is payable upon a termination of employment, then such amount shall not be paid unless and until the Participant's termination of employment also constitutes a "separation from service" from the Company for purposes of Section 409A. In the event that the Participant is determined by the Company to be a "specified employee" for purposes of Section 409A at the time of his separation from service with the Company, then any nonqualified deferred

compensation (after giving effect to any exemptions available under Section 409A) otherwise payable to the Participant as a result of the Participant's separation from service during the first six (6) months following his separation from service shall be delayed and paid in a lump sum upon the earlier of (x) the Participant's date of death, or (y) the first day of the seventh month following the Participant's separation from service, and the balance of the installments (if any) will be payable in accordance with their original schedule.

#### 11. Foreign Jurisdictions.

To the extent that the Committee determines that the material terms set by the Committee or imposed by the Plan preclude the achievement of the material purposes of the Plan in jurisdictions outside the United States, the Committee will have the authority and discretion to modify those terms and provide for such additional terms and conditions as the Committee determines to be necessary, appropriate or desirable to accommodate differences in local law, policy or custom or to facilitate administration of the Plan. The Committee may adopt or approve sub-plans, appendices or supplements to, or amendments, restatements or alternative versions of, the Plan as it may consider necessary, appropriate or desirable, without thereby affecting the terms of the Plan as in effect for any other purpose. The special terms and any appendices, supplements, amendments, restatements or alternative versions, however, shall not include any provisions that are inconsistent with the terms of the Plan as then in effect, unless the Plan could have been amended to eliminate such inconsistency without further approval by the stockholders. The Committee shall also have the authority and discretion to delegate the foregoing powers to appropriate officers of the Company.

#### 12. Miscellaneous.

##### a. Definitions.

(i) “Company” for purposes of eligibility under the Plan, shall include any present or future subsidiary corporations of SeaChange International, Inc., as defined in Section 424(f) of the Code (a “Subsidiary”), and any present or future parent corporation of SeaChange International, Inc., as defined in Section 424(e) of the Code. For purposes of Awards other than Incentive Stock Options, the term “Company” shall also include any other business venture in which the Company has a direct or indirect significant interest, as determined by the Committee in its sole discretion.

(ii) “Code” means the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder.

(iii) “employee” for purposes of eligibility under the Plan shall include a person to whom an offer of employment has been extended by the Company and who has actually commenced employment with the Company, whether full or part-time status; *provided, however*, that for purposes of Section 4(b) such person must be an employee of the Company as defined under Section 422 of the Code.

(iv) “Fair Market Value” of the Company’s Common Stock on any date means (i) the last reported sale price (on that date) of the Common Stock on the principal national securities exchange on which the Common Stock is traded, if the Common Stock is then traded on a national securities exchange; or (ii) the average of the closing bid and asked prices last quoted (on that date) by an established quotation service for over-the-counter securities, if the Common Stock is not then traded on a national securities exchange; or (iii) if the Common Stock is not publicly traded, the fair market value of the Common Stock as determined by the Committee after taking into consideration all factors which it deems appropriate, including, without limitation, recent sale and offer prices of the Common Stock in private transactions negotiated at arm’s length); *provided*, that, in all events the Fair Market Value shall represent the Committee’s good faith determination of the fair market value of the Common Stock. The Committee’s determination shall be conclusive as to the Fair Market Value of the Common Stock.

(v) “Full Value Awards” means Restricted Stock, Restricted Stock Units and Awards other than (a) Options or (b) Cash Awards or (c) other stock-based Awards for which the Participant pays the intrinsic value (whether directly or by forgoing a right to receive a cash payment from the Company).

b. No Right To Employment or Other Status. No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to continued employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise terminate its relationship with a Participant free from any liability or claim under the Plan.

c. No Rights As Stockholder. Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be distributed with respect to an Award until becoming the record holder thereof.

d. Effective Date and Term of Plan. The Plan shall become effective on the date on which it is approved by the stockholders of the Company (the “Effective Date”). No Awards shall be granted under the Plan after the completion of ten years from the Effective Date, but Awards previously granted may extend beyond that date.

e. Amendment of Plan. The Committee may amend this Plan at any time, provided that any material amendment to the Plan will not be effective unless approved by the Company’s stockholders. For this purpose, a material amendment is any amendment that would (i) other than pursuant to Section 3(c), materially increase either the number of shares of Common Stock available under the Plan, or the maximum number of shares of Common Stock issuable in one fiscal year to a Participant; (ii) expand the class of persons eligible to receive Awards or otherwise participate in the Plan; (iii) amend Section 10(g); (iv) amend Section 10(k); (v) subject to Sections 10(e) and 10(j), amend the minimum vesting provisions of Awards contained in Sections 4(f), 5(c), 6(c) or 7 of the Plan; or (vi) require stockholder approval pursuant to the requirements of Nasdaq or any exchange on which the Company is then listed or applicable law.

g. Governing Law. The provisions of the Plan and all Awards made hereunder shall be governed by and interpreted in accordance with the laws of The Commonwealth of Massachusetts, exclusive of reference to rules and principles of conflicts of law.

Adopted by the Board of Directors on  
May 31, 2011

[Approved by the stockholders on July  
20, 2011]

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-K

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

-For the fiscal year ended January 31, 2011

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

Commission File Number: 0-21393

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# SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**04-3197974**  
(IRS Employer  
Identification No.)

**50 Nagog Park, Acton, MA 01720**  
(Address of principal executive offices, including zip code)

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

**Securities Registered Pursuant To Section 12(b) Of The Act:**

**Common Stock, \$.01 par value**

**Securities Registered Pursuant To Section 12(g) Of The Act:**

**None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

As of July 30, 2010, 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 \$265,646,760. The number of shares of the registrant's Common Stock outstanding as of the close of business on April 1, 2011 was 31,999,414.

#### **DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the definitive Proxy Statement (which is expected to be filed within 120 days after the Company's fiscal year end) relating to the registrant's Annual Meeting of Stockholders to be held on or about July 20, 2011 to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## **PART I**

### **ITEM 1. Business**

SeaChange International, Inc. (“SeaChange”, “we” or “us”), a Delaware corporation founded on July 9, 1993, is a global leader in the delivery of multi-screen video. Our products and services facilitate the aggregation, licensing, storage, management and distribution of video, television programming and advertising content. We sell our products and services worldwide to cable system operators, including Cablevision, Comcast, Cox Communications, Virgin Media, and Rogers; telecommunications companies, including Telekom Austria, Turk Telekom and Verizon Communications; and broadcast television companies, including ABC Disney, Ascent Media, Clear Channel, China Central Television and Viacom.

Our products and services are designed to enable our customers to reduce subscriber turnover and access new revenue-generating opportunities from subscribers, advertisers and electronic commerce initiatives. Using our products and services, we believe our customers can increase their revenues by offering additional services such as on demand television programming on a variety of devices. This capability allows the operator to offer programming for viewing whenever a subscriber chooses on traditional television, personal computers or mobile devices, while incorporating the ability for subscribers to pause, rewind and fast-forward on demand content. Our products also allow our customers to insert advertising into broadcast and on demand programming. Our advertising products allow our customers to target advertising segments to specific subscribers in a particular geographic and/or demographic market. In addition, our systems enable broadband system operators to offer other interactive television services that allow subscribers to customize and/or dynamically interact with their television, enhancing their viewing experience.

The primary thrust of our business has been to enable the delivery of video assets in the evolving “On Demand” television environment. Through acquisitions and partnerships we have expanded our capabilities, products and services to address the needs of video content owners, broadcasters, and content aggregators, and to address the delivery of content to devices other than the television, such as mobile phones, tablets and PCs. Traditionally, our products and services included hardware and software for content management and delivery systems, middleware that drives set top box applications, advertising systems that help pay for content and services that involve the acquisition and distribution of video content. As the industry has evolved, we have reduced our dependence on hardware products and focused on providing high margin, recurring revenue generating software products. We believe that our strategy of expanding our product line will position SeaChange to support and maintain our existing customer base, take advantage of new customers entering the on demand marketplace and to enter adjacent markets.

Our core technologies provide a foundation for products and services that can be deployed in next generation video delivery systems capable of increased levels of subscriber interactivity. We have received several awards for technological excellence, including Emmy Awards for our patented MediaCluster<sup>®</sup> technology and for our role in the growth of video on demand.

### **Industry Background**

#### **Cable System Operators and Telecommunications Companies**

According to SNL Kagan, the number of households paying for TV access today, such as cable subscription but excluding satellite has been estimated at 131 million in the Americas and approximately 750 million worldwide. Cable system operators and telecommunications companies worldwide continue to spend billions of dollars to upgrade their networks from analog to digital, yielding a significant increase in available bandwidth, channel capacity and two-way interactive capability. We believe this investment reflects their intent to provide multi-screen video on demand, advertising insertion, and other value-added services to their customers that will differentiate them from competing service providers, including satellite delivery systems.



Currently, all of the major North American cable system operators have deployed video on demand services in most major residential markets, allowing subscribers to watch video programming at any time with pause, rewind, fast forward and a number of additional interactive capabilities. The various on demand applications offered by cable system operators and, increasingly, telecommunications operators, include movies-on-demand, subscription video on demand, such as Home Box Office (HBO), as well as news, sports, music videos, games, niche programming and time-shifted broadcast programming.

Cable companies have also begun to market telephone services. In response, telecommunications operators, notably AT&T and Verizon in the U.S., are aggressively providing competitive digital television and video services. Elsewhere, international telecommunications companies with high-speed network capacity are actively exploring and launching similar multi-screen video services. The advent of multi-screen video delivery can be seen in deployments such as Virgin Media in the UK and Starhub in Singapore where subscribers have access to content across all three platforms – TV, PC and Mobile.

In addition, because cable television programming is transmitted over broadband (high bandwidth networks), cable system and telecom operators have the opportunity to segment and target their programming to viewers in selected geographies. We believe that the ability of operators to target viewers will extend to individual household-level targeting of advertisements in video on demand applications, generating revenue which may help support the worldwide deployment and growth of video on demand content and services.

### Broadcast Television Companies

Both domestically and internationally, broadcast television companies face a number of new challenges to their business. In digital broadcasting, changing ownership trends, new consumer alternatives (e.g., cable television, satellite television, or internet) and evolving viewership models (e.g. cell phones, tablets) are creating a more complex competitive environment for our customers that calls for greater efficiencies and business innovation.

Some television broadcasters are using digital bandwidth to originate multiple program streams. As this application further develops, television broadcasters will require more video storage and delivery systems that can effectively manage and deliver these multiple television signals. As a result, we believe that television broadcasters will continue to automate their entire programming and advertising to reduce overall operating costs and improve reliability. We expect new opportunities to emerge for broadcasters and video on demand operators to create new business synergies that will likely require sophisticated software to manage these digital video storage and delivery systems.

### SeaChange Business Segments

The Company reports its financial results within three segments: Software, Servers and Storage, and Media Services. Financial information about our business segments is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements.

	Year ended January 31,					
	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Revenues by segment:	(in thousands, except percentages)					
Software	\$ 156,610	72%	\$ 131,314	65%	\$ 132,237	65%
Servers and Storage	32,086	15%	50,557	25%	53,640	27%
Media Services	28,031	13%	19,794	10%	15,959	8%
Total	<u>\$ 216,727</u>		<u>\$ 201,665</u>		<u>\$ 201,836</u>	

## Software

In 2006, we began selling our SeaChange Axiom® On Demand software independent of our hardware and offering subscription services for the software in an effort to increase market share and enhance revenue stability through more recurring revenues. Additionally, by porting our software to other third party hardware platforms, we increased our market share with opportunities at competitive vendors' installations.

We also develop, sell and support software products in the middleware and advertising categories. Our middleware and application business is focused on producing set-top box client middleware software products and end-to-end interactive television applications, and performing system integration and software customization services. Our client middleware solutions include the VODlink® Platform Suite built for and deployed on common North American cable set top boxes, and the TV Navigator™ platform deployed in Europe and Asia.

Our advertising insertion software products are available for both the traditional analog environment, and for the digital environment, which provides the cable operator with a significant increase in available bandwidth, channel capacity and two-way capability. Based on currently available industry sources and our internal data, we believe our Spot System is the leading analog video insertion system in the United States in the multichannel television market for advertisements and other short-form video. Over the last several years, our customers have begun to migrate to digital video ad insertion, and we believe our digital video ad insertion system is establishing a strong market position as well. Our SeaChange AdPulse™ On Demand Advertising software platform allows operators to generate new advertising revenue from inserting ads, dynamically, in on demand content while it provides detailed tracking and reporting on views and usage of inserted ads.

In September of 2009 we acquired a private software company, eventIS Group B.V. ("eventIS"), in Eindhoven, the Netherlands. eventIS is Europe's leading provider of video on demand back-office software supporting operators in 25 countries. This software complements and extends the capabilities of our video on demand software products. We expect that eventIS's leading market position in Europe will foster increased revenue growth as VOD investments in Europe are forecasted to grow significantly over the next several years. According to SNL Kagan, there are 80 million cable television subscribers in Europe compared to 70 million in the United States. However, unlike in the U.S., digital cable penetration rates are quite low. Penetration rates in Europe are expected to rise with the increased investments in VOD products and services from European cable television providers.

In February 2010, we acquired VividLogic Inc ("VividLogic"), a private California software provider. VividLogic's products and services will allow the Company to expand its software product portfolio to participate more competitively in the middleware and home network markets. VividLogic provides applications and development services for Consumer Electronics ("CE") manufacturers and cable television providers. VividLogic's software products and services focus on home networking applications and "tru2way" development. In the home networking area, VividLogic's emphasis is on the development of software to meet the content protection requirements under the IEEE 1394 requirements. In addition, VividLogic is working with CE manufacturers and service providers to develop software to be used in next generation home media gateways. In the tru2way area, VividLogic provides products and services for CE and set top box manufacturers who are looking to migrate their hardware for tru2way capability. Tru2way is a technology platform sponsored by the U.S. cable television industry that is expected to foster interactive television applications for consumers.

In October 2010 we introduced SeaChange Adrenalin, our fourth generation, multi-screen, back office software platform. Adrenalin integrates our legacy Axiom software with technology gained through our acquisitions of eventIS and Mobix Interactive, Ltd. (Mobix). This new platform allows SeaChange customers to migrate to a multi-screen delivery environment by building on existing infrastructure and capabilities.

Revenue sources from the Software segment fall into two categories:

- product revenues such as licensing, and software development for those products; and
- related services such as subscriptions (annual software subscriptions for upgrades), professional services, installation, training, project management, product maintenance, and technical support for those software products. Approximately sixty percent of our software revenue is now recurring from these services.

## **Servers and Storage**

Combining the advantages of standards-based hardware with our patented MediaCluster<sup>®</sup> technology, our hardware products deliver high-density streaming, clustered ingest and scalable storage for video on demand, time-shifted TV, network PVR (Personal Video Recorder) applications, as well as broadcast play to air and archiving.

Revenue sources for our Servers and Storage segment fall into several categories. New deployments are typically sold on a capacity basis and include one year of maintenance. As our customers add more content and more users, they return to purchase more streaming and storage capacity. The additional content usually also leads to increased usage levels by the subscribers which also translates in to add-on-sales. Recurring revenue consists of maintenance contracts after the first year.

We offer several configurations of our MediaCluster video servers to meet the evolving needs of our customers for independently scalable ingest, streaming and storage.

Servers and Storage segment includes:

- product revenues from video on demand (“VOD”) and broadcast server product lines and
- related services such as professional services, installation, training, project management, product maintenance, and technical support for those products.

We have engaged in a restructuring of our Servers and Storage business segment, during our fiscal year 2011, including a continued effort to offshore manufacturing of these products. This restructuring will enable our Servers and Storage business unit to align its cost structure with decreased VOD server revenues as compared to the prior fiscal years.

## **Media Services**

Through the acquisitions of On Demand Group Limited (ODG), in fiscal 2006, and Mobix, in fiscal 2009, SeaChange expanded its media content services, consisting of content aggregation and distribution. ODG is a leader in Europe in the development and deployment of Pay TV services. This segment specializes in aggregating content for video on demand and Pay-Per-View platforms, and provides marketing, promotional and production services to cable operators and telecommunications providers throughout Europe.

As an example, we source, acquire, package, and market Virgin Media’s video on demand services by providing access to content from local and Hollywood studio providers in multiple formats including music videos, television programs and feature length movies. Through ODG, we have a content rights management system and a content preparation center for incorporating video content for VOD services from the major content suppliers around the world. Revenue from the Media Services segment is generated from customer contracts depending on the services rendered.

The software acquired through Mobix is key to providing video on demand services to mobile service operators such as Vodacom in South Africa, O2, and 3UK in the UK, and 3 Italia.

## **Service and Support**

We install, maintain and support our hardware and software products worldwide. We offer basic and advanced on-site training for customer employees. We currently provide installation, maintenance and technical support to all our customers. We offer maintenance and technical support to customers, agents and distributors of our hardware, software and systems on a 24-hour, seven-day a week basis. Generally, our systems sales include at least one year of maintenance. A separate professional services group provides network design and architecture as well as systems integration services.

Customer support centers worldwide provide 24/7 coverage. We have support centers in the U.S., the Netherlands, Philippines, China, Japan, U.K., France, Turkey and Ireland.

## Strategy

Our strategy is to maintain and expand our position as a global leader in the delivery of multi-screen video. We develop, manufacture and market digital video systems and services that include the management, aggregation, licensing, storage, and distribution of video, and advertising content. The key elements of our strategy are to:

- *Develop, Maintain and Extend Long-term Customer Relationships.* We focus our product development, marketing and direct sales efforts on maintaining and extending long-term customer relationships with cable system operators, telecommunications companies and television broadcasters across the world. We believe that the fundamental shift from broadcast to on demand applications and the growing emphasis on interactive technologies will continue to present opportunities for us to develop, market and support solutions to our existing customers as well as to new additional markets.
- *Offer Integrated Solutions.* Our customers operate complex networks that require the delivery and management of video programming across multiple channels and target zones. We believe that our integrated solutions can provide advantages in cost and implementation for digital video applications while interoperating with existing and emerging third-party equipment and software. To continue to address these needs, we intend to provide and further develop, internally and with our partners, integrated applications and support services for our customers. We believe that providing complete integrated solutions has been a significant factor in our success in the advertising and video on demand markets to date.
- *Establish and Maintain Technological Leadership.* We believe our competitive position is dependent in large part on the features and performance of our systems. As a result, we focus our research and development efforts on introducing systems with improved hardware and software capabilities. We have been granted patents and have patents pending for our various technologies. We have received several awards for technological excellence, including Emmy Awards for our patented MediaCluster<sup>®</sup> technology and for our role in the growth of video on demand. As of January 31, 2011, 39% of our employees were focused on research and product development efforts.
- *Provide Superior Customer Service and Support.* Our products function in customer environments where continuous operation is critical. As a result, we believe that providing a high level of service and support gives us a competitive advantage and is a differentiating factor in developing and maintaining key customer relationships. Our in-depth industry and application knowledge allows us to better understand the service needs of our customers. As of January 31, 2011, 41% of our employees were dedicated to customer service and support, including project design and implementation, maintenance, installation and training. Customers have access to service personnel via 24/7 telephone support. In addition, we believe that the acquisitions and investments that we have made in media services and in system integration and customization services have positioned us as an integral partner with our customers to ensure optimal performance of their systems.

## Customers

We currently sell our products primarily to cable system operators, broadcast and telecommunications companies. Our customer base is highly concentrated among a limited number of large customers, primarily due to the fact that the cable, movie, broadcast, and telecommunications industries in the United States are dominated by a limited number of large companies. A significant portion of our revenues across each of our segments in any given fiscal period have been derived from substantial orders placed by these large organizations. For the year ended January 31, 2011, Comcast and Virgin Media comprised 22% and 12%, respectively, of our total sales. We expect that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues in future periods. As a result of this customer concentration, our business, financial condition and results of operations could be materially adversely affected by the failure of anticipated orders to materialize and by deferrals or cancellations of orders as a result of changes in customer requirements or new product announcements or introductions. In addition, the concentration of customers may cause variations in revenue, expenses and operating results on a quarterly basis due to seasonality of orders or the timing and relative size of orders received and shipped during a fiscal quarter.

We do not believe that our backlog at any particular time is meaningful as an indicator of our future level of sales for any particular period. Because of the nature of our products and our use of standard components, substantially the entire backlog at the end of a quarter can be manufactured and shipped to the customer before the end of the following quarter. However, because of the requirements of particular customers these orders may not be shipped or, if shipped, the related revenues may not be recognized in the ensuing quarter. Therefore, there is no direct correlation between the backlog at the end of any quarter and our total sales for the following quarter or other periods.

## **Selling and Marketing**

We sell and market our products in the United States primarily through a direct sales organization and internationally through direct sales and independent agents and distributors, complemented by a coordinated marketing effort of our product marketing personnel. Direct and indirect sales activities are conducted from our Massachusetts headquarters and through sales representatives deployed across the world. We also market certain of our products to systems integrators and value-added resellers.

In light of the complexity of our digital video products, we primarily employ a consultative direct sales process. Working closely with customers to understand and define their needs enables us to obtain better information regarding market requirements, enhance our expertise in our customers' industries, and more effectively and precisely convey to customers how our solutions address the customer's specific needs. In addition to the direct sales process, customer references and visits by potential customers to sites where our products are in place are often critical in the sales process.

We use several marketing programs focused on our targeted markets to support the sale and distribution of our products. We use exhibitions at a limited number of prominent industry trade shows and conferences and presentations at technology seminars to promote awareness of us and our products. We also publish articles in trade and technical journals and we produce promotional product literature.

## **Research and Product Development**

Our management believes that our success will depend to a substantial degree upon our ability to develop and introduce in a timely fashion new integrated solutions and enhancements to our existing products that meet changing customer requirements in our current and new markets. We have made, and intend to continue to make, substantial investments in product and technological development. Our direct sales and marketing groups closely monitor changes in customer needs, changes in the marketplace and emerging industry standards, and are therefore better able to focus our research and development efforts to address these evolving industry requirements.

We believe that the experience of our product development personnel is an important factor in our success. We perform our research and product development activities at our headquarters and in offices in New Hampshire, Pennsylvania, California, the Netherlands, Philippines, and China.

## **Manufacturing**

Our manufacturing operation is located at our facility in Acton, Massachusetts. This manufacturing operation consists primarily of component and subassembly procurement, systems integration and final assembly, testing and quality control of the complete systems. We rely on independent contractors to manufacture components and subassemblies to our specifications. We are reviewing several contract manufacturers in China to assemble certain VOD and Broadcast products, starting in the later part of fiscal year 2012.

## **Competition**

The markets in which we compete are characterized by intense competition, with a large number of suppliers providing different types of products to different segments of the markets. In new markets for our products, we compete principally based on price. In markets in which we have an established presence, we compete principally on the basis of the breadth of our products' features and benefits, including the flexibility, scalability, professional quality, ease of use, reliability and cost effectiveness of our products, and our reputation and the depth of our expertise, customer service and support. While we believe that we currently compete favorably overall with respect to these factors and that our ability to provide integrated solutions to manage, store and distribute digital video differentiates us from our competitors, in the future we may not be able

to continue to compete successfully with respect to these factors. In the market for long-form video products including video on demand, we compete with various companies offering video software and server platforms such as Arris Group Inc. (through its 2007 acquisition of C-Cor Corporation), Cisco Systems, Inc. (through its 2006 acquisition of Arroyo Video Solutions, Inc.), Motorola Mobility Inc. (through its 2006 acquisition of Broadbus Technologies, Inc.) and Ericsson (through its 2007 acquisition of Tandberg Television). In the digital advertisement insertion market, we generally compete with Ericsson and Arris Group Inc. We expect the competition in each of these markets to intensify in the future as existing and new competitors with significant market presence and financial resources, including computer hardware and software companies and television equipment manufacturers, enter these rapidly evolving markets.

Many of our current and prospective competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources. As a result, these competitors may be able to devote greater resources to the development, promotion, sale and support of their products. Moreover, these companies may introduce additional products that are competitive with ours or enter into strategic relationships to offer complete solutions, and in the future our products may not be able to compete effectively with these products.

### **Proprietary Rights**

Our success and our ability to compete are dependent, in part, upon our proprietary rights. We have been granted sixteen U.S. patents and have filed foreign patent applications related thereto for various technologies developed and used in our products. In addition, we rely on a combination of contractual rights, trademark laws, trade secrets and copyright laws to establish and protect our proprietary rights in our products. It is possible that in the future not all of these patent applications will be issued or that, if issued, the validity of these patents would not be upheld. It is also possible that the steps taken by us to protect our intellectual property will be inadequate to prevent misappropriation of our technology or that our competitors will independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries in which our products are or may be distributed do not protect our proprietary rights to the same extent as do the laws of the United States. We have been involved, and continue to be involved, in significant intellectual property litigation, and we may be a party to litigation in the future to enforce our intellectual property rights or as a result of an allegation that we infringe others' intellectual property.

### **Employees**

As of January 31, 2011, we employed 1,202 persons, including 470 in research and development, 491 in customer service and support, 94 in selling and marketing, 55 in manufacturing and facilities, and 92 in general and administration functions. We believe that our relations with our employees are good. None of our employees are represented by a collective bargaining agreement.

### **Geographic Information**

Geographic information is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements.

### **Available Information**

SeaChange is subject to the informational requirements pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). SeaChange files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Financial and other information about SeaChange, including SeaChange's Code of Ethics and Business Conduct and charters for SeaChange's Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, is available on our website ([www.schange.com](http://www.schange.com)). We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our web site is not incorporated by reference into this document and should not be considered a part of this Annual Report. Our web site address is included in this document as an inactive textual reference only.

## ITEM 1A. Risk Factors

Any statements contained in this Form 10-K that do not describe historical facts may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance and are identified by words such as “may,” “will,” “could,” “should,” “expect,” “plan,” “intend,” “seek,” “anticipate,” “believe,” “estimate,” “potential,” or “continue” or other comparable terms or the negative of those terms. Forward-looking statements in this Form 10-K include certain statements regarding the effect of certain accounting standards on our financial position and results of operations, the effect of certain legal claims against us, projected changes in our revenues, earnings and expenses, exchange rate sensitivity, interest rate sensitivity, liquidity, product introductions, industry changes and general market conditions. Our actual future results may differ significantly from those stated in any forward-looking statements. Any such forward-looking statements contained herein are based on current expectations, but are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. Factors that may cause such differences include, but are not limited to, the factors discussed below. Each of these factors, and others, are discussed from time to time in our filings with the SEC.

### **Our business is dependent on customers’ continued spending on video systems and services, and reductions by customers in spending adversely affect our business.**

Our performance is dependent on customers’ continued spending for video systems and services. Spending for these systems and services is cyclical and can be curtailed or deferred on short notice. A variety of factors affect the amount of spending, and, therefore, our sales and profits, including:

- general economic conditions;
- customer specific financial or stock market conditions;
- availability and cost of capital;
- governmental regulation;
- demand for services;
- competition from other providers of video systems and services;
- acceptance of new video systems and services by our customers; and
- real or perceived trends or uncertainties in these factors.

Any reduction in spending by our customers would adversely affect our business. We continue to have limited visibility into the capital spending plans of our current and prospective customers. Fluctuations in our revenue can lead to even greater fluctuations in our operating results. Our planned expense levels depend in part on our expectations of future revenue. Our planned expenses include significant investments, particularly within the research and development organization, which we believe are necessary to continue to provide innovative solutions to meet our current and prospective customers’ needs. As a result, it is difficult to forecast revenue and operating results. If our revenue and operating results are below the expectations of our investors and market analysts, it could cause a decline in the price of our common stock.

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

A large portion of our revenue comes from sales and services related to our video-on-demand products. However, the video-on-demand market continues to develop as a commercial market, both within and outside North America. The potential size of the video-on-demand market and the timing of its development are uncertain. The success of this market requires that broadband system operators continue to upgrade their cable networks to support digital two-way transmission service and successfully market video-on-demand and similar services to their cable television subscribers. Some cable system operators, particularly outside of North America, are still in the early stages of commercial deployment of video-on-demand service to major residential cable markets and, accordingly, to date our digital video systems have been commercially available only to a limited number of subscribers. Also, the telecommunications companies have also begun to adapt their networks to support digital two-way transmission and begun marketing video-on-demand services. If cable system operators and telecommunications companies fail to make the capital expenditures necessary to upgrade their networks or determine that broad deployment of video-on-demand services is not viable as a

business proposition or if our digital video systems cannot support a substantial number of subscribers while maintaining a high level of performance, our revenues will not grow as we have planned.

**Our business is impacted by worldwide economic cycles, which are difficult to predict.**

The global economy and financial markets experienced disruption in recent years, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. These economic developments and the rate of recovery from these developments affect businesses such as ours and those of our customers and vendors in a number of ways that could result in unfavorable consequences to us. A continued slow recovery from these events or further disruption and deterioration in economic conditions may reduce customer purchases of our products and services, thereby reducing our revenues and earnings. In addition, these events may, among other things, result in increased price competition for our products and services, increased risk in the collectability of our accounts receivable from our customers, increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable, and higher operating costs as a percentage of revenues. We have taken actions to address the effects of the economic crisis and the slow recovery, including implementing cost control and reduction measures. It is possible that we may need to take further cost control and reduction measures. We cannot predict whether these measures will be sufficient to offset certain of the negative trends that might affect our business.

**We have taken measures to address the variability in the market for our products and services, which could have long-term negative effects on our business or impact our ability to adequately address a rapid increase in customer demand.**

We have taken measures to address the variability in the market for our products and services. These measures include shifting more of our operations to lower cost regions, outsourcing manufacturing processes, implementing cost reduction programs, reducing the number of our employees, and reducing planned capital expenditures and expense budgets. We cannot ensure that the measures we have taken will not impair our ability to effectively develop and market products and services, to remain competitive in the industries in which we compete, to operate effectively, to operate profitably during slowdowns or to effectively meet a rapid increase in customer demand. These measures may have long-term negative effects on our business by reducing our pool of technical talent, decreasing or slowing improvements in our products and services, making it more difficult to hire and retain talented individuals and to quickly respond to customers or competitors in an upward cycle.

**Our business is subject to uncertainties introduced by our ongoing evaluation of strategic options and the restructuring of our Servers and Storage business.**

In December 2010, the Company announced that the Board of Directors had formed an Independent Advisory Committee to explore a broad range of business development and other initiatives, and the Independent Advisory Committee continues to evaluate a range of strategic options for the Company. The market price of our common stock could be subject to significant fluctuations in response to developments relating to this process or the public perception that developments may occur.

We have also incurred significant expenditures in connection with the previously-announced restructuring of our Servers and Storage business that resulted from our strategic review of this business. The purpose of this restructuring was to align the cost structure of this business with its anticipated future revenue stream, which has been declining significantly over the past two years and which we anticipate may continue to decline as we transition to primarily a software business. We cannot assure that the steps we have taken to restructure our Servers and Storage business are sufficient to enable this business to operate on a profitable basis or that we will not incur additional losses in this business in future periods. As a result, we continue to evaluate future alternatives for our Servers and Storage business segment. This ongoing evaluation may result in further restructuring of this business and may adversely affect our business by causing our customers to cancel or defer purchases of these products.

**Because our customer base is highly concentrated among a limited number of large customers, the loss of or reduced demand by, or return of product by one of these customers, could have a material adverse effect on our business, financial condition and results of operations.**

Our customer base is highly concentrated among a limited number of large customers, and, therefore, a limited number of customers account for a significant percentage of our revenues in any fiscal period. We generally do not have written agreements that require customers to purchase fixed minimum quantities of our products. Our sales to specific customers tend to vary significantly from year to year and from quarter to quarter depending upon these customers'



budgets for capital expenditures and our new product introductions. We believe that a significant amount of our revenues will continue to be derived from a limited number of large customers in the future. The loss of, reduced demand for products or related services by, or return of a product previously purchased by any of our major customers could have a material adverse effect on our business, financial condition and results of operations.

In addition, the industry has experienced consolidation among our customers which may cause delays or reductions in capital expenditure plans and/or increased competitive pricing pressures as the number of available customers decline and their relative purchasing power increases in relation to suppliers. Any of these factors could adversely affect our business.

**Cancellation or deferral of purchases of our products or the return of previously purchased products could cause our operating results to be below the expectations of the public market stock analysts who cover our stock, resulting in a decrease in the market price of our common stock.**

We derive a substantial portion of our revenues from purchase orders that exceed \$1.0 million in value. Therefore, any significant cancellation or deferral of purchases of our products or the return of previously purchased products could have a material adverse effect on our business, financial condition and results of operations in any particular quarter due to the resulting decrease in revenue and gross margin and our relatively fixed costs. In addition, to the extent significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected because our operating costs and expenses are based, in part, on our expectations of future revenues, and we may be unable to adjust spending in a timely manner to compensate for any revenue shortfall. Because of these factors, in some future quarter our operating results may be below the expectations of public market analysts and investors which may adversely affect the market price of our common stock.

**Timing of significant customer orders may cause our quarterly operating results to fluctuate, making period-to-period comparisons of our operating results less meaningful.**

We have experienced significant variations in the revenue, expenses and operating results from quarter to quarter and these variations are likely to continue. We believe that fluctuations in the number and size of orders being placed from quarter to quarter are principally attributable to the buying patterns and budgeting cycles of broadband system operators, including telecommunications companies, and broadcast companies, the primary buyers of the digital video-on-demand, advertising and broadcast systems, respectively. We expect that there will continue to be fluctuations in the number and value of orders received. In addition, certain of our product sales are subject to acceptance by our customer, and the timing of customer acceptance may be subject to delay due to circumstances beyond our control. As a result, our results of operations have in the past and likely will, at least in the near future, fluctuate in accordance with this purchasing activity making period-to-period comparisons of our operating results less meaningful. In addition, because these factors are difficult for us to forecast, our business, financial condition and results of operations for one quarter or a series of quarters may be adversely affected and below the expectations of public market analysts and investors, resulting in a decrease in the market price of our common stock.

**Due to the lengthy sales cycle involved in the sale of our products, our quarterly results may vary and should not be relied on as an indication of future performance.**

Digital video-on-demand, advertising, movie and broadcast products are relatively complex and their purchase generally involve a significant commitment of capital, with attendant delays frequently associated with large capital expenditures and implementation procedures within an organization. Moreover, the purchase of these products typically requires coordination and agreement among a potential customer's corporate headquarters and its regional and local operations. For these and other reasons, the sales cycle associated with the purchase of our digital video-on-demand, advertising, movie and broadcast products is typically lengthy and subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews, over which we have little or no control. Based upon all of the foregoing, we believe that our quarterly revenues and operating results are likely to vary significantly in the future, that period-to-period comparisons of our results of operations are not necessarily meaningful and that these comparisons should not be relied upon as indications of future performance.

**If there were a decline in demand or average selling prices for our products, including our Video-On-Demand products and Advertising products, our revenues and operating results would be materially affected.**

We expect our VOD and advertising products to continue to account for a significant portion of our revenues. Accordingly, a decline in demand or average selling prices for these products, whether as a result of new product

introductions by others, price competition, technological change, inability to enhance the products in a timely fashion, or otherwise, could have a material adverse effect on our business, financial condition and results of operations.

**If we are unable to manage our growth and the related expansion in our operations effectively, our business may be harmed through a diminished ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees.**

Our ability to successfully offer new products and services and implement our business plan in a rapidly evolving market requires effective planning and management. We are also continuing to transition towards greater reliance on our software products and services for an increased portion of our total revenue. In light of the growing complexities in managing our expanding portfolio of products and services, our anticipated future operations will continue to strain our operational and administrative resources. To manage future growth effectively, we must continue to improve our operational controls and internal controls over financial reporting, and to integrate the businesses we have acquired and our new personnel and to manage our expanding international operations. A failure to manage our growth may harm our business through a decreased ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees upon which our business is dependent.

**Because our business is susceptible to risks associated with international operations, we may not be able to maintain or increase international sales of our products and services, and we may not realize the full amount of the anticipated savings in connection with our continued trend towards the manufacture and assembly of our products outside of North America and EMEA.**

Our international operations are expected to continue to account for a significant portion of our business in the future. However, in the future we may be unable to maintain or increase international sales of our products and services. Our international operations are subject to a variety of risks, including:

- difficulties in establishing and managing international distribution channels;
- difficulties in selling, servicing and supporting overseas products and services and in translating products and services into foreign languages;
- the uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;
- multiple and possibly overlapping tax structures;
- negative tax consequences such as withholding taxes and employer payroll taxes;
- changes in labor laws and regulations affecting our ability to hire and retain employees; and economic or political changes in international markets.

**We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.**

To date, most of our revenues have been denominated in U.S. dollars, while a significant portion of our international expenses are incurred in the local currencies of countries in which we operate. Because a portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we often sell in dollars, and a weakened dollar could increase local currency operating costs. In preparing our consolidated financial statements, certain financial information is required to be translated from foreign currencies to the United States dollar using either the spot rate or the weighted-average exchange rate. If the United States dollar changes relative to applicable local currencies, there is a risk our reported sales, operating expenses, and net income could significantly fluctuate. We are not able to predict the degree of exchange rate fluctuations, nor can we estimate the effect any future fluctuations may have upon our future operations.

**Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights from third-party challenges.**

Our success and ability to compete depends upon our ability to protect our proprietary technology that is incorporated into our products. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Although we have issued patents, we cannot assure that any additional patents will be issued or that the issued patents will not be invalidated. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise misappropriate and use our products or technology without authorization, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We may need to resort to litigation in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. If competitors are able to use our technology, our ability to compete effectively could be harmed.

**We have been and in the future could become subject to litigation regarding intellectual property rights, which could seriously harm our business and require us to incur significant legal costs to defend our intellectual property rights.**

The industry in which we operate is characterized by vigorous protection and pursuit of intellectual property rights or positions, which on occasion, have resulted in significant and often protracted litigation. We have from time to time received, and may in the future receive, communications from third parties asserting infringements on patent or other intellectual property rights covering our products or processes. We are currently engaged in intellectual property litigation with Arris Group, Inc., and we may be a party to litigation in the future to enforce our intellectual property rights or as a result of an allegation that we infringe others' intellectual property. Any parties asserting that our products infringe upon their proprietary rights would force us to defend ourselves and possibly our customers or manufacturers against the alleged infringement, as many of our commercial agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights. This possibility of multiple damages serves to increase the incentive for plaintiffs to bring such litigation. In addition, these lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention away from our operations.

Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. In addition, any potential intellectual property litigation also could force us to stop selling, incorporating or using the products that use the infringed intellectual property or obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, although this license may not be available on reasonable terms, or at all, or redesign those products that use the infringed intellectual property. If we are forced to take any of the foregoing actions, our business may be seriously harmed.

**If content providers, such as movie studios, limit the scope of content licensed for use in the digital video-on-demand market, our business, financial condition and results of operations could be negatively affected because the potential market for our products would be more limited than we currently believe and have communicated to the financial markets.**

The success of the video-on-demand market is contingent on content providers, such as movie studios, permitting their content to be licensed for use in this market. Content providers may, due to concerns regarding either or both marketing and illegal duplication of the content, limit the extent to which they provide content to the video-on-demand market. A limitation of content for the video-on-demand market would indirectly limit the market for our video-on-demand system which is used in connection with that market.

**If we are unable to successfully introduce new products or enhancements to existing products, our financial condition and operating results may be adversely affected by a decrease in sales of our products.**

Because our business plan is based on technological development of new products and enhancements to our existing products, our future success is dependent on our successful introduction of these new products and enhancements. In the future we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these and other new products and enhancements, or find that our new products and enhancements do not adequately

meet the requirements of the marketplace or achieve market acceptance. Announcements of currently planned or other new product offerings may cause customers to defer purchasing our existing products. Moreover, despite testing by us and by current and potential customers, errors or failures may be found in our products, and, even if discovered, may not be successfully corrected in a timely manner. These errors or failures could cause delays in product introductions and shipments, or require design modifications that could adversely affect our competitive position. Currently, we are developing a new generation of products and systems to enable the delivery of video to multiple customer screens. Our inability to develop new products or enhancements on a timely basis or the failure of these new products or enhancements to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

**Because we purchase certain material components used in manufacturing our products from sole suppliers and we use a limited number of third party manufacturers to manufacture our products, our business, financial condition and results of operations could be materially adversely affected by a failure of these suppliers or manufacturers.**

Certain key components of our products are currently purchased from a sole supplier, including computer chassis, switching gear, an interface controller video transmission board, encoder and decoder hardware, and operating system and applications software. We have in the past experienced quality control problems, where products did not meet specifications or were damaged in shipping, and delays in the receipt of these components. These problems were generally of short duration and did not have a material adverse effect on our business and results of operations. However, we may in the future experience similar types of problems which could be more severe or more prolonged. While we believe that there are alternative suppliers available for these components, we believe that the procurement of these components from alternative suppliers could take up to a year. In addition, these alternative components may not be functionally equivalent or may be unavailable on a timely basis or on similar terms. The inability to obtain sufficient key components as required, or to develop alternative sources if and as required in the future, could result in delays or reductions in product shipments which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

In addition, we rely on a limited number of third parties who manufacture certain components used in our products. While to date there has been suitable third party manufacturing capacity readily available at acceptable quality levels, in the future there may not be manufacturers that are able to meet our future volume or quality requirements at a price that is favorable to us. Any financial, operational, production or quality assurance difficulties experienced by these third party manufacturers that result in a reduction or interruption in supply to us could have a material adverse effect on our business, financial condition and results of operations.

**If we are not able to obtain necessary licenses or distribution rights for third-party technology at acceptable prices, or at all, our products could become obsolete or we may not be able to deliver certain product offerings.**

We have incorporated third-party licensed technology into our current products and our product lines. From time to time, we may be required to license additional technology from third parties to develop new products or product enhancements or to provide specific solutions. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The inability to maintain or re-license any third-party licenses required in our current products or to obtain any new third-party licenses necessary to develop new products and product enhancements or provide specific solutions could require us to obtain substitute technology of lower quality or performance standards or at greater cost. Such inability could delay or prevent us from making these products or enhancements or providing specific solutions, which could seriously harm the competitiveness of our products.

**If we are unable to successfully compete in our marketplace, our financial condition and operating results may be adversely affected.**

We currently compete against companies offering video software and /or server platforms. In the digital advertisement insertion market, we compete against suppliers of both analog tape-based and digital systems. In addition, a number of well-funded companies have been discussing broadband internet VOD services for home television viewing. If these products are developed, they may be more cost effective than our VOD solutions, which could result in cable system operators and telecommunications companies discontinuing purchases of our on demand products.

Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources, including computer hardware and software companies and television equipment manufacturers, may enter those markets, thereby further intensifying competition. Increased competition could result in price reductions,

cancellations of purchase orders, losses of business with current customers to competitors, and loss of market share which would adversely affect our business, financial condition and results of operations. Many of our current and potential competitors have greater financial, selling and marketing, technical and other resources than we do. Moreover, our competitors may also foresee the course of market developments more accurately than we. Although we believe that we have certain technological and other advantages over our competitors, realizing and maintaining these advantages will require a continued high level of investment by us in research and product development, marketing and customer service and support. In the future we may not have sufficient resources to continue to make these investments or to make the technological advances necessary to compete successfully with our existing competitors or with new competitors.

If we are unable to compete effectively, our business, prospects, financial condition and operating results would be materially adversely affected because of the difference in our operating results from the assumptions on which our business model is based.

**If we fail to respond to rapidly changing technologies related to digital video, our business, financial condition and results of operations would be materially adversely affected because the competitive advantage of our products and services relative to those of our competitors would decrease.**

The markets for our products are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions and enhancements. Future technological advances in the television and video industries may result in the availability of new products or services that could compete with the solutions provided by us or reduce the cost of existing products or services, any of which could enable our existing or potential customers to fulfill their video needs better and more cost efficiently than with our products. Our future success will depend on our ability to enhance our existing digital video products, including the development of new applications for our technology, and to develop and introduce new products to meet and adapt to changing customer requirements and emerging technologies. In the future, we may not be successful in enhancing our digital video products or developing, manufacturing and marketing new products which satisfy customer needs or achieve market acceptance. In addition, there may be services, products or technologies developed by others that render our products or technologies uncompetitive, unmarketable or obsolete, or announcements of currently planned or other new product offerings either by us or our competitors that cause customers to defer or fail to purchase our existing solutions.

**Our financial condition and results of operations could be materially adversely affected by the performance of the companies in which we have made and may in the future make equity investments.**

We have made non-controlling equity investments in complementary companies, including On Demand Deutschland GmbH & Co. KG and Minerva Networks, Inc., and we may in the future make additional investments in these and/or other companies. These investments may require additional capital and may not generate the expected rate of return that we believed possible at the time of making the investment. This may adversely affect our financial condition or results of operations. Also, investments in development-stage companies may generate other than temporary declines in fair value of our investment that would result in impairment charges.

**We may not fully realize the benefits of our acquisitions of eventIS Group B.V or VividLogic, Inc., and these and future acquisitions may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.**

As part of our business strategy, we have acquired and may in the future seek to acquire or invest in new businesses, products or technologies that we believe could complement or expand our business, augment our market coverage, enhance our technical capabilities or otherwise offer growth opportunities. Acquisitions, including our acquisitions of eventIS Group B.V. and VividLogic, Inc. could create risks for us, including:

- difficulties in assimilation of acquired personnel, operations, technologies or products which may affect our ability to develop new products and services and compete in our rapidly changing marketplace due to a resulting decrease in the quality of work and innovation of our employees upon which our business is dependent; and
- adverse effects on our existing business relationships with suppliers and customers, which may be of particular importance to our business because we sell our products to a limited number of large customers, we purchase certain components used in manufacturing our products from sole suppliers and we use a limited number of third party manufacturers to manufacture our product.

In addition, if we consummate acquisitions through an exchange of our securities, our existing stockholders could suffer significant dilution. Acquisitions, even if successfully completed, may not generate any additional revenue or provide any benefit to our business.

**We may make future acquisitions or enter into joint ventures that are not successful, which could seriously harm our business.**

Historically, we have acquired technology or businesses to supplement and expand our product offerings. In the future, we could acquire additional products, technologies or businesses, or enter into joint venture arrangements, for the purpose of complementing or expanding our business as occurred with VividLogic Inc. in fiscal 2011, eventIS Group B.V. in fiscal 2010, Mobix Interactive Ltd. in fiscal 2009 and On Demand Deutschland GMBH in fiscal 2007. Negotiation of potential acquisitions or joint ventures and our integration of acquired products, technologies or businesses could divert management's time and resources. Future acquisitions could cause us to issue equity securities that would dilute existing stockholders, incur contingent liabilities, amortize intangible assets, or write off in-process research and development and other acquisition-related expenses that could have a material adverse affect on our business, results of operations, cash flow and financial condition. We may not be able to properly integrate acquired products, technologies or businesses with our existing products and operations, train, retain and motivate personnel from the acquired businesses, or combine potentially different corporate cultures. Failure to do so could deprive us of the intended benefits of those acquisitions. In addition, we may be required to write-off acquired research and development if further development of purchased technology becomes unfeasible, which may adversely affect our business, results of operations, cash flow and financial condition.

**If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.**

Under accounting principles generally accepted in the United States, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or other intangible assets may not be recoverable include declines in our stock price and market capitalization, or future cash flows projections. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on projections of future operating performance. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. We may be required to record a significant noncash charge to earnings in our financial statements during the period in which any impairment of our goodwill or other intangible assets is determined.

**We may experience risks in our investments due to changes in the market, which could adversely affect the value or liquidity of our investments.**

We maintain a portfolio of cash equivalents and short-term and long-term investments in a variety of securities which may include commercial paper, certificates of deposit, money market funds and government debt securities. These available-for-sale investments are subject to interest rate risk and may decline in value if market interest rates increase. These investments are subject to general credit, liquidity, market and interest rate risks. As a result, we may experience a reduction in value or loss of liquidity of our investments. In addition, should any investment cease paying or reduce the amount of interest paid to us, our interest income would suffer. These market risks associated with our investment portfolio may have a negative adverse effect on our results of operations, liquidity and financial condition.

**The success of our business model could be influenced by changes in the regulatory environment, such as changes that either would limit capital expenditures by television, cable or telecommunications operators or reverse the trend towards deregulation in the industries in which we compete.**

The telecommunications and television industries are subject to extensive regulation which may limit the growth of our business, both in the United States and other countries. The growth of our business internationally is dependent in part on deregulation of the telecommunications industry abroad similar to that which has occurred in the United States and the timing and magnitude of which is uncertain. Broadband system operators are subject to extensive government regulation by the Federal Communications Commission and other federal and state regulatory agencies. These regulations could have the effect of limiting capital expenditures by broadband system operators and thus could have a material adverse effect on our business, financial condition and results of operations. The enactment by federal, state or international governments of new laws or regulations, changes in the interpretation of existing regulations or a reversal of the trend

toward deregulation in these industries could adversely affect our customers, and thereby materially adversely affect our business, financial condition and results of operations.

**We may not be able to hire and retain highly skilled employees, particularly which could affect our ability to compete effectively because our business is technology-based.**

Our success depends to a significant degree upon the continued contributions of our key personnel, many of whom would be difficult to replace. We believe that our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, customer service, selling and marketing, finance, administrative and manufacturing personnel, as our business is technology-based. Because competition for these personnel is intense, we may not be able to attract and retain qualified personnel in the future. The loss of the services of any of the key personnel, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel, particularly software engineers and sales personnel could have a material adverse effect on our business, financial condition and results of operations because our business is technology-based.

**We may have additional tax liabilities.**

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our income tax provision, net income, or cash flows in the period or periods for which that determination is made.

In addition, we are subject to sales, use and similar taxes in many countries, jurisdictions and provinces, including those states in the United States where we maintain a physical presence or have a substantial nexus. These taxing regimes are complex. For example, in the United States, each state and local taxing authority has its own interpretation of what constitutes a sufficient physical presence or nexus to require the collection and remittance of these taxes. Similarly, each state and local taxing authority has its own rules regarding the applicability of sales tax by customer or product type.

**System errors, failures, or interruptions could cause delays in shipments, require design modifications or replacements which may have a negative impact on our business and damage our reputation and customer relationships.**

System errors or failures may adversely affect our business, financial condition and results of operations. Despite our testing and testing by current and potential customers, not all errors or failures may be found in our products or, if discovered, successfully corrected in a timely manner. Notwithstanding our efforts to the contrary, our products and business may be subject to unauthorized access which could also result in errors or failures in our products, or the dissemination of confidential information. These errors or failures could cause delays in product introductions and shipments, require design modifications that could adversely affect our competitive position or result in material liability to us. Further, some errors may not be detected until the systems are deployed. In such a case, we may have to undertake major replacement programs to correct the problem. Our reputation may also suffer if our customers view our products as unreliable or our systems as unsecure, whether based on actual or perceived errors or failures in our products or our systems.

Further, a defect, error or performance problem with our on-demand systems could cause our customers' VOD offerings to fail for a period of time or be degraded. Any such failure would cause customer service and public relations problems for our customers. As a result, any failure of our customers' systems caused by our technology, including the failure of third party technology incorporated therein or therewith, could result in delayed or lost revenue due to adverse customer reaction, negative publicity regarding us and our products and services and claims for substantial damages against us, regardless of our responsibility for such failure. Any claim could be expensive and require us to spend a significant amount of resources. In circumstances where third party technology incorporated with or in our systems includes a defect, error or performance problem or fails for any reason, we may have to replace such third party technology at our expense and be responsible to our customers for their corresponding claims. Such replacements or claims could be expensive and could require us to spend a significant amount of resources.

**Our stock price may be volatile.**

Historically, the market for technology stocks has been extremely volatile. Our common stock has experienced, and may continue to experience, substantial price volatility. The occurrence of any one or more of the factors noted above could cause the market price of our common stock to fluctuate. In the past couple of years, the stock market in general, and the NASDAQ Stock Market and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. These broad market and industry factors may materially adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies.

**Any weaknesses identified in our system of internal controls by us and our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on our business.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and report on their systems of internal control over financial reporting. In addition, our independent registered public accounting firm must report on its evaluation of those controls. In future periods, we may identify deficiencies, including as a result of the loss of the services of one or more of our key personnel, in our system of internal controls over financial reporting that may require remediation. There can be no assurances that any such future deficiencies identified may not be significant deficiencies or material weaknesses that would be required to be reported in future periods.

**ITEM 1B. Unresolved Staff Comments**

None



## ITEM 2. Properties

<u>Location</u>	<u>Lease/ Own</u>	<u>Principal Use</u>	<u>Segment</u>	<u>Square Feet</u>
Acton, Massachusetts	Own	Corporate Headquarters, video	Software, Servers and Storage	120,000
Shanghai, China	Lease	Engineering	Software, Servers and Storage	38,000
Manilla, Philippines	Lease	Engineering and Customer Services	Software, Servers and Storage	28,000
Greenville, New Hampshire	Own	software engineering and manufacturing Video Storage engineering, logistics and services engineering	Servers and Storage	24,000
Fort Washington, Pennsylvania	Lease	Software Development, digital video and interactive television	Software	14,000
London, United Kingdom	Own	ODG corporate offices and video content processing services	Media Services	9,000
Eindhoven, The Netherlands	Lease	eventIS corporate offices	Software	6,300

In addition, we also lease research and development and/or sales and support offices in Illinois, Nevada, California, France, Ireland, Singapore, Germany, Japan, India, Turkey, UK, Russia, Mexico, and China. We believe that existing facilities are adequate to meet our foreseeable requirements.

## ITEM 3. Legal Proceedings

On July 31, 2009, ARRIS Group, Inc. (“ARRIS”) filed a contempt motion in the U.S. District Court for the District of Delaware against SeaChange International relating to U.S. Patent No 5,805,804 (the “804 patent”), a patent in which ARRIS has an ownership interest. In its motion, ARRIS is seeking further patent royalties and the enforcement of the permanent injunction entered by the Court on April 6, 2006 against certain SeaChange products. On August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court that its products do not infringe the ‘804 patent and asserting certain equitable defenses. Discovery and briefing on the ARRIS contempt motion are expected to be completed on April 18, 2011.

SeaChange changed the product that was the subject of the first patent lawsuit regarding the ‘804 patent to specifically avoid any further claims of alleged infringement under the ‘804 patent. In addition, on March 15, 2007 SeaChange petitioned the U.S. Patent and Trademark Office to re-examine the ‘804 patent in view of the claim construction that was given in the prior trial regarding the ‘804 patent. As a result of the re-examination, the patent examiner cancelled the first three claims of the ‘804 patent. SeaChange believes that ARRIS’s contempt motion is without merit, and that SeaChange’s products do not infringe the ‘804 patent.

SeaChange enters into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require SeaChange to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to SeaChange’s products. From time to time, SeaChange also indemnifies 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 SeaChange’s products and services or resulting from the acts or omissions of SeaChange, its employees, authorized agents or subcontractors. For example, SeaChange has received requests from several of its customers for indemnification of patent litigation claims asserted by Acacia Media Technologies, USA Video Technology Corporation, Multimedia Patent Trust, Microsoft Corporation and VTran Media Technologies. Management performed an analysis of these requests, evaluating whether any potential losses were probable and estimable.

## PART II

### ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

#### Market Information

Our common stock (symbol, "SEAC") began trading on NASDAQ on November 5, 1996 and currently trades on the Nasdaq Global Select Market.

On April 1, 2011, the last reported sale price of our common stock on NASDAQ was \$9.93 per share and there were approximately 125 holders of record of our common stock. We believe that the number of beneficial holders of our common stock exceeds 7,149.

The following table sets forth the quarterly high and low closing sales prices per share reported on NASDAQ for our last two fiscal years ended January 31, 2011 and 2010.

	Fiscal Year 2011		Fiscal Year 2010	
	High	Low	High	Low
Three Month Period Ended:				
First Quarter .....	\$ 8.61	\$ 6.45	\$ 6.81	\$ 4.32
Second Quarter .....	9.48	7.45	9.23	6.06
Third Quarter .....	9.17	7.08	9.85	6.77
Fourth Quarter .....	9.04	7.90	6.97	5.50

#### Dividend Policy

We have never declared or paid any cash dividends on our common stock, since inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings for use in operations and to finance the expansion of our business.

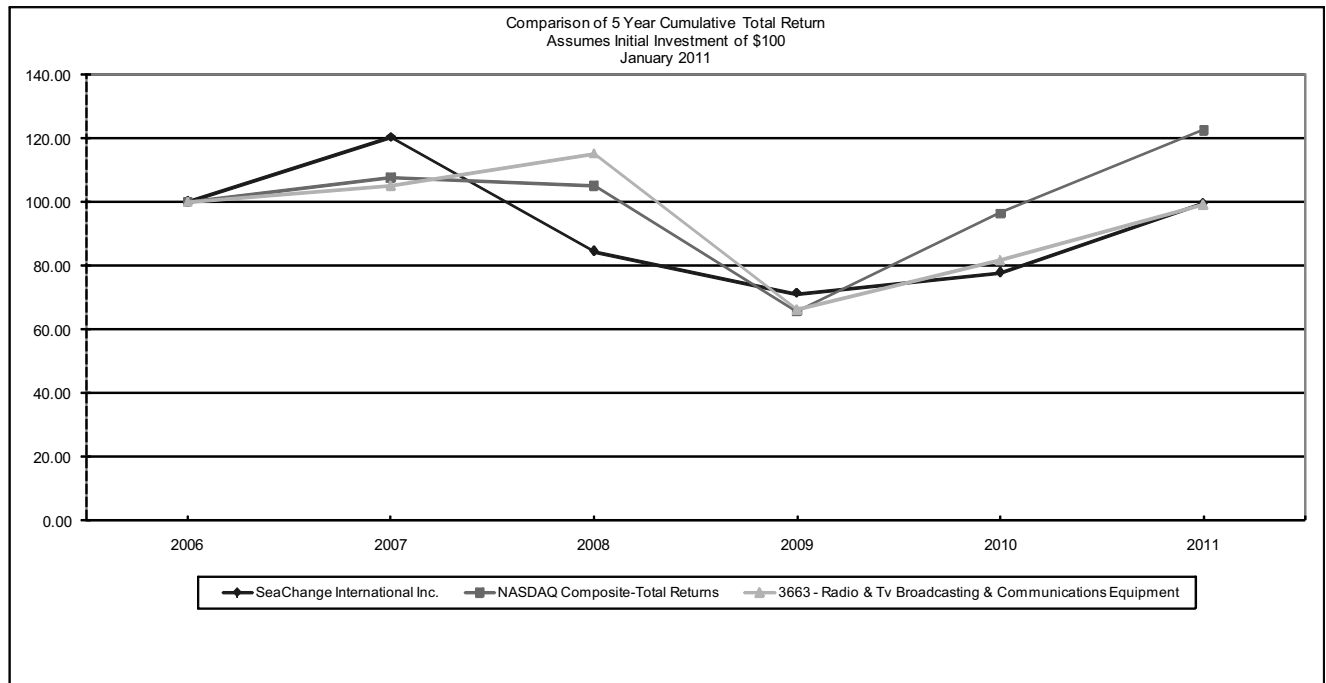
#### Repurchase of our Equity Securities

On May 26, 2010, SeaChange's Board of Directors authorized the repurchase of up to \$20.0 million of its common stock, par value \$.01 per share, through a share repurchase program. As authorized by the program, shares may be purchased in the open market or through privately negotiated transactions in a manner consistent with applicable securities laws and regulations, including pursuant to a Rule 10b5-1 plan maintained by the Company. This share repurchase program does not obligate the Company to acquire any specific number of shares and may be suspended or discontinued at any time. All repurchases are expected to be funded from the Company's current cash and investment balances. The timing and amount of the shares to be repurchased will be based on market conditions and other factors, including price, corporate and regulatory requirements and alternative investment opportunities. The repurchase program terminates on January 31, 2012. There were no stock repurchases during the three months ended January 31, 2011. During the year ended January 31, 2011, the Company repurchased approximately 178,000 shares at a cost of \$1.4 million.

## STOCK PERFORMANCE GRAPH

The following graph compares the change in the cumulative total stockholder return on SeaChange's common stock during the period from the close of trading on January 31, 2006 through January 31, 2011, with the cumulative total return on the Center for Research in Securities Prices ("CRSP") Index for the Nasdaq Stock Market (U.S. Companies) and a SIC Code Index based on SeaChange's SIC Code. The comparison assumes \$100 was invested on January 31, 2006 in SeaChange's common stock at the \$8.32 closing price on January 31, 2006 and in each of the foregoing indices and assumes reinvestment of dividends, if any.

The following graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any filing of SeaChange under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing. The stock price performance shown on the following graph is not necessarily indicative of future price performance. Information used on the graph was obtained from a third party provider, a source believed to be reliable, but SeaChange is not responsible for any errors or omissions in such information.



### Notes:

- A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
- B. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
- C. The Index level for all series was set to 100 on January 31, 2006.

## ITEM 6. Selected Financial Data

The following consolidated selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The Company has reclassified certain prior period balances in fiscal 2007 and fiscal 2008 to conform to the current year presentation. These reclassifications have no impact on previously reported total assets, total liabilities, stockholders’ equity, results of operations or cash flows.

	Year ended January 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues:					
Products	\$ 91,679	\$ 101,941	\$ 117,372	\$ 105,769	\$ 95,000
Services	125,048	99,724	84,464	74,124	66,334
Total revenues	216,727	201,665	201,836	179,893	161,334
Costs of revenues:					
Products	35,527	38,961	46,533	47,833	48,334
Services	72,451	59,451	52,007	46,368	37,189
Total cost of revenue	107,978	98,412	98,540	94,201	85,523
Gross profit	108,749	103,253	103,296	85,692	75,811
Operating expenses:					
Research and development	48,403	50,664	43,042	41,720	40,917
Selling and marketing	24,506	25,842	27,506	22,918	22,383
General and administrative	24,328	21,719	20,979	20,098	18,873
Amortization of intangibles	3,359	2,826	1,575	2,952	5,664
Restructuring	6,997	-	-	6,004	-
Total operating expenses	107,593	101,051	93,102	93,692	87,837
Income (loss) from operations	1,156	2,202	10,194	(8,000)	(12,026)
Interest (expense) income, net	(165)	607	2,050	1,927	1,355
Other (expense), net	(1,017)	(462)	(925)	(43)	(470)
Gain on sale of investment in affiliates	27,071	-	-	10,031	-
Income (loss) before income taxes and equity income					
(loss) in earnings of affiliates	27,045	2,347	11,319	3,915	(11,141)
Income tax expense (benefit)	(2,338)	371	575	2,156	(1,632)
Equity income (loss) in earnings of affiliates, net of tax	85	(653)	(770)	1,143	1,272
Net income (loss)	\$ 29,468	\$ 1,323	\$ 9,974	\$ 2,902	\$ (8,237)
Earnings (loss) per share:					
Basic	\$ 0.94	\$ 0.04	\$ 0.32	\$ 0.10	\$ (0.29)
Diluted	\$ 0.92	\$ 0.04	\$ 0.32	\$ 0.10	\$ (0.29)
Consolidated Balance Sheet Data (as of January 31):					
Working capital	\$ 92,628	\$ 60,887	\$ 89,549	\$ 88,344	\$ 57,820
Total assets	305,191	267,147	233,983	217,896	199,296
Deferred revenue	43,969	46,793	32,974	19,103	21,806
Long-term liabilities	27,057	15,808	3,745	3,391	1,121
Total liabilities	96,049	89,225	61,747	52,494	42,876
Total stockholders' equity	209,142	177,922	172,236	165,402	156,420

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion and analysis together with our consolidated financial statements, related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to a number of factors including risks discussed in Item 1A. "Risk Factors," and elsewhere in this Annual Report on Form 10-K. These risks could cause our actual results to differ materially from any future performance suggested below.*

### Overview

We are global leaders in multi-screen video and one of the largest software companies worldwide. Our products, and services facilitate the aggregation, licensing, storage, management and distribution of video, television programming, and advertising content to cable system operators, telecommunications companies and broadcast television companies.

On September 1, 2009, the Company completed its acquisition of eventIS Group B.V. ("eventIS"). eventIS, based in Eindhoven, the Netherlands, provides video on demand ("VOD") and linear broadcast software and related services to cable television and telecommunications companies primarily in Europe. The Company acquired eventIS to expand its VOD solutions into the European market. The Company has made cash payments to date to the former shareholder of eventIS of \$38.7 million and issued 75,000 of restricted common shares which will vest in equal installments over three years beginning in fiscal 2012. The Company is obligated to make additional payments, each in an aggregate amount of \$2.8 million with \$1.7 million payable in cash and \$1.1 million payable by the issuance of restricted shares of SeaChange common stock on September 1, 2011 and 2012. For fiscal 2011, under the earn-out provisions of the share purchase agreement, \$340,000 was earned and will be paid to the former shareholder of eventIS during the Company's first quarter of fiscal 2012. If certain performance goals are met over each of the two years ending January 31, 2013, the Company will be obligated to make additional cash payments to the former shareholder of eventIS. Acquisition-related costs recognized included legal, accounting, valuation and other professional services totaling \$1.0 million for fiscal 2010. The transaction costs were expensed and recorded in general and administrative expenses in the Consolidated Statement of Operations.

On February 1, 2010, the Company completed its acquisition of VividLogic, Inc. ("VividLogic"). VividLogic, based in Fremont, California, provides in-home infrastructure software for high definition televisions, home gateways, and set-top boxes to cable television service providers, set-top box manufacturers and consumer electronics (CE) suppliers. The Company acquired VividLogic to expand its in home solutions. The Company made cash payments totaling \$21.5 million, of which \$1.2 million was deposited in escrow with respect to certain indemnification matters. In addition, the Company is obligated to make additional cash payments of \$1.0 million on February 1, 2012 and 2013, respectively. Under the earnout provisions of the purchase agreement, the Company will make an earn-out payment of \$257,000 for fiscal year 2011 and may be obligated to make future earn-out payments based on the operating results of VividLogic. Acquisition-related costs recognized include legal, accounting, valuation and other professional services of \$831,000 in fiscal 2011 and \$341,000 in fiscal 2010. The transaction costs were expensed and recorded in general and administrative expenses in the Consolidated Statement of Operations.

During fiscal 2011, the Company initiated actions to lower its cost structure as it strives to generate increased profitability. During fiscal 2011 pre-tax restructuring expenses charged to its income statement totaled approximately \$7.0 million related to the termination of approximately 110 employees, the write down of inventory, and the disposal of fixed assets. These actions included the restructuring of the Company's Servers and Storage business segment, completed in the fourth quarter of fiscal 2011.

The Company is managed and operated as three segments, Software, Servers and Storage, and Media Services. A description of the three reporting segments is as follows:

- Software segment includes product revenues from the Company's Advertising, VOD, Middleware and Broadcast software solutions, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products, and operating expenses relating to the Software segment such as research and development, selling and marketing and amortization of intangibles. The Software segment includes the results of eventIS from the date of the acquisition on September 1, 2009 and the results of VividLogic from the date of acquisition on February 1, 2010.
- Servers and Storage segment includes product revenues from VOD and Broadcast server product lines and related services such as professional services, installation, training, project management, product maintenance,

and technical support for those products and operating expenses relating to the Servers and Storage segment, such as research and development and selling and marketing.

Media Services segment includes the operations of ODG which include content acquisition and preparation services for television and wireless service providers and related operating expenses.

Under this reporting structure, the Company further determined that there are significant functions, and therefore costs, that are considered corporate expenses and are not allocated to the reportable segments for the purposes of assessing performance and making operating decisions. These unallocated costs include general and administrative expenses, other than direct general and administrative expenses related to Media Services and Software, other income (expense), net, taxes and equity losses in earnings of affiliates, which are managed separately at the corporate level. The basis of the assumptions for all such revenues, costs and expenses includes significant judgments and estimations. There are no inter-segment revenues for the periods shown below. The Company does not separately track all assets by operating segments nor are the segments evaluated under this criterion

We have experienced fluctuations in our product revenues from quarter to quarter due to the timing of the receipt of customer orders, the shipment of those orders, and, in certain cases, customer acceptance of products. The factors that impact the timing of the receipt of customer orders include among other factors:

- the customer's receipt of authorized signatures on their purchase orders;
- the budgetary approvals within the customer's company for capital purchases; and
- the ability to process the purchase order within the customer's organization in a timely manner.

Factors that may impact the shipment of customer orders include:

- the availability of material to produce the product;
- the time required to produce and test the product before delivery; and
- the customer's required delivery date.

In addition, many customers may delay or reduce capital expenditures. This, together with other factors, could result in reductions in sales of our products, longer sales cycles, difficulties in collection of accounts receivable, excess and obsolete inventory, gross margin deterioration, slower adoption of new technologies, increased price competition and supplier difficulties. We believe that the recent global economic slowdown and the resulting slow recovery have caused certain customers to reduce or delay capital spending plans in fiscal 2010 and 2011 primarily in our Advertising and Broadcast products. In addition, we have experienced increased price-based competition from our competitors, which resulted in the reduction of the prices of some of our products, which reduced our revenues and adversely affected our gross margin.

The delay in the timing of receipt and shipment of any one customer order, or in certain cases customer acceptance of the products, can result in significant fluctuations in our revenue reported on a quarterly basis.

Our operating results are significantly influenced by a number of factors, including the mix of products sold and services provided, pricing, costs of materials used in our products and the expansion of our operations during the fiscal year. We price our products and services based upon our costs and consideration of the prices of competitive products and services in the marketplace. The costs of our products primarily consist of the costs of components and subassemblies that have generally declined from product introduction to product maturity. As a result of the growth of our business, our operating expenses have historically increased in the areas of research and development, selling and marketing and administration. In the current state of the economy, we currently expect that customers may still have limited capital spending budgets as we believe they are dependent on advertising revenues to fund their capital equipment purchases. Accordingly, we expect our financial results to vary from quarter to quarter and our historical financial results are not necessarily indicative of future performance. In light of the higher proportion of our international business, we expect movements in foreign exchange rates to have a greater impact on our operating results and the equity section of our balance sheet in the future.

Our ability to continue to generate revenues within the markets that our products are sold and to generate cash from operations and net income is dependent on several factors which include:

- market acceptance of the products and services offered by our customers and increased subscriber usage and demand for these products and services;
- selection by our customers of our products and services versus the products and services being offered by our competitors;
- our ability to introduce new products to the market in a timely manner and to meet the demands of the market for new products and product enhancements;
- our ability to maintain gross margins from the sale of our products and services at a level that will provide us with cash to fund our operations given the pricing pressures within the market and the costs of materials to manufacture our products;
- our ability to control operating costs given the fluctuations that we have experienced with revenues from quarter to quarter; and
- our ability to successfully integrate businesses acquired by us, including eventIS, VividLogic, Inc and Mobix Interactive, Ltd.

### **Summary of Critical Accounting Policies; Significant Judgments and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These items are regularly monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve significant judgments and estimates used in the preparation of our consolidated financial statements. An accounting policy is deemed to be critical if it requires a judgment or accounting estimate to be made based on assumptions about matters that are highly uncertain, and if different estimates that could have been used, or if changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed below, are also critical to understanding our consolidated financial statements. The notes to our consolidated financial statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

*Principles of Consolidation.* The Company consolidates the financial statements of its wholly-owned subsidiaries and all inter-company accounts are eliminated in consolidation. SeaChange also holds minority investments in the capital stock of certain private companies having product offerings or customer relationships that have strategic importance. The Company evaluates its equity and debt investments and other contractual relationships with affiliate companies in order to determine whether the guidelines regarding the consolidation of variable interest entities (“VIE”) should be applied in the financial statements. Consolidation guidelines address consolidation by business enterprises of variable interest entities that possess certain characteristics. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The primary beneficiary is required to consolidate the financial position and results of the VIE. The Company has concluded that it is not the primary beneficiary for any variable interest entities as of January 31, 2011.

The Company's investments in affiliates include investments accounted for under the cost method and the equity method of accounting. The investments that represent less than a 20% ownership interest of the common shares of the affiliate are carried at cost. Under the equity method of accounting, which generally applies to investments that represent 20% to 50% ownership of the common shares of the affiliate, SeaChange's proportionate ownership share of the earnings or losses of the affiliate are included in equity income (loss) in earnings of affiliates in the consolidated statement of operations.

We periodically review indicators of the fair value of our investments in affiliates in order to assess whether available facts or circumstances, both internally and externally, may suggest an other-than-temporary decline in the value of the investment. The carrying value of an investment in an affiliate may be affected by the affiliate's ability to obtain adequate funding and execute its business plans, general market conditions, industry considerations specific to the affiliate's business, and other factors. The inability of an affiliate to obtain future funding or successfully execute its business plan could adversely affect our equity earnings of the affiliate in the periods affected by those events. Future adverse changes in market conditions or poor operating results of the affiliates could result in equity losses or an inability to recover the carrying value of the investments in affiliates that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future. We record an impairment charge when we believe an investment has experienced a decline in value that is other-than-temporary.

*Revenue Recognition and Allowance for Doubtful Accounts.* The accounting related to revenue recognition is complex and affected by interpretations of the rules and an understanding of industry practices. As a result, revenue recognition accounting rules require us to make significant judgments. Revenues from sales of hardware, software and systems that do not require significant modification or customization of the underlying software are recognized when title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is considered probable. Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities are deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements are recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. For contracts, where some level of profit is assured but the Company is only able to estimate ranges of amounts of total contract revenue and total contract cost, the Company uses the lowest probable level of profits in accounting for the contract revenues and costs. Accounting for contract amendments and customer change orders are included in contract accounting when executed. Revenue from shipping and handling costs and other out-of-pocket expenses reimbursed by customers are included in revenues and cost of revenues. Our share of inter-company profits associated with sales and services provided to affiliated companies is eliminated in consolidation in proportion to our equity ownership.

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

We recognize revenue for products and services only in those situations where collection from the customer is probable. The Company performs ongoing credit evaluations of customers' financial condition but generally does not require collateral. For some international customers, the Company may require an irrevocable letter of credit to be issued by the customer before the purchase order is accepted. The Company monitors payments from customers and assesses any



collection issues. The Company maintains allowances for specific doubtful accounts and other risk categories of accounts based on estimates of losses resulting from the inability of the Company's customers to make required payments and records these allowances as a charge to general and administrative expenses. The Company bases its allowances for doubtful accounts on historical collections and write-off experience, current trends, credit assessments, and other analysis of specific customer situations. While such credit losses have historically been within our expectations and the allowances established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. If the financial condition of our customers were to change, additional allowances may be required or established allowances may be considered unnecessary. Judgment is required in making these determinations and our failure to accurately estimate the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition and results of operations.

Service revenue from content processing provided to our customers is recognized when services are provided, based on contracted rates. Upfront fees received for services are recognized ratably over the period earned, whichever is the longer of the contract term or the estimated customer relationship.

Any taxes assessed by a governmental authority related to revenue-producing transactions (e.g. sales or value-added taxes) are reported on a net basis and excluded from revenues.

*Inventories and Reserves.* Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist primarily of components and subassemblies and finished products held for sale. All of SeaChange's hardware components are purchased from outside vendors. The value of inventories is reviewed quarterly to determine that the carrying value is stated at the lower of cost or net realizable value. SeaChange records charges to reduce inventory to its net realizable value when impairment is identified through the quarterly review process. The obsolescence evaluation is based upon assumptions and estimates about future demand and possible alternative uses and involves significant judgments. For the year ended January 31, 2011, we recorded \$3.0 million in inventory write-downs of which \$2.5 million was incurred as part of the first quarter restructuring. For the fiscal years ended January 31, 2010 and 2009, we recorded inventory write-downs of \$569,000 and \$1.0 million, respectively.

*Accounting for Business Combinations* In our business combinations, we are required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. The purchase price allocation process requires management to make significant estimates and assumptions, especially at acquisition date with respect to intangible assets, estimated contingent consideration payments and pre-acquisition contingencies. Although we believe the assumptions and estimates we have made have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired company and are inherently uncertain. Examples of critical estimates in accounting for acquisitions include but are not limited to:

- the estimated fair value of the acquisition-related contingent consideration, which is calculated using a probability-weighted discounted cash flow model based upon the forecasted achievement of post acquisition bookings targets;
- the future expected cash flows from product sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents; and
- the relevant discount rates.

Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results. Additionally, any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the bookings that are expected to be achieved, will be recognized in earnings in the period of the estimated fair value change. A change in fair value of the acquisition-related contingent consideration could have a material effect on the statement of operations and financial position in the period of the change in estimate.

*Goodwill.* In connection with acquisitions of operating entities, we recognize the excess of the purchase price over the fair value of the net assets acquired as goodwill. Goodwill is not amortized, but is evaluated for impairment, at the reporting unit level, annually in our third quarter as of August 1. Goodwill of a reporting unit also is tested for impairment on an interim basis in addition to the annual evaluation if an event occurs or circumstances change which would more

likely than not reduce the fair value of a reporting unit below its carrying amount. Changes in operating performance, market conditions and other factors may adversely impact estimates of expected future cash flows. Any impairment indicated by this analysis would be measured as the amount by which the carrying value exceeds estimated fair value based on forecasted cash flows, discounted at a rate commensurate with the risks involved.

Goodwill is evaluated at the reporting unit level, which is equivalent to our business segments. We have three reporting segments, the Software segment, Servers and Storage segment and Media Services segment. The goodwill balance as of January 31, 2011 is as follows:

Goodwill				
	Software	Servers & Storage	Media Services	Total
	(in thousands)			
Goodwill .....	\$ 45,097	\$ 754	\$ 19,422	\$ 65,273

On August 1, 2010, we performed our annual impairment testing of goodwill for each of the reporting units with goodwill balances. We first calculated the fair value of each reporting unit using a discounted cash flow methodology. We then performed “Step 1” and compared the fair value of each reporting unit of accounting to its carrying value as of August 1, 2010.

The process of evaluating goodwill for impairment requires several judgments and assumptions to be made to determine the fair value of the reporting units, including the method used to determine fair value, discount rates, expected levels of cash flows, revenues and earnings, and the selection of comparable companies used to develop market based assumptions. The Company may employ three generally accepted approaches for valuing businesses: the market approach, the income approach, and the asset-based (cost) approach to arrive at the fair value of each reporting unit. In calculating the fair value, we derived the standalone projected five year cash flows for all three reporting units. This process starts with the projected cash flows of each of the three reporting units and then the cash flows are discounted. The choice of which approach and methods to use in a particular situation depends on the facts and circumstances.

We determined that based on “Step 1” of our annual goodwill test, the reporting fair values of all three of our reporting units containing goodwill balances exceeded their carrying values. In aggregate, there was excess fair value over the carrying value of the net assets ranging from \$53-\$73 million. Below is a summary of the fair values ranges calculated by the company as of August 1, 2010 was as follows:

	Premium Ranges over Carrying Value
Software	143%-201%
Servers and Storage	69%-111%
Media Services	44%-62%

Key data points included in the market capitalization calculation were as follows:

- Shares outstanding as of August 1, 2010: 31.3 million; and
- \$8.96 closing price as of August 1, 2010.

Accordingly, as no impairment indicator existed as of August 1, 2010, our annual impairment date, and the implied fair value of goodwill did not exceed the carrying value of any of our three reporting units, we determined that goodwill was not at risk of failing “Step 1” and was appropriately stated as of August 1, 2010.

To validate our conclusions and determine the reasonableness of our annual impairment test, we performed the following:

- Reconciled our estimated enterprise value to market capitalization comparing the aggregate, calculated fair value of our reporting units to our market capitalization as of August 1, 2010, our annual impairment test date. As compared with the market capitalization value of \$280 million as of August 1, 2010, the aggregate carrying value was approximately \$200 million;
- Prepared a “reporting unit” fair value calculation using two different approaches;
- Reviewed the historical operating performance of each reporting unit for the current fiscal year;
- Performed a sensitivity analysis on key assumptions such as weighted-average cost of capital and terminal growth rates; and
- Reviewed market participant assumptions.

The Company used two generally accepted approaches to value its reporting segments. The Market approach provides value indications through a comparison with guideline public companies or guideline transactions. The valuation multiple is an expression of what investors believe to be a reasonable valuation relative to a measure of financial information such as revenues, earnings or cashflows. The Income approach provides value indications through an analysis of its projected earnings, discounted to present value. We employed a weighted-average cost of capital rate for each of our reporting units. The estimated weighted-average cost of capital was based on the risk-free interest rate and other factors such as equity risk premiums and the ratio of total debt to equity capital. In performing the annual impairment tests, we took steps to ensure appropriate and reasonable cash flow projections and assumptions were used. The discount rate used to estimate future cash flows was between 15% and 19% for each of the reporting units.

Our projections for the next five years included increased revenue and operating expenses, in line with the expected revenue growth over the next five years based on current market and economic conditions and our historical knowledge of the reporting units. Historical growth rates served as only one input to the projected future growth used in the goodwill impairment analysis. These historical growth rates were adjusted based on other inputs from management regarding anticipated customer contracts. The forecasts have incorporated any changes to the revenue and operating expenses resulting from the third quarter of fiscal 2011 restructuring plan. We projected growth for each reporting unit ranging from 6% to 9% annually for the Software and Services segment, a decline of 18% to growth of 9% for Servers and Storage segment, and growth from 28% to 88% annually for the Media Services segment. The higher projected growth for the Media Services segment is due to the recent contract wins by ODG and its recent year over year growth rate. We estimated the operating expenses based on a rate consistent with the current experience for of the each reporting units and estimated revenue growth over the next five years. The failure of any of our reporting units to execute as forecasted over the next five years could have an adverse affect on our annual impairment test. Future adverse changes in market conditions or poor operating results of the reporting unit could result in losses or an inability to recover the carrying value of the investments in reporting units, thereby possibly requiring an impairment charge in the future. We record an impairment charge when we believe an investment has experienced a decline in value that is other-than-temporary.

We also monitor economic, legal and other factors as a whole and for each reporting unit between annual impairment tests to ensure that there are no indicators that make it more likely than not that there has been a decline in the fair value of the reporting unit below its carrying value. Specifically, we monitor industry trends, our market capitalization, recent and forecasted financial performance of our reporting units and the timing and nature of any restructuring activities. We do not believe that there are any indicators of impairment as of January 31, 2011. If these estimates or the related assumptions change, we may be required to record non-cash impairment charges for these assets in the future.

During the fourth quarter of fiscal 2011, the Company evaluated the impairment analysis and updated for the change in its estimates from August 1, 2010 to January 31, 2011. While no impairment charges resulted from the analyses performed during the fourth quarter of fiscal 2011, impairment charges may occur in the future due to changes in projected revenue growth rates, projected operating margins or estimated discount rates, among other factors. Historical or projected revenues or cash flows may not be indicative of actual results in the future. Due to uncertain market conditions, it is possible that future impairment reviews may indicate additional impairments of goodwill and/or other intangible assets, which could result in charges that could be material to our results of operations and financial position.

*Long-Lived Assets.* SeaChange also evaluates property and equipment, investments, intangible assets and other long-lived assets 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, SeaChange evaluates 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. SeaChange's cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time.

Intangible assets consist of customer contracts, completed technology, in-process research and development, non-competition agreements, patents and trademarks and are respectively assigned to the operating segments. The intangible assets are amortized to cost of sales and operating expenses, as appropriate, on a straight-line or accelerated basis in order to reflect the period that the assets will be consumed. In-process research and development assets as of the acquisition date were recorded as indefinite-lived intangible assets and will be subject to impairment testing at least annually. The useful life of the intangible asset recognized will be reconsidered if and when an in-process research and development project is completed or abandoned.

SeaChange develops software for resale in markets that are subject to rapid technological change, new product development and changing customer needs. The time period during which software development costs can be capitalized from the point of reaching technological feasibility until the time of general product release is very short, and consequently, the amounts that could be capitalized are not material to the Company's financial position or results of operations. Software development costs relating to sales of software requiring significant modification or customization are charged to costs of product revenues.

Amortization expense of capitalized software is recorded over the period of economic consumption or the life of the agreement, whichever results in the higher expense, starting with the first shipment of the product to a customer. Amortization expense of capitalized software was \$8,000 and \$5,000 for the fiscal years ended January 31, 2011 and 2010, respectively.

*Accounting for Income Taxes.* As part of the process of preparing our financial statements, we are required to estimate our provision for income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. We evaluate the weight of all available evidence to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. We will record a valuation allowance if the likelihood of realization of the deferred tax assets in the future is reduced based on an evaluation of objective verifiable evidence. Significant management judgment is required in determining our income tax provision, our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. We have established a valuation allowance against our United States deferred tax assets due to indications that they may not be fully realized. The amount of the deferred tax asset considered realizable is subject to change based on future events, including generating sufficient pre-tax income in future periods. In the event that actual results differ from these estimates, our provision for income taxes could be materially impacted. SeaChange does not provide for U.S. federal and state income taxes on the undistributed earnings of its non-U.S. subsidiaries that are considered indefinitely reinvested in the operations outside the U.S.

Authoritative guidance as it relates to income tax liabilities states that the minimum threshold a tax position is required to meet before being recognized in the financial statements is "more likely than not" (i.e., a likelihood of occurrence greater than fifty percent). The recognition threshold is met when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by the relevant taxing authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. Derecognition of a tax position that was previously recognized occurs when an entity subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained.

We file annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes reflect the most likely outcome. We adjust these reserves as well as the related interest and penalties, in light of changing facts and circumstances. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. The changes in estimate could have a material impact on our financial position and operating results. In addition, settlement of any particular position could have a material and adverse effect on our cash flows and financial position.

*Share-based Compensation.* We account for all employee and non-employee director stock-based compensation awards using the authoritative guidance regarding share based payments. We have continued to use the Black-Scholes pricing model as the most appropriate method for determining the estimated fair value of all applicable awards. Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. Management estimated the volatility based on the historical volatility of our stock. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates

involve inherent uncertainties and the application of management's judgment. As a result, if circumstances change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what we have recorded in the current period. The estimated fair value of our stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the restricted stock units are amortized on a straight line basis.

*Restructuring.* During fiscal 2011, we recorded restructuring charges primarily related to the Servers and Storage segment consisting of employee severance, write down of inventory, and the disposal of fixed assets. Restructuring charges represent our best estimate of the associated liability at the date the charges are recognized. Adjustments for changes in assumptions are recorded as a component of operating expenses in the period they become known. Differences between actual and expected charges and changes in assumptions could have a material effect on our restructuring accrual as well as our consolidated results of operations.

*Foreign Currency Translation.* For subsidiaries where the U.S. dollar is designated as the functional currency of the entity, we translate that entity's monetary assets and liabilities denominated in local currencies into U.S. dollars (the functional and reporting currency) at current exchange rates, as of each balance sheet date. Non-monetary assets (e.g., inventories, property, plant, and equipment and intangible assets) and related income statement accounts (e.g., cost of sales, depreciation, amortization of intangible assets) are translated at historical exchange rates between the functional currency (the U.S. dollar) and the local currency. Revenue and other expense items are translated using average exchange rates during the fiscal period. Translation adjustments and transaction gains and losses on foreign currency transactions, and any unrealized gains and losses on short-term inter-company transactions are included in other income or expense, net.

For subsidiaries where the local currency is designated as the functional currency, we translate the subsidiaries' assets and liabilities into U.S. dollars (the reporting currency) at current exchange rates as of each balance sheet date. Revenue and expense items are translated using average exchange rates during the period. Cumulative translation adjustments are presented as a separate component of stockholders' equity. Exchange gains and losses on foreign currency transactions and unrealized gains and losses on short-term inter-company transactions are included in other income or expense, net.

The aggregate foreign exchange transaction losses included as other expense, net on the Consolidated Statement of Operations were \$1.1 million, \$572,000 and \$951,000 for the years ended January 31, 2011, 2010 and 2009, respectively.

## Fiscal Year Ended January 31, 2011 Compared to the Fiscal Year Ended January 31, 2010

The following table sets forth summarized consolidated financial information for each of the two fiscal years ended January 31, 2011 and 2010.

	Year Ended January 31,	
	2011	2010
	(in thousands)	
Revenues:		
Products .....	\$ 91,679	\$ 101,941
Services .....	125,048	99,724
Total revenues .....	<u>216,727</u>	<u>201,665</u>
Costs and expenses:		
Cost of product revenues .....	35,527	38,961
Cost of service revenues .....	72,451	59,451
Research and development .....	48,403	50,664
Selling and marketing .....	24,506	25,842
General and administrative .....	24,328	21,719
Amortization of intangibles .....	3,359	2,826
Restructuring .....	6,997	-
Income from operations .....	<u>1,156</u>	<u>2,202</u>
Other (expense) income, net .....	(1,182)	145
Gain on sale of investment in affiliates .....	27,071	-
Income before income taxes and equity income in earnings of affiliates .....	<u>27,045</u>	<u>2,347</u>
Income tax (benefit) expense .....	(2,338)	371
Equity gain (loss) in earnings of affiliates, net of tax .....	85	(653)
Net income .....	<u>\$ 29,468</u>	<u>\$ 1,323</u>

### Revenues

The following table summarizes information about the Company's reportable segments for each of the two fiscal years ended January 31, 2011 and 2010.

	Fiscal Year Ended January 31,		
	2011	2010	%
	(in thousands, except for percentage data)		
Software revenues:			
Products .....	\$ 73,626	\$ 66,968	10%
Services .....	82,984	64,346	29%
Total Software revenues .....	<u>\$ 156,610</u>	<u>\$ 131,314</u>	<u>19%</u>
Servers and Storage revenues:			
Products .....	\$ 18,053	\$ 34,974	(48%)
Services .....	14,033	15,583	(10%)
Total Servers and Storage revenues .....	<u>\$ 32,086</u>	<u>\$ 50,557</u>	<u>(37%)</u>
Media Services Revenue:			
Services .....	\$ 28,031	\$ 19,794	42%
Total consolidated revenue:			
Products .....	\$ 91,679	\$ 101,942	(10%)
Services .....	125,048	99,723	25%
Total consolidated revenues .....	<u>\$ 216,727</u>	<u>\$ 201,665</u>	<u>7%</u>

*Product Revenue.* Product revenue decreased 10% to \$91.7 million in the fiscal year ended January 31, 2011 from \$101.9 million in the fiscal year ended January 31, 2010. Product revenues from the Software segment accounted for 80% and 66% of the total product revenues in the years ended January 31, 2011 and 2010, respectively. The Servers and Storage segment accounted for 20% and 34% of total product revenues in the fiscal years ended January 31, 2011 and 2010, respectively. The year over year decrease in Product revenues was due to lower VOD software license revenues and lower shipments of VOD servers to North American and Latin American service providers. The lower VOD Software licenses revenues was due to the Comcast software subscription agreement extension classification as services revenues for the period of February 2010 through May 2010. Unlike in prior periods, where software subscription agreements with Comcast provided for specified enhancements and therefore were classified as product revenues, the agreement extensions contained no specified enhancements. The new software subscription agreement signed with Comcast during the second quarter of fiscal 2011 was accounted for on a percentage of completion basis and was recorded as product revenues starting on May 21, 2010 since the new subscription agreement provides for specific enhancements. These decreases were partially offset by the inclusion of VividLogic product revenues and the inclusion of eventIS for a full year of revenues, while fiscal 2010 included only five months of eventIS revenues

*Service Revenue.* Service revenues increased 25% to \$125.0 million in the fiscal year ended January 31, 2011 from \$99.7 million in the fiscal year ended January 31, 2010. Service revenue for the Software segment accounted for 67% and 65% of the total services revenue in the fiscal years ended January 31, 2011 and 2010, respectively. Servers and Storage services revenue accounted for 11% and 16% of total services revenue in the fiscal year ended January 31, 2011 and 2010, respectively, while Media Services revenue accounted for 22% and 19% of total services revenue for the fiscal years ended January 31, 2011 and 2010, respectively. The increase in Service revenues year over year was due to increased revenues from Media Services resulting from recent contract wins late in the third quarter of fiscal 2010, and the inclusion of a full year of service revenues from our recent acquisitions of eventIS and VividLogic. In addition, fiscal 2011 service revenues included \$4.6 million of maintenance revenues resulting from a deactivation of VOD software and equipment by a U.S customer. The higher year over year service revenues also included the Comcast software subscription agreement extension which was classified as services revenues for the period of February 2010 through May 2010, as noted above. These increases were partially offset by lower Broadcast product maintenance and lower VOD professional services revenue due to lower VOD server revenues.

For the fiscal year ended January 31, 2011 and 2010, two customers each accounted for more than 10%, and collectively accounted for 34% and 39%, respectively, of our total revenues. Revenues from these customers were primarily in the Software and Servers and Storage segment. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers.

International products and services revenues accounted for approximately 48% or \$103.7 million and 35% or \$71.6 million of total revenues in the fiscal years ended January 31, 2011 and 2010, respectively. We expect that international products and services revenues will remain a significant portion of our business in the future. A majority of our international sales are made in United States dollars (USD), and for the fiscal years 2011 and 2010, approximately 58% and 67%, respectively, of international revenues were transacted in USD.

*Software Revenue.* Revenues from our software segment increased 19% to \$156.6 million in the fiscal year ended January 31, 2011 from \$131.3 million in the fiscal year ended January 31, 2010. The year over year increase in software product revenues was primarily due to higher software licensing revenue from our Broadcast software products primarily from a large North American customer, and the inclusion of eventIS and VividLogic. The previous year only included five months of eventIS revenues.

The 29% increase in service revenue for the Software segment was primarily due to the Comcast software subscription agreement, which was accounted for as services revenues, as noted above, and the inclusion of service revenues from the recent acquisitions of eventIS and VividLogic. The previous year only included five months of eventIS revenues. The increase also includes \$4.6 million of deferred maintenance revenue that was recognized in the fourth quarter of the fiscal year ended January 31, 2011 as a result of the deactivation of VOD equipment by a U.S customer.

*Servers and Storage Revenue.* Revenues from the Server and Storage segment decreased 37% to \$32.1 million for the fiscal year ended January 31, 2011 from \$50.6 for the fiscal year ended January 31, 2010. The decrease in servers and storage product revenues of 48% compared to the previous year was due primarily to decreased shipments of VOD servers compared to fiscal 2010, which included large shipments of VOD servers to two large North American customers. This decrease was partially offset by a large shipment of Broadcast servers to a customer in North America.

*Media Services Revenue.* Revenues from Media Services increased 42% to \$28.0 million in the year ended January 31, 2011 compared to \$19.8 million for the year ended January 31, 2010. The increase in revenue was due primarily to contract wins in Dubai and France in the fourth quarter of last year and increased content processing revenues from customers in Greece and Turkey.

*Product Gross Profit.* Costs of product revenues consist primarily of the cost of purchased material components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses, and labor and overhead costs related to software development contracts. The gross profit percentage for products decreased from 62% in the fiscal year ended January 31, 2010 to 61% in the fiscal year ended January 31, 2011. The year over year decrease in product gross profit percentages was due primarily to lower VOD software product margins.

*Services Gross Profit.* Cost of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support, software development, project management and costs associated with providing media services. The service gross profit percentage increased two points year over year due primarily to the inclusion of the Comcast software subscription agreement, extensions which carry higher margins than typical service revenues, and the maintenance revenues resulting from the deactivation of the VOD equipment noted above.

*Software Gross Profit.* Software segment gross margin was 56% and 61% in the years ended January 31, 2011 and 2010, respectively. The decrease in product gross profit percentages between years was primarily due to lower than normal margins for our VOD software products resulting from a significant product shipment during this year's first quarter resulting in a competitor displacement at a large North American customer and lower software subscription margins, partially offset by higher VividLogic product margins.

*Servers and Storage Gross Profit.* Servers and Storage segment gross margin of 50% in the year ended January 31, 2011 was ten points higher than in the year ended January 31, 2010 due to a more favorable mix of higher margin VOD server revenue as fiscal 2010 included a large shipment of low margin VOD servers to a large U.S customer.

*Media Services Gross Profit.* Media Services segment gross margin of 18% in the year ended January 31, 2011 was one point higher than in the year ended January 31, 2010 due to cost savings related to bringing in-house all content processing that was completed in the second half of last year offset by higher startup costs associated with new contract wins in South Africa and Serbia in the second half of fiscal 2011.

*Research and Development.* Research and development expenses consist primarily of the compensation of development personnel, depreciation of development and test equipment and an allocation of related facilities expenses. Research and development expenses were 22% and 25% of total revenues for the fiscal year ended January 31, 2011 and 2010, respectively, and decreased \$2.3 million from \$50.7 million to \$48.4 million year over year. The decrease year over year is primarily due to lower domestic headcount-related costs resulting from the second and third quarter restructuring offset by the inclusion of a full year of eventIS costs and increased Philippine headcount costs.

*Selling and Marketing.* Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses decreased 5% from \$25.8 million or 13% of total revenues in the fiscal year ended January 31, 2010 to \$24.5 million, or 11% of total revenues, in the fiscal year ended January 31, 2011. This decrease in total expenses is primarily due to lower headcount related costs offset by the inclusion of a full year of eventIS costs.

*General and Administrative.* General and administrative expenses consist primarily of the compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. In the fiscal year ended January 31, 2011, general and administrative expenses of \$24.3 million, or 11% of total revenues, increased 12% from \$21.7 million, or 11% of total revenues, in the fiscal year ended January 31, 2010. General and administrative expenses increased primarily due to transaction costs related to the VividLogic acquisition and higher legal and professional fees that were partially offset by lower corporate headcount-related costs.

*Restructuring.* During fiscal 2011, the Company initiated actions to lower its cost structure as it strives to improve its financial performance. For the year ended January 31, 2011, restructuring charges totaled \$7.0 million included severance costs for the termination of approximately 110 employees, a write down of inventory of \$2.5 million related to the decision to discontinue certain products within the Servers and Storage segment, and a \$1.3 million charge for the disposal of fixed assets as a direct result of the restructuring plan.



*Amortization of Intangibles.* Amortization expense consists of the amortization of acquired intangible assets which are operating expenses and not considered costs of revenues. Amortization of intangible assets increased from \$2.8 million in the fiscal year ended January 31, 2010 to \$3.4 million in the fiscal year ended January 31, 2011 which included a full year's impact of amortization expense for our eventIS and VividLogic intangible assets. Amortization is also based on the future economic value of the related intangible assets which is generally higher in the earlier years of the assets' lives.

An additional \$2.0 million and \$638,000 of amortization expense related to acquired technology was charged to cost of sales for the years ended January 31, 2011 and 2010, respectively.

*Other income (expense).* The table below provides detail regarding our other income (expense):

	Fiscal Year ended January 31,	
	2011	2010
	(in thousands)	
Interest income	\$ 307	\$ 763
Interest expense	(472)	(156)
Foreign exchange (loss)	(1,138)	(572)
Acquisition related expenses	(330)	-
Miscellaneous income	451	110
	<u>\$ (1,182)</u>	<u>\$ 145</u>

*Interest.* The decrease in interest income is primarily due to the lower prevailing interest rates earned on our marketable securities. Interest expense includes the change in present value for acquisition related contingencies. The increase in interest expense is due to a full year impact of changes in present value of acquisition-related contingencies for eventIS and VividLogic in fiscal 2011 compared to fiscal 2010.

*Foreign exchange (loss).* The increase in foreign exchange losses was a result of the change in rates between the USD and foreign currencies during fiscal 2011 compared to fiscal 2010. In light of the high proportion of our international businesses, we expect that the risk of any adverse movements in foreign currency exchange rates could have an impact on our results within the Consolidated Statements of Operations.

*Acquisition related expenses.* Acquisition related expenses included \$1.1 million in expense resulting from the write-off of the indemnification asset resulting from the settlement of the California tax audit related to the VividLogic acquisition, an \$870,000 gain resulting from an adjustment to acquisition related intangible assets for which the measurement period had ended and changes to the contingent consideration for earn-outs to the former shareholders of eventIS and VividLogic.

*Gain from sale of investment in affiliates:* Reflects the gain on the sale of the entire equity investments in Casa Systems of \$25.2 million and InSite One of \$1.9 million.

*Equity Income (Loss) in Earnings of Affiliates.* Equity income in earnings of affiliates was \$85,000 in the fiscal year ended January 31, 2011 compared with \$653,000 in equity loss in earnings of affiliates for fiscal year-ended January 31, 2010. The equity income (loss) in earnings of affiliates consists of our 50% ownership share of On Demand Deutschland GmbH & Co. KG, our German joint venture, under the equity method of accounting.

*Income Tax Provision.* Our effective tax rate for fiscal 2011 was a benefit of 9% and \$2.3 million compared to an effective tax rate expense of 16% and \$371,000 for the fiscal year ended January 31, 2010. The income tax benefit for fiscal 2011 was primarily due to a reduction of a portion of the valuation allowance against the Company's deferred tax assets due to the Company having met the "more likely than not" realization criteria on its U.S. deferred tax assets resulting from the gain related to the Company's equity investment in Casa Systems, Inc and the benefit of the reduction in deferred tax assets associated with the deferred tax liabilities from the acquisition of VividLogic. Previously, the Company maintained a full valuation allowance and will continue to monitor available information in determining whether there is sufficient evidence to consider releasing some or all of the remaining valuation allowance. The Company also recognized \$300,000 of tax benefits resulting from the expiration of the statute of limitations for uncertain tax

positions and \$1.0 million of tax benefits resulting from the settlement of a California audit by the former shareholders of VividLogic. The statute of limitations varies by the various jurisdictions in which we operate. In any given year, the statute of limitations in certain jurisdictions may lapse without examination and any uncertain tax position taken in these years will result in a reduction of the liability for unrecognized tax benefits for that year. In addition, our subsidiary in the U.K recorded a tax benefit of \$540,000, resulting from a successful claim with the U.K. tax authorities for previously paid taxes from the transfer of intangible assets from the U.K to our German joint venture.

These tax benefits were offset by the tax expense resulting from the gain on the sale of Casa Systems, Inc and InSite One, Inc., and tax expense resulting from our profitable operations in foreign tax jurisdictions.

We will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. If we determine that we can realize some portion or all of the net deferred tax assets, the valuation allowance would be reversed and a corresponding increase in net income would be recognized during the period.

In conjunction with the purchase price allocation for the acquisition of VividLogic, we recorded a liability for uncertain tax position in the amount of \$1.2 million. The Company has reached a settlement with the State of California regarding the previously disclosed state tax audit and has recorded a corresponding tax benefit of \$1.0 million. In connection with the settlement of this matter, a \$1.1 million indemnification asset was also written-off and recorded in other (income) expenses, net in the Statement of Operations.

## Fiscal Year Ended January 31, 2010 Compared to the Fiscal Year Ended January 31, 2009

The following table sets forth summarized consolidated financial information for each of the two fiscal years ended January 31, 2010 and 2009.

	Year Ended January 31,	
	2010	2009
	(in thousands)	
Revenues:		
Products .....	\$ 101,941	\$ 117,372
Services .....	99,724	84,464
Total revenues .....	<u>201,665</u>	<u>201,836</u>
Costs and expenses:		
Cost of product revenues .....	38,961	46,533
Cost of service revenues .....	59,451	52,007
Research and development .....	50,664	43,042
Selling and marketing .....	25,842	27,506
General and administrative .....	21,719	20,979
Amortization of intangibles .....	<u>2,826</u>	<u>1,575</u>
Income from operations	2,202	10,194
Other income, net	<u>145</u>	<u>1,125</u>
Income before income taxes and equity income in earnings of affiliates	2,347	11,319
Income tax expense .....	371	575
Equity loss in earnings of affiliates, net of tax .....	<u>(653)</u>	<u>(770)</u>
Net income .....	<u>\$ 1,323</u>	<u>\$ 9,974</u>

## Revenues

The following table summarizes information about the Company's reportable segments for each of the two fiscal years ended January 31, 2010 and 2009.

	Fiscal Year Ended		
	January 31,		
	2010	2009	%
	(in thousands, except for percentage data)		
Software revenues:			
Products.....	\$ 66,968	\$ 78,397	(15%)
Services.....	64,346	53,840	20%
Total Software revenues .....	<u>\$ 131,314</u>	<u>\$ 132,237</u>	<u>(1%)</u>
Servers and Storage revenues:			
Products.....	\$ 34,974	\$ 38,975	(10%)
Services.....	15,583	14,665	6%
Total Servers and Storage revenues .....	<u>\$ 50,557</u>	<u>\$ 53,640</u>	<u>(6%)</u>
Media Services Revenue:			
Services.....	\$ 19,794	\$ 15,959	24%
Total consolidated revenue:			
Products.....	\$ 101,942	\$ 117,372	(13%)
Services.....	99,723	84,464	18%
Total consolidated revenues .....	<u>\$ 201,665</u>	<u>\$ 201,836</u>	<u>0%</u>

*Product Revenue.* Product revenue decreased 13% to \$101.9 million in the fiscal year ended January 31, 2010 from \$117.4 million in the fiscal year ended January 31, 2009. Product revenues from the Software segment accounted for 66% and 67% of the total product revenues in the years ended January 31, 2010 and 2009, respectively. The Servers and Storage segment accounted for 34% and 33% of total product revenues in the fiscal years ended January 31, 2010 and 2009, respectively. The decrease in product revenues between years is primarily due to lower Advertising Insertion and Broadcast product revenues which was attributable to weaker advertising revenues for our customers resulting in reduced capital spending for these products.

*Service Revenue.* Service revenues increased 18% to \$99.7 million in the fiscal year ended January 31, 2010 from \$84.5 million in the fiscal year ended January 31, 2009. Service revenue for the Software segment accounted for 65% and 64% of the total services revenue in the fiscal years ended January 31, 2010 and 2009, respectively. Servers and Storage services revenue accounted for 16% and 17% of total services revenue in the fiscal year ended January 31, 2010 and 2009, respectively, while Media Services revenue accounted for 19% of total services revenue for the fiscal years ended January 31, 2010 and 2009. The increase in Services revenues was primarily in our Software segment and was due to increased VOD support maintenance and professional services and the inclusion of five months of eventIS for fiscal 2010, and is also due to higher contract revenues in our Media Services segment.

For the fiscal year ended January 31, 2010 and 2009, two customers each accounted for more than 10%, and collectively accounted for 39% and 43%, respectively, of our total revenues. Revenues from these customers were primarily in the Software and Servers and Storage segment.

International products and services revenues accounted for approximately 35% or \$71.6 million and 36% or \$72.7 million of total revenues in the fiscal years ended January 31, 2010 and 2009, respectively. A majority of our international sales are made in United States dollars (USD), and for the fiscal years 2010 and 2009, approximately 67% and 78%, of international revenues were transacted in USD.

*Software Revenue.* Revenues from our software segment decreased 1% to \$131.3 million in the fiscal year ended January 31, 2010 from \$132.2 million in the fiscal year ended January 31, 2009. The year over year decline in software product revenues was primarily due to significantly lower software licensing revenue from our Advertising Insertion products and our Broadcast software products due to the unfavorable advertising environment for our customers for those products as noted above. In addition, there were also two large nonrecurring orders during our fiscal 2009 for our

VODlink and VOD hospitality software products. These decreases were partially offset by higher software licensing revenues of Axiom and higher VOD subscription revenue primarily from two large U.S. customers. In addition we had higher shipments of our VOD AdPulse software products primarily to Virgin Media.

The 20% increase in service revenue for the Software segment was primarily due to higher VOD product maintenance revenues from a growing installed base of products, higher VOD software installation revenues and the inclusion of five months of eventIS for fiscal 2010.

*Servers and Storage Revenue.* Revenues from the Server and Storage segment decreased 6% to \$50.6 million for the fiscal year ended January 31, 2010 from \$53.6 for the fiscal year ended January 31, 2009. The decrease in servers and storage product revenues of 10% compared to the previous year was due primarily to lower order driven Broadcast server revenue partially offset by higher increased shipments of VOD servers primarily to two large U.S. service providers, a large customer in Latin America and several customers in China. The 6% year over year increase in services revenue in the Servers and Storage segment is due to increased installation revenue for VOD server products year over year.

*Media Services Revenue.* Revenues from Media Services increased 24% to \$19.8 million in the year ended January 31, 2010 compared to the year ended January 31, 2009. The increase in revenue was due primarily to a full year's impact of revenue from customers in Greece and Turkey for which we began to recognize revenue late in fiscal year 2009 and the recent contract wins during fiscal year with customers in France, Dubai and Cyprus.

*Product Gross Profit.* The gross profit percentage for products increased from 60% in the fiscal year ended January 31, 2009 to 62% in the fiscal year ended January 31, 2010. The year over year increase in product gross profit percentages between years was due mainly to higher margin VOD software products accounting for a greater portion of total product revenues combined with lower Broadcast server products revenues, which typically carry lower margins.

*Services Gross Profit.* The service gross profit percentage increased 2% year over year due primarily to the inclusion of eventIS for five months of fiscal 2010.

*Software Gross Profit.* Software segment gross margin was 61% and 58% in the years ended January 31, 2010 and 2009, respectively. The increase in product gross profit percentages between years is due mainly to a more favorable product mix of higher margin VOD software products and higher Software services maintenance revenue year over year with comparable headcount-related costs.

*Servers and Storage Gross Profit.* Servers and Storage segment gross margin of 40% in the year ended January 31, 2010 was six points lower than in the year ended January 31, 2009 due to increased shipments of lower margin VOD servers due to lower product pricing for a large U.S. customer and lower service margins as a result of higher VOD server headcount-related costs to service the larger installed base of products.

*Media Services Gross Profit.* Media Services segment gross margin of 17% in the year ended January 31, 2010 was two points higher than in the year ended January 31, 2009 due principally to absorbing all content processing in-house that was previously provided by a third party. This occurred during our second and third quarters of fiscal 2010.

*Research and Development.* Research and development expenses were 25% and 21% of total revenues for fiscal year ended January 31, 2010 and 2009, respectively, and increased \$7.6 million year over year. The increase year over year is primarily due to increased headcount costs related to the VOD and TV Navigator product lines, increased facilities-related expenses and five months of eventIS for fiscal 2010.

*Selling and Marketing.* Selling and marketing expenses decreased 6% from \$27.5 million or 14% of total revenues in the fiscal year ended January 31, 2009 to \$25.8 million, or 13% of total revenues, in the fiscal year ended January 31, 2010. This decrease in total expenses is primarily due to lower compensation and benefits of \$1.3 million, \$800,000 of lower external commission and \$300,000 in travel offset by the inclusion of five months of eventIS in fiscal 2010.

*General and Administrative.* In the fiscal year ended January 31, 2010, general and administrative expenses of \$21.7 million, or 11% of total revenues, increased 4% from \$21.0 million, or 10% of total revenues, in the fiscal year ended January 31, 2009. General and administrative expenses increased primarily due to acquisition-related costs of \$1.4 million and professional fees of \$400,000 offset by lower compensation expense and benefits of \$400,000 and bad debt expense of \$700,000.

*Amortization of Intangibles.* Amortization of intangible assets increased from \$1.6 million in the fiscal year ended January 31, 2009 to \$2.8 million in the fiscal year ended January 31, 2010 which included a full years impact of amortization expense for our Mobix intangible assets which were acquired in November 2008, and five months of amortization expense of eventIS intangible assets which were acquired on September 1, 2009. Amortization is also based on the future economic value of the related intangible assets which is generally higher in the earlier years of the assets' lives.

An additional \$638,000 and \$350,000 of amortization expense related to acquired technology was charged to cost of sales for the years ended January 31, 2010 and 2009, respectively.

*Other income (expense).* The table below provides detail regarding our other income (expense):

	Fiscal Year ended	
	January 31,	
	2010	2009
	(in thousands)	
Interest income	\$ 763	\$ 2,107
Interest expense	(156)	(57)
Foreign exchange (loss)	(572)	(951)
Miscellaneous income	110	26
	<u>\$ 145</u>	<u>\$ 1,125</u>

*Interest Income.* Interest income, net was \$600,000 in the fiscal year ended January 31, 2010 and \$2.1 million in the fiscal year ended January 31, 2009. The decrease in interest income is primarily due to the lower cash balance in fiscal 2010 compared to fiscal 2009 due to our acquisitions of eventIS and Mobix, the purchase of our London facility and lower prevailing interest rates earned on our marketable securities.

*Foreign exchange (loss).* The decrease in foreign exchange losses was a result of the change in rates between the USD and foreign currencies during fiscal 2010 compared to fiscal 2009.

*Equity Income (Loss) in Earnings of Affiliates.* Equity loss in earnings of affiliates was \$653,000 in the fiscal year ended January 31, 2010 compared with \$770,000 in equity loss in earnings of affiliates for fiscal year ended January 31, 2009. The equity loss in earnings of affiliates consists of our 50% ownership share of On Demand Deutschland GmbH & Co. KG, our German joint venture, under the equity method of accounting.

*Income Tax Provision.* Our effective tax rate and income tax provision for fiscal 2010 was 16% and \$371,000 compared to an effective tax rate of 5% and \$600,000 for the fiscal year ended January 31, 2009. The difference between the underlying effective tax rate for the year ended January 31, 2010 and the federal statutory rate of 35% is primarily due to income tax expense on foreign source pre-tax income generated at our international subsidiaries which carry lower tax rates. In addition, the Company tax rate decreased in the U.S based on the benefit of releasing a portion of the valuation for the utilization of foreign tax credits and Federal research and development credits.

At January 31, 2010 and 2009, we provided a valuation allowance for the full amount of U.S. net deferred tax assets due to the uncertainty of realization of those assets.

## Non GAAP Measures

As part of our ongoing review of financial information related to our business, we regularly use non-GAAP measures, in particular adjusted non-GAAP earnings per share, as we believe they provide a meaningful insight into our business and trends. We also believe that these adjusted non-GAAP measures provide readers of our financial statements with useful information and insight with respect to the results of our business. However, the presentation of adjusted non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. Below are tables for fiscal 2011, 2010 and 2009 which detail and reconcile GAAP and adjusted non-GAAP earnings per share:

SeaChange International, Inc.  
Reconciliation of Selected GAAP Measures to Non-GAAP Measures - Unaudited  
(in thousands)

	Twelve months Ended January 31, 2011			Twelve months Ended January 31, 2010			Twelve months Ended January 31, 2009		
	GAAP	Adjustment	Non-GAAP	GAAP	Adjustment	Non-GAAP	GAAP	Adjustment	Non-GAAP
<b>Revenues</b>	\$ 216,727		\$ 216,727	\$ 201,665	\$ -	\$ 201,665	\$ 201,836	\$ -	\$ 201,836
Deferred revenue-acquisition related	-	3,876	3,876	-	1,807	1,807	-	-	-
Deferred revenue-maintenance acceleration	-	(4,559)	(4,559)	-	-	-	-	-	-
	<u>216,727</u>	<u>(683)</u>	<u>216,044</u>	<u>201,665</u>	<u>1,807</u>	<u>203,472</u>	<u>201,836</u>	<u>-</u>	<u>201,836</u>
<b>Operating expenses:</b>	107,593		107,593	101,051	-	101,051	93,102	-	93,102
Stock-based compensation	-	2,957	2,957	-	3,105	3,105	-	3,954	3,954
Amortization of intangible assets	-	5,345	5,345	-	3,465	3,465	-	2,025	2,025
Restructuring	-	6,997	6,997	-	-	-	-	-	-
Acquisition related costs	-	831	831	-	1,413	1,413	-	-	-
	<u>107,593</u>	<u>16,130</u>	<u>91,463</u>	<u>101,051</u>	<u>7,983</u>	<u>93,068</u>	<u>93,102</u>	<u>5,979</u>	<u>87,123</u>
<b>Income from operations</b>	1,156	15,447	16,603	2,202	9,790	11,992	10,194	5,979	16,173
Other expenses, net	1,182	738	444	-	-	-	-	-	-
Income from sale of investment in affiliates	27,071	(27,071)	-	-	-	-	-	-	-
Income tax impact expense (benefit)	(2,338)	4,865	2,527	371	3,106	3,477	575	2,073	2,648
<b>Net income</b>	<u>\$ 29,468</u>	<u>\$ (15,751)</u>	<u>\$ 13,717</u>	<u>\$ 1,323</u>	<u>\$ 6,684</u>	<u>\$ 8,007</u>	<u>\$ 9,974</u>	<u>\$ 3,906</u>	<u>\$ 13,880</u>
Diluted income per share	<u>\$ 0.92</u>	<u>\$ (0.49)</u>	<u>\$ 0.43</u>	<u>\$ 0.04</u>	<u>\$ 0.21</u>	<u>\$ 0.25</u>	<u>\$ 0.32</u>	<u>\$ 0.12</u>	<u>\$ 0.44</u>
Diluted weighted average common shares outstanding	31,986	31,986	31,986	31,433	31,433	31,433	31,192	31,192	31,192

In managing and reviewing our business performance, we exclude a number of items required by GAAP. Management believes that excluding these items mentioned below is useful in understanding trends and managing our operations. We believe it is useful for investors to understand the effects of these items on our total operating expenses.

*Deferred revenue acquisition related:* Business combination accounting rules require us to account for the fair value of customer contracts assumed in connection with our acquisitions. In connection with our acquisitions of eventIS Group B.V. on September 1, 2009 and VividLogic Inc. on February 1, 2010, the book value of our deferred software revenue was reduced by approximately \$5.7 million in the adjustment to fair value. Because these customer contracts may take up to 18 months to complete, our GAAP revenues subsequent to these acquisitions do not reflect the full amount of software revenues on assumed customer contracts that would have otherwise been recorded by eventIS Group B.V. and VividLogic Inc. We believe this adjustment is useful to investors as a measure of the ongoing performance of our business because we have historically experienced high renewal rates on similar customer contracts, although we cannot be certain that customers will renew these contracts.

*Deferred revenue-maintenance acceleration:* Recognition of previously deferred maintenance revenue from customer termination notice.

*Stock-based compensation expenses:* We have excluded the effect of stock-based compensation and stock-based payroll expenses from our non-GAAP operating expenses and net income measures. Although stock-based compensation is a key incentive offered to our employees, we continue to evaluate our business performance excluding stock-based compensation expenses. Stock-based compensation expenses will recur in future periods.

*Amortization of intangible assets:* We have excluded the effect of amortization of intangible assets from our non-GAAP operating expenses and net income measures. Amortization of intangibles is inconsistent in amount and frequency and is significantly affected by the timing and size of our acquisitions.

*Restructuring:* We incurred charges due to the restructuring of our business including severance charges, write down of inventory to net realizable value, and the disposal of fixed assets resulting from the restructuring, which we generally would not have otherwise incurred in the periods presented as part of our continuing operations.

*Acquisition related:* We incurred expenses in connection with our acquisition of eventIS Group B.V. and VividLogic Inc. during fiscal 2010 and 2011 which would not have otherwise occurred in the periods presented as part of our operating expenses.

*Other expense, nets:* Other expenses, net include adjustments to acquisition-related items that are required to be marked to fair value each reporting period, other items related to acquisitions for which the measurement period has ended, and settlement of indemnification assets.

*Gain from sale of investment in affiliates:* Reflects the gain on the sale of the entire equity investments in Casa Systems and InSite One.

*Income tax impact expense:* The non-GAAP income tax adjustment reflects the effective income tax rate used during the periods presented

### **Liquidity and Capital Resources**

Historically, we have financed our operations and capital expenditures primarily with the proceeds from sales of our common stock and cash flows generated from operations. During fiscal 2011, cash and marketable securities increased by \$37.7 million from \$48.5 million at January 31, 2010 to \$86.2 million at January 31, 2011, largely due to the sale of our entire equity investment in Casa Systems, Inc. and by cash provided by operations. Working capital increased \$31.7 million to \$92.6 million at January 31, 2011 from \$60.9 million at January 31, 2010. We believe that existing funds combined with available borrowings under our revolving line of credit and cash provided by future operating activities are adequate to satisfy our working capital, potential acquisitions, capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months.

Our operating activities provided net cash of \$16.3 million. Cash provided by operating activities was the result of net income of \$29.5 million as well as non-cash charges of \$16.5 million which were primarily from depreciation and amortization of intangibles and stock-based based compensation. These amounts were partially offset by the gain on sale of investment in affiliates of \$27.1 million related to the Casa and InSite One divestitures.

Our investing activities provided \$18.1 million of cash primarily due to the proceeds from the Casa and InSite One divestitures of \$38.7 million offset by the acquisition payments related to eventIS and VividLogic of \$14.7 million, capital expenditures of \$3.8 million, and \$1.1 million of net sales and maturities of marketable securities during the fiscal year.

Our financing activities provided \$1.3 million primarily due to proceeds from the issuance of common stock for the exercise of employee stock options and the employee stock purchase plan of \$2.7 million which was partially offset by purchases of the Company's stock of \$1.4 million.

### **Debt Instruments and Related Covenants**

The Company maintains a revolving line of credit with RBS Citizens (a subsidiary of the Royal Bank of Scotland Group plc) for \$20.0 million which expires on October 31, 2012. Loans made under this revolving line of credit bear interest at a rate per annum equal to the bank's prime rate. Borrowings under this line of credit are collateralized by substantially all of our assets. The loan agreement requires SeaChange to comply with certain financial covenants. As of January 31, 2011, we were in compliance with the financial covenants and there were no amounts outstanding under the revolving line of credit.

### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.



## Contractual Obligations

The following table reflects our current and contingent contractual obligations to make potential future payments as of January 31, 2011 (in thousands):

	Total	Less than one year	One to three years	Three to five years	Over five years
		(in thousands)			
Purchase obligations	\$ 2,925	\$ 2,925	\$ -	\$ -	\$ -
Non-cancelable lease obligations	6,503	2,943	2,145	1,276	139
Studio content deals	12,304	5,907	6,397	-	-
Contingent consideration	14,410	3,179	11,231	-	-
Total	<u>\$ 36,142</u>	<u>\$ 14,954</u>	<u>\$ 19,773</u>	<u>\$ 1,276</u>	<u>\$ 139</u>

The purchase obligations include open, non-cancelable purchase commitments from our suppliers.

The Company has excluded from the table above uncertain tax liabilities as defined by authoritative guidance due to the uncertainty of the amount and period of payment. As of January 31, 2011, the Company has gross unrecognized tax benefits of \$7.3 million.

On February 27, 2007, ODG, a wholly-owned subsidiary of SeaChange, entered into an agreement with Tele-Munchen Fernseh GmbH & Co. Produktionsgesellschaft (TMG) to create a joint venture named On Demand Deutschland GmbH & Co. KG. The related Shareholder's Agreement requires ODG and TMG to provide cash contributions up to \$4.2 million upon the request of the joint venture's management and approval by the shareholders of the joint venture. To date, the Company has contributed \$1.6 million as required per the shareholders agreement.

Under the share purchase agreement with the former shareholder of eventIS on September 1, 2011 and 2012, the Company is obligated to make additional fixed payments, each in an aggregate amount of \$2.8 million with \$1.7 million payable in cash and \$1.1 million payable by the issuance of restricted shares of SeaChange common stock, which will vest in equal installments over three years starting on the first anniversary of the date of issuance. Under the earn-out provisions of the share purchase agreement a payment of \$340,000 for fiscal 2011 will be paid in the first quarter fiscal 2012. Additional earn-out payments may be earned over each of the next two years ended January 31, 2012 and 2013 if certain performance goals are met.

The Company is obligated to make fixed payments of \$1.0 million in cash on February 1, 2012 and 2013. In addition, under the share purchase agreement with the former shareholders of VividLogic the Company will make an earnout payment of \$257,000 in the first quarter of fiscal 2012. Additional earn-out payments may be earned over each of the next two years ended January 31, 2012 and 2013 if certain performance goals are met.

We are occasionally required to post letters of credit, issued by a financial institution, to secure certain sales contracts. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as we have satisfied the commitment secured by the letter of credit. We are obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. We believe that it is unlikely we will be required to fund a claim under our outstanding letters of credit. As of January 31, 2011, the full amount of the letters of credit of \$1.5 million was supported by our credit facility.

## Effects of Inflation

Our management believes that financial results have not been significantly impacted by inflation and price changes.

## Impact of Recently Adopted Accounting Guidance

### *Variable Interest Entities*

In June 2009, the Financial Accounting Standards Board ("FASB") issued an authoritative update to address the elimination of the concept of a qualifying special purpose entity and to replace the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity. Also, the new guidance requires an ongoing assessment of whether an entity is the primary beneficiary of a variable interest entity. The

amended approach focuses on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, the update provides more timely and useful information about an enterprise's involvement with a variable interest entity. The Company adopted this new guidance in the first quarter of fiscal year 2011. The adoption of this guidance did not have a material impact on our financial position or results of operations.

#### *Fair Value Measurements*

In January 2010, the FASB issued new guidance on the disclosures of fair value measurements. This new guidance amends the authoritative guidance for fair value measurements and disclosures by adding new disclosure requirements with respect to transfers in and out of Levels 1 and 2 fair value measurements, as well as by requiring gross basis disclosures for purchases, sales, issuances, and settlements included in the reconciliation of Level 3 fair value measurements. This new guidance also amends the authoritative guidance by providing clarifications to existing disclosure requirements. The new disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted this new guidance, including the guidance related to the disclosures about purchases, sales, issuances, and settlements in the roll forwards of activity in Level 3 fair value measurements, beginning in the first quarter of fiscal year 2011. The adoption of this guidance did not have a material impact on our financial position or results of operations.

#### *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*

In July 2010, the FASB issued guidance requiring improved disclosures about the credit quality of a company's financing receivables and their associated credit reserves. The amendments in the update require more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of the nature of an entity's credit risk associated with its financing receivables and the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The amendments in the update are effective for the first interim or annual reporting period ending on or after December 15, 2010. The Company adopted this new disclosure guidance for the period ended January 31, 2011. The adoption of this guidance did not have a material impact on our disclosures.

### **Recent Accounting Guidance Not Yet Effective**

#### *Revenue Recognition for Arrangements with Multiple Deliverables*

In September 2009, the FASB amended the guidance for revenue recognition in multiple-element arrangements. It has been amended to remove from the scope of industry specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product's essential functionality. The guidance now requires an entity to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; and allocates revenue in an arrangement using estimated selling prices of deliverables for these products if a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price. The guidance also eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method for these products. The accounting changes summarized are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company is currently assessing the impact of these amendments on its accounting and reporting systems and processes; however, at this time the Company is unable to quantify the impact of their adoption on its financial statements or determine the timing and method of its adoption.

### **ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk**

#### *Foreign Currency Exchange Risk*

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Our foreign currency exchange exposure is primarily associated with product sales

arrangements or settlement of intercompany payables and receivables among subsidiaries and its parent company, and/or investment/equity contingency considerations denominated in the local currency where the functional currency of the foreign subsidiary is the U.S. dollar.

Substantially all of our international product sales are payable in United States Dollars (USD) or in the case of our Media Services operations in the United Kingdom and eventIS in the Netherlands, payable in local currencies, providing a natural hedge for receipts and local payments. In light of the high proportion of our international businesses, we expect the risk of any adverse movements in foreign currency exchange rates could have an impact on our translated results within the Consolidated Statements of Operations. In addition, for the year ended January 31, 2011, the Company generated a foreign currency translation loss of \$1.1 million which was recorded as accumulated other comprehensive gain increasing the Company's equity section of the balance sheet over the prior year.

SeaChange does not enter into derivative financial instruments for trading purposes and does not currently have outstanding derivative financial instruments related to payment obligations of the company. While SeaChange does not anticipate that near-term changes in exchange rates will have a material impact on its operating results, financial position and liquidity, a sudden and significant change in the value of foreign currencies could harm the Company's operating results, financial position and liquidity.

The U.S. Dollar is the functional currency for a majority of our international subsidiaries. All foreign currency gains and losses are included in interest and other income, net, in the accompanying Consolidated Statements of Operations. In fiscal year 2011, the Company recorded approximately no gains or losses due to international subsidiary translations and \$1.1 million in losses due to cash settlements of revenues and expenses.

#### *Interest Rate Risk*

Exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio of marketable debt securities of various issuers, types and maturities and to SeaChange's borrowings under its bank line of credit facility. The Company does not use derivative instruments in its investment portfolio, and its investment portfolio only includes highly liquid instruments. Our cash and marketable securities include cash equivalents, which we consider to be investments purchased with original maturities of nine months or less. There is risk that losses could be incurred if the Company were to sell any of its securities prior to stated maturity. Given the short maturities and investment grade quality of the portfolio holdings at January 31, 2011, a sharp rise in interest rates should not have a material adverse impact on the fair value of our investment portfolio. Additionally, our long term marketable investments, which are carried at the lower of cost or market, have fixed interest rates, and therefore are subject to changes in fair value. At January 31, 2011, we had \$7.3 million in short-term marketable securities and \$4.4 million in long-term marketable securities.

### **ITEM 8. Financial Statements and Supplementary Data**

See the consolidated financial statements fields as part of this Annual Report on Form 10-K as listed under Item 15 below.

### **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **ITEM 9A. Controls and Procedures**

#### **(A) Evaluation of Disclosure Controls and Procedures**

We evaluated the effectiveness of our disclosure controls and procedures, as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 10-K. William C. Styslinger, III, our Chief Executive Officer, and Kevin M. Bisson, our Chief Financial Officer, participated in this evaluation. Based upon that evaluation, Messrs. Styslinger and Bisson concluded that our disclosure controls and procedures were effective as of the end of the period covered by the report.

## **(B) Report of Management on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of January 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment, management concluded that, as of January 31, 2011, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of January 31, 2011 has been audited by Grant Thornton LLP, our independent registered public accounting firm, as stated in their report which is included immediately below.

To the Board of Directors and Shareholders of SeaChange International, Inc.

We have audited SeaChange International, Inc. (a Delaware Corporation) and subsidiaries internal control over financial reporting as of January 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SeaChange International Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on SeaChange International, Inc. and subsidiaries' internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, SeaChange International, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of SeaChange International, Inc. and subsidiaries as of January 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended January 31, 2011 and our report dated April 14, 2011 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Boston, Massachusetts

April 14, 2011

### **(C) Changes in Internal Control over Financial Reporting**

As a result of the evaluation completed by management, and in which Messrs. Styslinger and Bisson participated, we have concluded that there were no changes during the fiscal quarter ended January 31, 2011 in our internal control over financial reporting, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. Other Information

None.

## PART III

### ITEM 10. Directors, Executive Officers and Corporate Governance

Information concerning the directors of SeaChange is hereby incorporated by reference from the information contained under the heading “Election of Directors” in SeaChange’s definitive proxy statement related to SeaChange’s Annual Meeting of Stockholders to be held on or about July 20, 2011 which will be filed with the Commission within 120 days after the close of the fiscal year (the “Definitive Proxy Statement”).

Certain information concerning directors and executive officers of SeaChange is hereby incorporated by reference to the information contained under the headings “Information Concerning Executive Officers”, and “Section 16(a) Beneficial Ownership Reporting Compliance”, “Availability of Corporate Governance Documents” and “Audit Committee” in our Definitive Proxy Statement.

### ITEM 11. Executive Compensation

Information concerning executive compensation is hereby incorporated by reference to the information contained under the headings “Compensation Discussion and Analysis” and “Compensation of Directors” in the Definitive Proxy Statement.

### ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management is hereby incorporated by reference to the information contained under the headings “Securities Ownership of Certain Beneficial Owners and Management” and “Compensation Discussion and Analysis” in the Definitive Proxy Statement.

#### Equity Compensation Plan Information

The following table provides information about the common stock that may be issued upon the exercise of options, warrants and rights under all of SeaChange’s existing equity compensation plans as of January 31, 2011, including the Amended and Restated 2005 Equity Compensation and Incentive Plan, the Amended and Restated 1995 Stock Option Plan, and the 1996 Non-Employee Director Stock Option Plan.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1) ...	2,745,254	\$ 12.31	603,719(2)

(1) Consists of the Amended and Restated 2005 Equity Compensation and Incentive Plan, the Amended and Restated 1995 Stock Option Plan, and the 1996 Non-Employee Director Stock Option Plan.

(2) As of January 31, 2011, there were 603,719 shares remaining available for issuance under the Amended and Restated 2005 Equity Compensation and Incentive Plan of which 87,995 RSUs are available.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

Information concerning certain relationships and related transactions is hereby incorporated by reference to the information contained under the heading “Certain Relationships and Related Transactions” and “Determination of Director Independence” in the Definitive Proxy Statement.

**ITEM 14. Principal Accountant Fees and Services**

Information concerning Principal accountant fees and services is hereby incorporated by reference to the information contained under the heading “Ratification of Appointment of Independent Registered Public Accounting Firm” in the Definitive Proxy Statement.

## **PART IV**

### **ITEM 15. Exhibits and Financial Statement Schedules.**

#### **(a)(1) INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The following Consolidated Financial Statements of the Registrant are filed as part of this Annual Report on Form 10-K:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm .....	58
Consolidated Balance Sheet as of January 31, 2011 and 2010 .....	59
Consolidated Statement of Operations for the years ended January 31, 2011, 2010 and 2009.....	60
Consolidated Statement of Stockholders' Equity and Comprehensive Income (Loss) for the years ended January 31, 2011, 2010 and 2009.....	61
Consolidated Statement of Cash Flows for the years ended January 31, 2011, 2010 and 2009 .....	62
Notes to Consolidated Financial Statements.....	63

#### **(a)(2) INDEX TO FINANCIAL STATEMENT SCHEDULE**

The following Financial Statement Schedule of the Registrant is filed as part of this report:

	<u>Page</u>
Schedule II—Valuation and Qualifying Accounts and Reserves .....	96

Schedules not listed above have been omitted because the information requested to be set forth therein is not applicable or is shown in the accompanying consolidated financial statements or notes thereto.

#### **(a)(3) INDEX TO EXHIBITS**

See attached Exhibit Index of this Annual Report on Form 10-K.

#### **(b) EXHIBITS**

The Company hereby files as part of this Form 10-K the Exhibits listed in Item 15 (a) (3) above. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission (the "Commission"), 450 Fifth Street, Room 1024, N.W., Washington, D.C. 20549. Copies of such material can also be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

#### **(c) FINANCIAL STATEMENT SCHEDULES**

The Company hereby files as part of this Form 10-K the consolidated financial statements schedule listed in Item 15 (a) (2) above, which is attached hereto.



## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, SeaChange International, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 14, 2011

### **SEACHANGE INTERNATIONAL, INC.**

By:           /s/          WILLIAM C. STYSLINGER, III          

**William C. Styslinger, III**

**Chief Executive Officer,**

**Chairman of the Board and Director**

## POWER OF ATTORNEY AND SIGNATURES

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William C. Styslinger, III and Kevin M. Bisson, jointly and severally, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

Signature	Title(s)	Date
<div style="text-align: center;"> /s/ WILLIAM C. STYSLINGER, III  <hr/> William C. Styslinger, III </div>	Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)	April 14, 2011
<div style="text-align: center;"> /s/ KEVIN M. BISSON  <hr/> Kevin M. Bisson </div>	Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary (Principal Financial and Accounting Officer)	April 14, 2011
<div style="text-align: center;"> /s/ MARY PALERMO COTTON  <hr/> Mary Palermo Cotton </div>	Director	April 14, 2011
<div style="text-align: center;"> /s/ THOMAS F. OLSON  <hr/> Thomas F. Olson </div>	Director	April 14, 2011
<div style="text-align: center;"> /s/ CARLO SALVATORI  <hr/> Carlo Salvatori </div>	Director	April 14, 2011
<div style="text-align: center;"> /s/ CARMINE VONA  <hr/> Carmine Vona </div>	Director	April 14, 2011
<div style="text-align: center;"> /s/ RAGHU RAU  <hr/> Raghu Rau </div>	Director	April 14, 2011
<div style="text-align: center;"> /s/ PETER FELD  <hr/> Peter Feld </div>	Director	April 14, 2011
<div style="text-align: center;"> /s/ EDWARD TERINO  <hr/> Edward Terino </div>	Director	April 14, 2011

## EXHIBIT INDEX

Exhibit No.	Description
2.1	Share Purchase Agreement relating to the sale and purchase of the whole issued and to be issued share capital of Mobix Interactive Capital, dated as of November 14, 2008, by and among On Demand Group Limited and the other parties set forth on the signature pages thereto (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K previously filed on November 25, 2008 with the Commission (File No. 000-21393) and incorporated herein by reference).
2.2	Agreement for the Entire Issued Share Capital of eventIS Group B.V. dated as of September 1, 2009 by and among Ventise Holding B.V., SeaChange B.V. and SeaChange International, Inc. (filed as Exhibit 2.1 to the Company's Quarterly Report on 10-Q previously filed on September 8, 2009 (File No. 000-21393) and incorporated herein by reference).
2.3	Agreement and Plan of Merger, dated as of January 6, 2010, by and among SeaChange International, Inc., Vividlogic, Inc., Vulcan Acquisition, Inc. and Shiva Patibanda in the limited capacity of Stockholder Representative (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K previously filed on January 8, 2010 with the Commission (File No. 000-21393) and incorporated herein by reference).
3.1	Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
3.2	Certificate of Amendment, filed May 25, 2000 with the Secretary of State in the State of Delaware, to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 4.1 to the Company's Quarterly Report on 10-Q previously filed on December 15, 2000 with the Commission (File No. 000-21393) and incorporated herein by reference).
3.3	Amended and Restated By-laws of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K previously filed on January 25, 2011 with the Commission (File No. 000-21393) and incorporated herein by reference).
4.1	Specimen certificate representing the Common Stock (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
4.2	Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
4.3	Certificate of Amendment, filed May 25, 2000 with the Secretary of State in the State of Delaware, to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 4.2 to the Company's registration statement on Form S-3 previously filed on December 6, 2000 with the Commission (File No. 333-51386) and incorporated herein by reference).
10.1	Amended and Restated 2005 Equity Compensation and Incentive Plan (filed as Appendix A to the Company's Proxy Statement on Schedule 14A previously filed May 25, 2007 with the Commission (File No. 000-21393) and incorporated herein by reference).

<b>Exhibit No.</b>	<b>Description</b>
10.2	Form of Restricted Stock Unit Agreement pursuant to the Company's 2005 Equity Compensation and Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed December 14, 2005 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.3	Form of Incentive Stock Option Agreement pursuant to the Company's 2005 Equity Compensation and Incentive Plan (filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K previously filed on April 17, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.4	Form of Non-Qualified Stock Option Agreement pursuant to the Company's 2005 Equity Compensation and Incentive Plan (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K previously filed on April 17, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.5	Amended and Restated 1995 Stock Option Plan (filed as Annex B to the Company's Proxy Statement on Form 14a previously filed on May 31, 2001 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.6	Form of Incentive Stock Option Agreement pursuant to SeaChange's Amended and Restated 1995 Stock Option Plan (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on October 6, 2004 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.7	Form of Non-Qualified Stock Option Agreement pursuant to SeaChange's Amended and Restated 1995 Stock Option Plan (filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on October 6, 2004 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.8	1996 Non-Employee Director Stock Option Plan (filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
10.9	Loan and Security Agreement, dated as of October 22, 2001, by and between Citizens Bank of Massachusetts and the Company (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed on December 13, 2001 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.10	Amendment No. 1, dated as of June 14, 2002, by and between the Company and Citizen's Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and Citizen's Bank of Massachusetts (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed on September 13, 2002 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.11	Amendment No. 2, dated as of April 21, 2003, between the Company and Citizen's Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001 by and between the Company and Citizen's Bank of Massachusetts (filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K previously filed on May 1, 2003 with the Commission (File No. 000-21393) and incorporated herein by reference).

<b>Exhibit No.</b>	<b>Description</b>
10.12	Amendment No. 3, dated as of December 1, 2003, between the Company and Citizens Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001 by and between the Company and Citizens Bank of Massachusetts (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on December 15, 2003 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.13	Amendment No. 8, dated as of April 14, 2006, between the Company and Citizens Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and Citizens Bank of Massachusetts (filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K previously filed on April 17, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.14	Amendment No. 12, dated as of August 17, 2007, between the Company and Citizens Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and Citizens Bank of Massachusetts (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed on April 17, 2006 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.15	Amendment No. 14, dated as of October 31, 2008, between the Company and RBS Citizens, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and RBS Citizens (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed December 8, 2008 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.16	Amendment No. 17, dated as of October 29, 2010, between the Company and Citizens Bank of Massachusetts, to that certain Loan and Security Agreement, dated as of October 22, 2001, by and between the Company and Citizens Bank of Massachusetts (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q previously filed on December 10, 2010 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.17	License Agreement dated May 30, 1996 between Summit Software Systems, Inc. and the Company (filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
10.18	Amended and Restated Change-in-Control Severance Agreement, dated as of December 21, 2009, by and between the Company and Kevin Bisson (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed December 21, 2009 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.19	Amended and Restated Change-in-Control Severance Agreement, dated as of December 21, 2009, by and between SeaChange and Steven M. Davi (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K previously filed December 21, 2009 with the Commission (File No. 000-21393) and incorporated herein by reference).

<b>Exhibit No.</b>	<b>Description</b>
10.20	Amended and Restated Change-in-Control Severance Agreement, dated as of December 21, 2009, by and between the Company and Ira Goldfarb (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 21, 2009 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.21	Amended and Restated Change-in-Control Severance Agreement, dated as of December 21, 2009, by and between SeaChange and Yvette Kanouff (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K previously filed December 21, 2009 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.22	Amended and Restated Change-in-Control Severance Agreement, dated as of December 21, 2009, by and between the Company and William C. Styslinger, III (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K previously filed December 21, 2009 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.23	Amendment, dated as of June 1, 2010, by and between SeaChange International, Inc. and William C. Styslinger, III to the Amended and Restated Change-in-Control Severance Agreement, dated as of December 21, 2009, by and between SeaChange International, Inc. and William C. Styslinger, III (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed on June 1, 2010 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.24	Executive Services Agreement, dated as of September 23, 2005, by and between On Demand Management Limited and Anthony Kelly (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K previously filed September 29, 2005 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.25	Settlement Agreement, dated as of June 3, 2010, by and among SeaChange International, Inc., Ramius Value and Opportunity Master Fund Ltd. and the other parties set forth on the signature pages thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed on June 3, 2010 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.26	Settlement Agreement, dated as of December 16, 2010, by and among SeaChange International, Inc., Ramius LLC and the other parties set forth on the signature pages thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed on December 16, 2010 with the Commission (File No. 000-21393) and incorporated herein by reference).
21.1*	List of Subsidiaries of the Registrant.
23.1*	Consent of Grant Thornton LLP.
24.1	Power of Attorney (included on signature page).
31.1*	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

<b>Exhibit No.</b>	<b>Description</b>
31.2*	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Provided herewith.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of SeaChange International, Inc.

We have audited the accompanying consolidated balance sheets of SeaChange International, Inc. (a Delaware corporation) and subsidiaries (collectively the “Company”) as of January 31, 2011 and 2010, and the related consolidated statements of operations stockholders’ equity and comprehensive income (loss), and cash flows for each of the three years in the period ended January 31, 2011. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15 (a) (2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SeaChange International, Inc. and subsidiaries as of January 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), SeaChange International, Inc. and subsidiaries internal control over financial reporting as of January 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 14, 2011 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Boston, Massachusetts  
April 14, 2011



**SEACHANGE INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEET**  
(in thousands, except share data)

	January 31, 2011	January 31, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 73,145	\$ 37,647
Restricted cash	1,332	73
Marketable securities	7,340	2,114
Accounts receivable, net of allowance for doubtful accounts of \$995 in 2011 and \$852 in 2010, respectively	48,843	50,337
Unbilled receivables	5,644	3,941
Inventories, net	14,393	17,830
Prepaid expenses and other current assets	7,148	7,253
Deferred tax assets	3,775	2,474
Total current assets	161,620	121,669
Property and equipment, net	36,381	39,682
Marketable securities, long-term	4,379	8,688
Investments in affiliates	2,913	13,697
Intangible assets, net	30,306	26,264
Goodwill	65,273	55,876
Other assets	2,163	992
Deferred tax assets, long-term	2,156	279
Total assets	<u>\$ 305,191</u>	<u>\$ 267,147</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 11,249	\$ 10,371
Other accrued expenses	16,528	11,174
Customer deposits	3,993	4,279
Deferred revenues	37,039	34,158
Deferred tax liabilities	183	800
Total current liabilities	68,992	60,782
Deferred revenue, long-term	6,930	12,635
Other liabilities, long-term	11,231	6,574
Distribution and losses in excess of investment	1,161	1,469
Taxes payable, long-term	3,013	2,415
Deferred tax liabilities, long-term	4,722	5,350
Total liabilities	96,049	89,225
Commitments and contingencies (Note 9)		
Stockholders Equity:		
Convertible preferred stock, \$0.01 par value, 5,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 31,876,815 and 32,563,063 shares issued; 31,837,031 and 31,216,267 shares outstanding, respectively	319	326
Additional paid-in capital	207,121	211,504
Treasury stock, at cost 39,784 and 1,346,796 common shares, respectively	(1)	(8,757)
Accumulated income (deficit)	10,521	(17,450)
Accumulated other comprehensive loss	(8,818)	(7,701)
Total stockholders' equity	209,142	177,922
Total liabilities and stockholders' equity	<u>\$ 305,191</u>	<u>\$ 267,147</u>

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

**SEACHANGE INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
(in thousands, except per share data)

	<b>Fiscal Year ended January 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenues:			
Products	\$ 91,679	\$ 101,941	\$ 117,372
Services	125,048	99,724	84,464
Total revenues	216,727	201,665	201,836
Cost of revenues:			
Products	35,527	38,961	46,533
Services	72,451	59,451	52,007
Total cost of revenues	107,978	98,412	98,540
Gross profit	108,749	103,253	103,296
Operating expenses:			
Research and development	48,403	50,664	43,042
Selling and marketing	24,506	25,842	27,506
General and administrative	24,328	21,719	20,979
Amortization of intangibles	3,359	2,826	1,575
Restructuring	6,997	-	-
Total operating expenses	107,593	101,051	93,102
Income from operations	1,156	2,202	10,194
Interest income	307	763	2,107
Interest expense	(472)	(156)	(57)
Other expense, net	(1,017)	(462)	(925)
Gain on sale of investment in affiliates	27,071	-	-
Income before income taxes and equity income (loss) in earnings of affiliates	27,045	2,347	11,319
Income tax (benefit) expense	(2,338)	371	575
Equity income (loss) in earnings of affiliates, net of tax	85	(653)	(770)
Net income	\$ 29,468	\$ 1,323	\$ 9,974
Earnings per share:			
Basic income per share	\$ 0.94	\$ 0.04	\$ 0.32
Diluted income per share	\$ 0.92	\$ 0.04	\$ 0.32
Weighted average common shares outstanding:			
Basic	31,434	30,860	30,724
Diluted	31,986	31,433	31,192

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

**SEACHANGE INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)**  
(in thousands, except per share data)

	Common Stock			Accumulated other comprehensive income (loss)		Treasury Stock		Total		Comprehensive income (loss)
	Number of shares	Par value	Additional paid-in capital	Accumulated Deficit	Cumulative translation adjustment	Unrealized gain/loss on investments	Number of shares	Amount	Stockholders' Equity	
Balance at January 31, 2008	29,944,095	299	191,627	(28,747)	1,787	436	(39,784)	-	165,402	
Issuance of common stock pursuant to exercise of stock options	223,006	4	1,176	-	-	-	-	-	1,180	
Issuance of common stock in connection with the employee stock purchase plan	236,707	3	1,560	-	-	-	-	-	1,563	
Issuance of common stock pursuant to vesting of restricted stock units	287,642	1	-	-	-	-	-	-	1	
Issuance of common stock pursuant to third earnout for ODG acquisition	1,131,388	11	8,094	-	-	-	-	-	8,105	
Stock-based compensation expense	-	-	3,954	-	-	-	-	-	3,954	
Purchase of treasury shares	-	-	-	-	-	-	(833,597)	(5,989)	(5,989)	
Change in fair value on marketable securities, net of tax	-	-	-	-	-	23	-	-	23	\$ 23
Translation adjustment	-	-	-	-	(11,977)	-	-	-	(11,977)	(11,977)
Net income	-	-	-	9,974	-	-	-	-	9,974	9,974
Comprehensive loss	-	-	-	-	-	-	-	-	-	<u>\$ (1,980)</u>
Balance at January 31, 2009	31,822,838	318	206,411	(18,773)	(10,190)	459	(873,381)	(5,989)	172,236	
Issuance of common stock pursuant to exercise of stock options	47,805	1	483	-	-	-	-	-	484	
Issuance of common stock in connection with the employee stock purchase plan	282,889	3	1,510	-	-	-	-	-	1,513	
Issuance of common stock pursuant to vesting of restricted stock units	409,531	4	(4)	-	-	-	-	-	-	
Stock-based compensation expense	-	-	3,104	-	-	-	-	-	3,104	
Purchase of treasury shares	-	-	-	-	-	-	(473,415)	(2,768)	(2,768)	
Change in fair value on marketable securities, net of tax	-	-	-	-	-	(262)	-	-	(262)	\$ (262)
Translation adjustment	-	-	-	-	2,292	-	-	-	2,292	2,292
Net income	-	-	-	1,323	-	-	-	-	1,323	1,323
Comprehensive income	-	-	-	-	-	-	-	-	-	<u>\$ 3,353</u>
Balance at January 31, 2010	32,563,063	\$ 326	\$ 211,504	\$ (17,450)	\$ (7,898)	\$ 197	(1,346,796)	(8,757)	177,922	
Issuance of common stock pursuant to exercise of stock options	309,195	4	2,076	-	-	-	-	-	2,080	
Issuance of common stock in connection with the employee stock purchase plan	135,632	2	658	-	-	-	-	-	660	
Issuance of common stock pursuant to vesting of restricted stock units	353,542	2	(2)	-	-	-	-	-	-	
Stock-based compensation expense	-	-	1,564	-	-	-	-	-	1,564	
Purchase of treasury shares	-	-	-	-	-	-	(177,605)	(1,435)	(1,435)	
Retirement of shares	(1,484,617)	(15)	(8,679)	(1,497)	-	-	1,484,617	10,191	-	
Change in fair value on marketable securities, net of tax	-	-	-	-	-	(77)	-	-	(77)	\$ (77)
Translation adjustment	-	-	-	-	(1,040)	-	-	-	(1,040)	(1,040)
Net income	-	-	-	29,468	-	-	-	-	29,468	29,468
Comprehensive income	-	-	-	-	-	-	-	-	-	<u>\$ 28,351</u>
Balance at January 31, 2011	31,876,815	\$ 319	\$ 207,121	\$ 10,521	\$ (8,938)	\$ 120	(39,784)	\$ (1)	\$ 209,142	

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

**SEACHANGE INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)

	Year ended January 31,		
	2011	2010	2009
<b>Cash flows from operating activities:</b>			
Net income	\$ 29,468	\$ 1,323	\$ 9,974
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,198	7,995	7,216
Amortization of intangibles and capitalized software	5,345	3,461	2,025
Loss on disposal of fixed assets	1,283	-	-
Loss on disposal of inventory	2,474	-	-
Inventory valuation charge	556	585	1,085
Provision for doubtful accounts receivable	2	75	761
Discounts earned and amortization of premiums on marketable securities	62	110	22
Equity loss (income) in earnings of affiliates	(65)	654	770
Gain on sale of investment in affiliate	(27,071)	-	-
Stock-based compensation expense	2,957	3,105	3,954
Deferred income taxes	(7,074)	(1,210)	(124)
Excess tax benefit related to share based compensation expense	(4)	(159)	-
Changes in operating assets and liabilities:			
Accounts receivable	3,689	(4,380)	(15,524)
Unbilled receivables	(1,204)	654	2,772
Inventories	(1,873)	(3,926)	(7,509)
Prepaid expenses and other assets	769	(3,657)	(1,508)
Accounts payable	664	(3,048)	2,672
Accrued expenses	3,442	(3,232)	331
Customer deposits	(286)	2,313	707
Deferred revenues	(5,117)	7,901	13,946
Other	66	35	92
Net cash provided by operating activities	16,281	8,599	21,662
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(3,772)	(8,355)	(12,948)
Proceeds from sale of property and equipment	-	-	-
Purchases of marketable securities	(8,382)	(43,402)	(57,063)
Proceeds from sale and maturity of marketable securities	7,325	54,091	59,740
Acquisition of businesses and payment of contingent consideration, net of cash acquired	(14,661)	(35,019)	(3,204)
Investments in affiliates	(1,107)	(1,824)	(43)
Capital distribution from investment in affiliate	-	-	-
Proceeds from sale of investment in affiliate	38,717	-	-
(Deposit) release of restricted cash	(55)	1,512	(1,500)
Net cash provided by (used in) investing activities	18,065	(32,997)	(15,018)
<b>Cash flows from financing activities:</b>			
Purchase of treasury stock	(1,435)	(2,768)	(5,989)
Proceeds from issuance of common stock relating to the stock plans	2,740	1,838	2,743
Excess tax benefit related to share based compensation expense	4	159	-
Net cash provided by (used in) financing activities	1,309	(771)	(3,246)
Effect of exchange rates on cash	(157)	358	(4,299)
Net (decrease) increase in cash and cash equivalents	35,498	(24,811)	(901)
Cash and cash equivalents, beginning of period	37,647	62,458	63,359
Cash and cash equivalents, end of period	\$ 73,145	\$ 37,647	\$ 62,458
<b>Supplemental disclosure of cash flow information:</b>			
Income taxes paid	\$ 3,174	\$ 554	\$ 1,267
Interest paid	-	41	38
<b>Supplemental disclosure of non-cash activities:</b>			
Transfer of items originally classified as inventories to equipment	2,283	2,841	3,488
Issuance of equity for ODG contingent consideration	-	-	8,105
Conversion of accounts receivable to equity related to investment in affiliate	-	-	332

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

## SEACHANGE INTERNATIONAL, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Nature of Business

SeaChange International, Inc. (“SeaChange” or “the Company”), headquartered in Acton, Massachusetts, is a global leader in the delivery of multi-screen video. Our products and services facilitate the aggregation, licensing, storage, management and distribution of video, television programming, and advertising content to cable system operators, telecommunications companies and broadcast television companies.

#### 2. Summary of Significant Accounting Policies

Significant accounting policies followed in the preparation of the accompanying consolidated financial statements are as follows:

##### *Use of Estimates*

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates and judgments, including those related to revenue recognition, valuation of inventory and accounts receivable, valuation of investments and income taxes, stock-based compensation, goodwill, intangible assets and related amortization. The Company bases these estimates on historical and anticipated results and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from management’s estimates.

##### *Principles of Consolidation*

The Company consolidates the financial statements of its wholly-owned subsidiaries and all intercompany accounts are eliminated in consolidation. SeaChange also holds minority investments in the capital stock of certain private companies having product offerings or customer relationships that have strategic importance. The Company evaluates its equity and debt investments and other contractual relationships with affiliate companies in order to determine whether the guidelines regarding the consolidation of variable interest entities (“VIE”) should be applied in the financial statements. Consolidation guidelines address consolidation by business enterprises of variable interest entities that possess certain characteristics. A variable interest entity is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The Company uses qualitative analysis to determine whether or not we are the primary beneficiary of a VIE (variable interest entity). The Company considers the rights and obligations conveyed by its implicit and explicit variable interest in each VIE and the relationship of these with the variable interests held by other parties to determine whether its variable interests will absorb a majority of a VIE’s expected losses, receive a majority of its expected residual returns, or both. If the company determines that its variable interests will absorb a majority of the VIE’s expected losses, receive a majority of its expected residual returns, or both, the Company consolidates the VIE as the primary beneficiary, and if not, it does not consolidate

The company has reviewed its interest in a joint venture in Germany, a partnership in Turkey and equity investment in Hightech ICT. BV, The primary beneficiary is required to consolidate the financial position and results of the VIE. The Company has concluded that it is not the primary beneficiary for any variable interest entities during the fiscal year ended January 31, 2011. Accordingly, the Company uses the equity method to account for these investments.

##### *Equity Investments*

The Company’s investments in affiliates include investments accounted for under the cost method and the equity method of accounting. The investments that represent less than a 20% ownership interest of the common shares of the affiliate are carried at cost. Under the equity method of accounting, which generally applies to investments that represent

20% to 50% ownership of the common shares of the affiliate, SeaChange's proportionate ownership share of the earnings or losses of the affiliate are included in equity income in earnings of affiliates in equity income (loss) in earnings of affiliates in the consolidated statement of operations.

The Company periodically reviews indicators of the fair value of its investments in affiliates in order to assess whether available facts or circumstances, both internally and externally, may suggest an other than temporary decline in the value of the investment. The carrying value of an investment in an affiliate may be affected by the affiliate's ability to obtain adequate funding and execute its business plans, general market conditions, industry considerations specific to the affiliate's business, and other factors. The inability of an affiliate to obtain future funding or successfully execute its business plan could adversely affect the Company's equity earnings of the affiliate in the periods affected by those events. Future adverse changes in market conditions or poor operating results of the affiliates could result in equity losses or an inability to recover the carrying value of the investments in affiliates that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future. The Company records an impairment charge when it believes an investment has experienced a decline in value that is other-than-temporary.

#### *Revenue Recognition*

Revenues from sales of hardware, software and systems that do not require significant modification or customization of the underlying software are recognized when title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is considered probable. Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities are deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements are recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. Accounting for contract amendments and customer change orders are included in contract accounting when executed. Revenue from shipping and handling costs and other out-of-pocket expenses reimbursed by customers are included in revenues and cost of revenues. SeaChange's share of intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.

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

Service revenue from content processing provided to the Company's customers is recognized when services are provided, based on contracted rates. Upfront fees received for services are recognized ratably over the period earned, whichever is the longer of the contract term or the estimated customer relationship.

Any taxes assessed by a governmental authority related to revenue-producing transactions (e.g. sales or value-added taxes) are reported on a net basis and excluded from revenues.

### *Concentration of Credit Risk and Major Customers*

Financial instruments which potentially expose SeaChange to concentrations of credit risk include cash equivalents, investments in treasury bills, certificates of deposits and commercial paper, trade accounts receivable, accounts payable and accrued liabilities. The Company restricts its cash equivalents and investments in marketable securities to repurchase agreements with major banks and U.S. government and corporate securities which are subject to minimal credit and market risk.

For trade accounts receivable, SeaChange evaluates customers' financial condition, requires advance payments from certain of its customers and maintains reserves for potential credit losses. The Company performs ongoing credit evaluations of customers' financial condition but generally does not require collateral. For some international customers, SeaChange requires an irrevocable letter of credit to be issued by the customer before the purchase order is accepted. The Company monitors payments from customers and assesses any collection issues. The Company maintains allowances for specific doubtful accounts and other risk categories of accounts based on estimates of losses resulting from the inability of the Company's customers to make required payments and records these allowances as a charge to general and administrative expenses. SeaChange bases its allowances for doubtful accounts on historical collections and write-off experience, current trends, credit assessments, and other analysis of specific customer situations. At January 31, 2011 and 2010, SeaChange had an allowance for doubtful accounts of \$995,000 and \$852,000, respectively, to provide for potential credit losses. At January 31, 2011, three separate customers accounted for 17%, 12% and 10%, respectively, of SeaChange's gross accounts receivable balance. For the fiscal year ended January 31, 2011 and 2010, two customers each accounted for more than 10%, and collectively accounted for 34% and 39%, respectively, of our total revenues. Revenues from these customers were primarily in the Software and Servers and Storage segment.

### *Cash Equivalents and Marketable Securities*

SeaChange accounts for investments in accordance with authoritative guidance that defines investment classifications. The Company determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. SeaChange's investment portfolio consists of money market funds, corporate debt investments, asset-backed securities, government-sponsored enterprises, and state and municipal obligations. 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. SeaChange's 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 income or loss. The amortization of premiums and accretions of discounts to maturity are computed under the effective interest method and are included in interest income. Interest on securities is recorded as earned and is also included in interest income. Any realized gains or losses would be shown in the accompanying consolidated statements of operations in other income or expense.

The Company evaluates its investments on a regular basis to determine whether an other-than-temporary decline in fair value has occurred. This evaluation consists of a review of several factors, including, but not limited to: the length of time and extent that an investment has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; and the Company's intent and ability to hold an investment for a period of time sufficient to allow for any anticipated recovery in fair value. Declines in value below cost for investments where it is considered probable that all contractual terms of the investment will be satisfied, is due primarily to changes in interest rates, and where the company has the intent and ability to hold the investment for a period of time sufficient to allow a market recovery, are not assumed to be other-than-temporary. Any other-than-temporary declines in fair value are recorded in earnings and a new cost basis for the investment is established.

### *Inventory Valuation*

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist primarily of components and subassemblies and finished products held for sale. The values of inventories are reviewed quarterly to determine that the carrying value is stated at the lower of cost or net realizable value. SeaChange records charges to reduce inventory to its net realizable value when impairment is identified through the quarterly review process. The obsolescence evaluation is based upon assumptions and estimates about future demand, or possible alternative uses and involves significant judgments. For the year ended January 31, 2011, we recorded \$3.0 million in inventory write-downs of which \$2.5 million was incurred as part of the first quarter restructuring. For the

fiscal years ended January 31, 2010 and 2009, we recorded inventory write-downs of \$569,000 and \$1.0 million, respectively.

### *Property and Equipment*

Property and equipment consists of land and buildings, office and computer equipment, leasehold improvements, demonstration equipment, deployed assets and spare components and assemblies used to service SeaChange's installed base.

Demonstration equipment consists of systems manufactured by SeaChange for use in marketing and selling activities. Property and equipment are recorded at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the respective leases using the straight-line method. Deployed assets consist of movie systems owned and manufactured by SeaChange that are installed in a hotel environment. Deployed assets are depreciated over the life of the related service agreements. Capitalized service and spare components are depreciated over the estimated useful lives using the straight-line method. Maintenance and repair costs are expensed as incurred. Upon retirement or sale, the cost of the assets disposed of, and the related accumulated depreciation, are removed from the accounts, and any resulting gain or loss is included in the determination of net income.

### *Goodwill and Long-Lived Assets*

The Company recognizes the excess of the purchase price over the fair value of the net tangible and intangible assets acquired as goodwill. At the time of acquisition, goodwill is assigned to the operating segment as the applicable reporting unit for the goodwill impairment review. Goodwill is not amortized, but is evaluated for impairment, at the reporting unit level, annually in the third fiscal quarter. Goodwill of a reporting unit also is 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. The process of evaluating goodwill for impairment requires several judgments and assumptions to be made to determine the fair value of the reporting units, including the method used to determine fair value, discount rates, expected levels of cash flows, revenues and earnings, and the selection of comparable companies used to develop market based assumptions.

The Company accounts for business acquisitions in accordance with authoritative guidance which determines and records the fair values of assets acquired, liabilities, contractual contingencies and contingent consideration assumed as of the dates of acquisition. The purchase price allocation process requires management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets and estimated contingent consideration payments.

SeaChange also evaluates property and equipment, intangible assets and other long-lived assets 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, SeaChange evaluates 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. SeaChange's cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time.

Intangible assets consist of customer contracts, completed technology, in-process research and development, non-competition agreements, patents and trademarks and are respectively assigned to the operating segments. The intangible assets are amortized to cost of sales and operating expenses, as appropriate, on a straight-line or accelerated basis in order to reflect the period that the assets will be consumed. In-process research and development assets as of the acquisition date are recorded as indefinite-lived intangible assets and are subject to impairment testing at least annually. The useful life of the intangible asset recognized will be reconsidered if and when an in-process research and development project is completed or abandoned.

SeaChange develops software for resale in markets that are subject to rapid technological change, new product development and changing customer needs. The time period during which software development costs can be capitalized from the point of reaching technological feasibility until the time of general product release is very short, and consequently, the amounts that could be capitalized are not material to the Company's financial position or results of



operations. Software development costs relating to sales of software requiring significant modification or customization are charged to costs of product revenues.

Amortization expense is recorded over the period of economic consumption or the life of the agreement, whichever results in the higher expense, starting with the first shipment of the product to a customer. Amortization expense charged to cost of sales was \$2.0 million, \$638,000 and \$100,000 for the fiscal years ended January 31, 2011, 2010 and 2009, respectively.

#### *Income Taxes*

*Accounting for Income Taxes.* As part of the process of preparing the Company's financial statements, the Company is required to estimate its provision for income taxes in each of the jurisdictions in which it operates. This process involves estimating its actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's balance sheet.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. The Company evaluates the weight of all available evidence to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The Company will record a valuation allowance if the likelihood of realization of the deferred tax assets in the future is reduced based on an evaluation of objective verifiable evidence. Significant management judgment is required in determining its income tax provision, its deferred tax assets and liabilities and any valuation allowance recorded against its deferred tax assets. The Company has established a valuation allowance against its United States deferred tax assets due to indications that they may not be fully realized. The amount of the deferred tax asset considered realizable is subject to change based on future events, including generating sufficient pre-tax income in future periods. In the event that actual results differ from these estimates, the Company's provision for income taxes could be materially impacted. SeaChange does not provide for U.S. federal and state income taxes on the undistributed earnings of its non-U.S. subsidiaries that are considered indefinitely reinvested in the operations outside the U.S.

Authoritative guidance as it relates to income tax liabilities states that the minimum threshold a tax position is required to meet before being recognized in the financial statements is "more likely than not" (i.e., a likelihood of occurrence greater than fifty percent). The recognition threshold is met when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by the relevant taxing authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. Derecognition of a tax position that was previously recognized occurs when an entity subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained.

The Company files annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its reserves for income taxes reflect the most likely outcome. The Company adjusts these reserves as well as the related interest and penalties, in light of changing facts and circumstances. If its estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. The changes in estimate could have a material impact on the Company's financial position and operating results. In addition, settlement of any particular position could have a material and adverse effect on the Company's cash flows and financial position.

#### *Share-based Compensation.*

The Company accounts for all employee and non-employee director stock-based compensation awards using the authoritative guidance regarding share-based payments. The Company has continued to use the Black-Scholes pricing model as the most appropriate method for determining the estimated fair value of all applicable awards. Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. Management estimated the volatility based on the historical volatility of the Company's stock. The assumptions used in

calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if circumstances change and the Company uses different assumptions, the Company's share-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the Company's actual forfeiture rate is materially different from its estimate, the share-based compensation expense could be significantly different from what it has recorded in the current period. The estimated fair value of SeaChange's stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the restricted stock units and Employee Stock Purchase Plan stock units are amortized on a straight line basis.

#### *Restructuring*

During fiscal 2011, the Company recorded restructuring charges primarily related to the Servers and Storage segment consisting of employee severance; write down of inventory, and the disposal of fixed assets. Restructuring charges represent our best estimate of the associated liability at the date the charges are recognized. Adjustments for changes in assumptions are recorded as a component of operating expenses in the period they become known. Differences between actual and expected charges and changes in assumptions could have a material effect on our restructuring accrual as well as our consolidated results of operations.

#### *Foreign Currency Translation*

For subsidiaries where the U.S. dollar is designated as the functional currency of the entity, the Company translates that entity's monetary assets and liabilities denominated in local currencies into U.S. dollars (the functional and reporting currency) at current exchange rates, as of each balance sheet date. Non-monetary assets (e.g., inventories, property, plant, and equipment and intangible assets) and related income statement accounts (e.g., cost of sales, depreciation, amortization of intangible assets) are translated at historical exchange rates between the functional currency (the U.S. dollar) and the local currency. Revenue and other expense items are translated using average exchange rates during the fiscal period. Translation adjustments and transactions gains and losses on foreign currency transactions, and any unrealized gains and losses on short-term inter-company transactions are included in other income or expense, net.

For subsidiaries where the local currency is designated as the functional currency, the Company translates its assets and liabilities into U.S. dollars (the reporting currency) at current exchange rates as of each balance sheet date. Revenue and expense items are translated using average exchange rates during the period. Cumulative translation adjustments are presented as a separate component of stockholders' equity. Exchange gains and losses on foreign currency transactions and unrealized gains and losses on short-term inter-company transactions are included in other income or expense, net.

The aggregate foreign exchange transaction losses included as other expense, net on the Consolidated Statement of Operations were \$1.1 million, \$572,000 and \$951,000 for the years ended January 31, 2011, 2010 and 2009, respectively.

#### *Comprehensive Income (Loss)*

SeaChange presents accumulated other comprehensive income (loss) and total comprehensive income (loss) in the Statement of Stockholders' Equity. Total comprehensive income (loss) consists primarily of net income, cumulative translation adjustments and unrealized gains and losses on marketable securities, net of income tax.

#### *Forward Exchange Contracts not Designated as Hedging Instruments*

SeaChange may enter into foreign currency forward exchange contracts ("forward exchange contracts") to manage its exposure to the foreign currency exchange risk related to the fixed deferred purchase price associated with the acquisition of eventIS Group B.V. The purpose of the Company's foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuation. The Company does not enter into derivative financial instruments for trading or speculative purposes. The Company does not designate these forward exchange contracts as hedging instruments, as such, they do not qualify for hedge accounting treatment. Therefore, the foreign currency forward contracts are recorded at fair value, with the gain or loss on these transactions recorded in the consolidated statements of operations within "other expense, net" in the period in which they occur. As of January 31, 2011, the Company had no outstanding foreign currency forward exchange contracts. The Company recorded approximately \$142,000 and \$87,000 of losses related to its foreign currency forward exchange contract during the years ended January 31, 2011 and 2010,

respectively. The Company's foreign currency forward exchange contract is an over-the-counter instrument. There is an active market for these instruments, and therefore, they are classified as Level 1 in the fair value hierarchy.

#### *Advertising Costs*

Advertising costs are charged to expense as incurred. Advertising costs were \$319,000, \$386,000 and \$340,000 for the years ended January 31, 2011, 2010 and 2009, respectively.

#### *Earnings Per Share*

Earnings per share are presented in accordance with authoritative guidance, which requires the presentation of "basic" earnings per share and "diluted" earnings per share. Basic earnings per share is computed by dividing earnings available to common shareholders by the weighted-average shares of common stock outstanding during the period. For the purposes of calculating diluted earnings per share, the denominator includes both the weighted average number of shares of common stock outstanding during the period and the weighted average number of potential common stock, such as stock options, employee stock purchase plan, and restricted stock, calculated using the treasury stock method.

For the fiscal years ended January 31, 2011, 2010 and 2009 respectively, 2.5 million, 3.6 million and 3.7 million of common shares issuable upon the exercise of stock options are anti-dilutive and have been excluded from the diluted earnings per share computation as the exercise prices of these common shares were above the market price of the common stock for the periods indicated. Below is a summary of the shares used in calculating basic and diluted earnings per share for the periods indicated:

	Year ended January 31,		
	2011	2010	2009
Weighted average shares used in calculating earnings per share—Basic	31,434,398	30,860,194	30,724,301
Dilutive common stock equivalents	551,404	573,174	468,174
Weighted average shares used in calculating earnings per share—Diluted	<u>31,985,802</u>	<u>31,433,368</u>	<u>31,192,475</u>

#### **Impact of Recently Adopted Accounting Guidance**

##### *Variable Interest Entities*

In June 2009, the Financial Accounting Standards Board ("FASB") issued an authoritative update to address the elimination of the concept of a qualifying special purpose entity and to replace the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity. Also, the new guidance requires an ongoing assessment of whether an entity is the primary beneficiary of a variable interest entity. The amended approach focuses on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, the update provides more timely and useful information about an enterprise's involvement with a variable interest entity. The Company adopted this new guidance in the first quarter of fiscal year 2011. The adoption of this guidance did not have a material impact on our financial position or results of operations.

##### *Fair Value Measurements*

In January 2010, the FASB issued new guidance on the disclosures of fair value measurements. This new guidance amends the authoritative guidance for fair value measurements and disclosures by adding new disclosure requirements with respect to transfers in and out of Levels 1 and 2 fair value measurements, as well as by requiring gross basis disclosures for purchases, sales, issuances, and settlements included in the reconciliation of Level 3 fair value measurements. This new guidance also amends the authoritative guidance by providing clarifications to existing disclosure requirements. The new disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted this new

guidance, including the guidance related to the disclosures about purchases, sales, issuances, and settlements in the roll forwards of activity in Level 3 fair value measurements, beginning in the first quarter of fiscal year 2011. The adoption of this guidance did not have a material impact on our financial position or results of operations.

#### *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*

In July 2010, the FASB issued guidance requiring improved disclosures about the credit quality of a company's financing receivables and their associated credit reserves. The amendments in the update require more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of the nature of an entity's credit risk associated with its financing receivables and the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The amendments in the update are effective for the first interim or annual reporting period ending on or after December 15, 2010. The Company adopted this new disclosure guidance for the period ending January 31, 2011. The adoption of this guidance did not have a material impact on our disclosures.

### **Recent Accounting Guidance Not Yet Effective**

#### *Revenue Recognition for Arrangements with Multiple Deliverables*

In September 2009, the FASB amended the guidance for revenue recognition in multiple-element arrangements. It has been amended to remove from the scope of industry specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product's essential functionality. The guidance now requires an entity to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; and allocates revenue in an arrangement using estimated selling prices of deliverables for these products if a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price. The guidance also eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method for these products. The accounting changes summarized are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company is currently assessing the impact of these amendments on its accounting and reporting systems and processes; however, at this time the Company is unable to quantify the impact of their adoption on its financial statements or determine the timing and method of its adoption.

### **3. Fair value of Assets and Liabilities**

The applicable accounting guidance establishes a framework for measuring fair value and expands required disclosure about the fair value measurements of assets and liabilities. This guidance requires the Company 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 three-tier fair value hierarchy as described below.

The 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes three levels of inputs that may be used to measure fair value:

- 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 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. The Company primarily uses broker quotes for valuation of its short-term investments.
- 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.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2011 are as follows:

	January 31, 2011	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
	(in thousands)			
Financial assets:				
Cash	\$ 66,539	\$ 66,539	-	-
Cash equivalents	6,606	6,606	-	-
Available for sale marketable securities:				
Current marketable securities:				
U.S. government agency issues	7,340	4,605	2,735	-
Non-current marketable securities:				
U.S. government agency issues	4,379	3,358	1,021	-
Total.....	<u>\$ 84,864</u>	<u>\$ 81,108</u>	<u>\$ 3,756</u>	<u>\$ -</u>
Other liabilities:				
Acquisition-related consideration	<u>\$ 14,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,410</u>

The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2010 are as follows:

	January 31, 2010	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
	(in thousands)			
Financial assets:				
Cash	\$ 32,725	\$ 32,725	-	-
Cash equivalents	4,922	4,922	-	-
Available for sale marketable securities:				
Current marketable securities:				
U.S. government agency issues	2,114	2,114	-	-
Non-current marketable securities:				
U.S. government agency issues	8,688	8,688	-	-
Total.....	<u>\$ 48,449</u>	<u>\$ 48,449</u>	<u>\$ -</u>	<u>\$ -</u>
Forward exchange contract	<u>\$ 1,664</u>	<u>\$ 1,664</u>	<u>\$ -</u>	<u>\$ -</u>
Other liabilities:				
Acquisition-related consideration	<u>\$ 9,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,514</u>

The following tables set forth a reconciliation of assets and liabilities transferred from Level 1 to Level 2. Investments were transferred from Level 1 to Level 2 when there was no active market price quoted within five business days of January 31, 2011:

	Level 1	Level 2
	Marketable Securities	Marketable Securities
	Year Ended January 31	Year Ended January 31
	2011	2011
Beginning balance	\$ 10,802	\$ -
Purchases .....	5,897	2,485
Sales .....	(7,325)	-
Transfers from Level 1 .....	(1,271)	1,271
Amortization and unrealized losses .....	(140)	-
Ending balance .....	<u>\$ 7,963</u>	<u>\$ 3,756</u>

The following tables set forth a reconciliation of assets and liabilities measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3):

	Level 3
	Marketable Securities
	Year Ended January 31
	2011
Beginning balance	\$ -
Sales .....	(950)
Realized loss recorded in other expense .....	(50)
Ending balance .....	<u>\$ -</u>

	Level 3
	Accrued Contingent
	Consideration
	Year Ended January 31
	2011
Beginning balance	\$ 9,514
VividLogic, Inc. acquisition .....	8,388
Settlement of working capital .....	1,056
Contingency payments .....	(4,751)
Change in fair value .....	243
Translation adjustment	(40)
Ending balance .....	<u>\$ 14,410</u>

The Company relies on mark to market valuations to record the fair value of the Company's available for sale security assets which are measured under a Level 1 input. These assets are publicly traded equity securities for which market prices are readily observable and recorded. At January 31, 2011, the Company had \$7.3 million in short-term marketable securities and \$4.4 million in long-term marketable securities.

The Company determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. SeaChange's investment portfolio consists of money market funds, corporate debt investments, asset-backed securities, government-sponsored enterprises, and state and municipal obligations. 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. SeaChange's 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 income or loss. The amortization of premiums and accretions of discounts to maturity are computed under the effective interest method and is included in interest income. Interest on securities is recorded as earned and is also included in interest income. Any realized gains or losses would be shown in the accompanying consolidated statements of operations in other expense, net.

The following is a summary of available-for-sale securities, including the cost basis, aggregate fair value and gross unrealized gains and losses, for cash equivalents, short-and long-term marketable securities portfolio as of January 31, 2011 and 2010:

	<u>Co s t</u>	<u>Gro s s Unre aliz e d G a i n s</u>	<u>Gro s s Unre aliz e d Lo s s e s</u>	<u>Es tim e d F a i r V a l u e</u>
	<b>(in thousands)</b>			
<b>January 31, 2011:</b>				
Cash	\$ 66,539	\$ -	\$ -	\$ 66,539
Cash equivalents	6,606	-	-	6,606
Cash and cash equivalents	73,145	-	-	73,145
US government agency issues	7,245	95	-	7,340
Marketable securities—short-term	7,245	95	-	7,340
US government agency issues	4,308	71	-	4,379
Corporate debt securities	-	-	-	-
Marketable securities—long-term	4,308	71	-	4,379
Total cash equivalents and marketable securities	<u>\$ 84,698</u>	<u>\$ 166</u>	<u>\$ -</u>	<u>\$ 84,864</u>
<b>January 31, 2010:</b>				
Cash	\$ 32,725	\$ -	\$ -	\$ 32,725
Cash equivalents	4,922	-	-	4,922
Cash and cash equivalents	37,647	-	-	37,647
US government agency issues	2,023	91	-	2,114
Marketable securities—short-term	2,023	91	-	2,114
US government agency issues	8,276	161	-	8,437
Corporate debt securities	250	1	-	251
Marketable securities—long-term	8,526	162	-	8,688
Total cash equivalents and marketable securities	<u>\$ 48,196</u>	<u>\$ 253</u>	<u>\$ -</u>	<u>\$ 48,449</u>

During the years ended January 31, 2011, 2010 and 2009, available-for-sale securities were sold for total proceeds of \$519,000, \$11.6 million, and \$8.0 million, respectively. The gross realized gains and losses for fiscal years 2011, 2010 and 2009 were immaterial. For purposes of determining gross realized gains and losses, the cost of securities sold is based on specific identification.

Contractual maturities of available-for-sale debt securities at January 31, 2011 are as follows (in thousands):

	<u>Es tim e d F a i r V a l u e</u>
Maturity of one year or less	\$ 7,340
Maturity between one and five years	4,379
Total	<u>\$ 11,719</u>

The Company concluded that there were no declines in investments recorded as of January 31, 2011, 2010 and 2009 and the Company does not have any investments in a gross unrealized loss position as of January 31, 2011 and 2010. The unrealized holding (losses) gains, net of tax, on available-for-sale securities in the amount of (\$77,000), \$262,000 and

\$23,000 for the years ended January 31, 2011, 2010 and 2009, respectively, have been included in stockholders' equity as a component of accumulated other comprehensive income or loss.

### ***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 and marketable securities at January 31, 2011 and 2010 was \$84.9 million and \$48.4 million, respectively.

### ***Restricted Cash***

Pursuant to certain lease agreements and share purchase agreements, we are required to maintain cash reserves, classified as restricted cash. Current restricted cash totaled \$1.3 million and \$73,000 at January 31, 2011 and 2010, respectively.

### ***Foreign Currency Exchange Risk***

The Company may enter into a foreign exchange forward contract denominated in Euros to hedge against a portion of the foreign currency exchange risk associated with the acquisition of eventIS Group B.V. for the fixed deferred purchase price. The purpose of the Company's foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuations. Authoritative guidance requires companies to recognize all of the derivative financial instruments as either assets or liabilities at fair value in the consolidated balance sheets based upon quoted market prices for comparable instruments. The Company's derivative instrument have not met the criteria for hedge accounting within authoritative guidance. Therefore, the foreign currency forward contracts have been recorded at fair value, with the gain or loss on these transactions recorded in the consolidated statements of operations within "interest and other income, net" in the period in which they occur. The Company does not use derivative financial instruments for trading or speculative purposes. As of January 31, 2011, the Company had no outstanding foreign currency forward exchange contracts. During the year ended January 31, 2011, the Company recorded approximately \$142,000 of losses related to its foreign currency forward exchange contract. Typically, any losses or gains on the forward exchange contracts are offset by re-measurement losses or gains on the underlying balances denominated in non-functional currencies. The Company's foreign currency exchange contract is an over-the-counter instrument.

### ***Acquisition-Related Consideration***

We determined the fair value of the acquisition-related consideration in connection with the acquisition of eventIS Group BV in September 2009 using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Any change in the fair value of the acquisition-related consideration for the deferred fixed purchase price and earnout payments subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the performance goals, will be recognized in earnings in the period the estimated fair value changes. The fair value of the acquisition-related consideration to be distributed directly to the eventIS and VividLogic selling shareholder is \$14.4 million.

## **4. Consolidated Balance Sheet Detail**

Inventories consist of the following:

	Year ended January 31,	
	2011	2010
	(in thousands)	
Components and assemblies	\$ 8,158	\$ 11,316
Finished products	6,235	6,514
Total inventories, net	<u>\$ 14,393</u>	<u>\$ 17,830</u>



Property and equipment, net consist of the following:

	Estimated useful life (years)	Year ended January 31,	
		2011	2010
		(in thousands)	
Land		\$ 4,285	\$ 4,295
Buildings	20	13,586	13,364
Office furniture and equipment	5	3,117	2,867
Computer equipment, software and demonstration equipment	3	67,606	65,815
Deployed assets	2-7	3,280	3,280
Service and spare components	5	8,912	8,731
Leasehold improvements	1-7	3,383	2,629
Automobiles and trucks	5	211	211
Construction in progress		298	1,048
		104,678	102,240
Less - Accumulated depreciation and amortization		(68,297)	(62,558)
Total property and equipment, net		\$ 36,381	\$ 39,682

Depreciation and amortization expense of fixed assets was \$8.2 million, \$8.0 million and \$7.2 million for the years ended January 31, 2011, 2010 and 2009, respectively.

Other accrued expenses consist of the following:

	Year ended January 31,	
	2011	2010
(in thousands)		
Acquisition-related consideration	\$ 3,179	\$ 2,941
Accrued compensation and commissions	3,864	3,051
Employee benefits	668	585
Accrued other	8,817	4,597
Total other accrued expenses	<u>\$ 16,528</u>	<u>\$ 11,174</u>

## 5. Investments in Affiliates

SeaChange periodically reviews indicators of the fair value of its investments in affiliate companies in order to assess whether available facts or circumstances, both internally and externally, may suggest an other than temporary decline in the fair value of the investment. There were no indications of other than temporary declines in the fair value of investments in affiliates as of January 31, 2011 and 2010, respectively. The Company's investments in affiliates under the cost method of accounting are as follows:

	Year ended January 31,	
	2011	2010
(in thousands)		
Casa	\$ -	\$ 8,897
Minerva	1,000	1,000
Insite One	-	2,748
Visible World	552	552
Other investments	1,361	500
Total investments in affiliates	<u>\$ 2,913</u>	<u>\$ 13,697</u>

*Casa Systems.* On April 26, 2010, the Company sold its entire equity investment in Casa Systems, Inc., a Massachusetts company that specializes in video-on-demand products for the telecommunications and television markets, for \$34.1 million realizing a pre-tax profit of \$25.2 million. For fiscal 2011, 2010 and 2009, SeaChange purchased \$0, \$52,000 and \$98,000, respectively, of equipment from Casa Systems.

*Minerva.* SeaChange owns 1.3 million shares of preferred stock representing 2.8% of the total capital stock of Minerva Networks, Inc. (“Minerva”), a California based company specializing in software products for the telecommunications and television markets. The preferred shares are convertible to 1.3 million shares of common stock under certain conditions as defined in the Stock Purchase Agreement. SeaChange accounts for this investment under the cost method of accounting.

*InSite One.* In Q4 of FY11, SeaChange sold its entire equity investment in InSite One for \$4.6 million in cash realizing a pre-tax profit of \$1.9 million. For fiscal years 2011, 2010 and 2009 SeaChange recognized revenues of \$14,000, \$31,000 and \$164,000, respectively, from InSite One.

*Visible World.* SeaChange owns less than 5% of the common and preferred stock of Visible World and is accounting for this investment under the cost method of accounting. In fiscal 2004, SeaChange and Visible World signed a revised Marketing Agreement in which SeaChange agreed to receive warrants to purchase 2.8 million shares of preferred stock of Visible World in lieu of future royalties that would have been earned by SeaChange relating to revenue earned by Visible World in accordance with an agreement between Visible World and Comcast Cable Corporation (“Comcast”). The warrants vested over the five year term of the agreement between Visible World and Comcast and ended in fiscal year 2009. SeaChange estimated the fair value of these warrants to be \$223,000 and included the amount in investments in affiliates with an offsetting amount included in deferred revenue. SeaChange recognized the deferred revenue over a five year period, the term of the agreement ending in fiscal year 2009. For fiscal years 2011, 2010 and 2009, SeaChange recognized revenues of approximately \$532,000, \$641,000 and \$703,000 respectively, from Visible World.

*On Demand Deutschland GmbH & Co. KG* On February 27, 2007, the On Demand Group Limited (“ODG”), a wholly-owned U.K. subsidiary of SeaChange, entered into an agreement with Tele-Munchen Fernseh GmbH & Co. Produktionsgesellschaft (TMG) to create a joint venture named On Demand Deutschland GmbH & Co. KG. On Demand Deutschland specializes in establishing on-demand and pay-per-view services on multiple platforms in German-speaking Europe. ODG contributed \$2.8 million to acquire its 50% ownership interest in the joint venture of which \$2.6 million consisted of the fair value of customer contracts and content license agreements contributed by ODG and \$154,000 represented a cash contribution. The customer contracts and licensed content had no book value. SeaChange determined that this investment is an operating joint venture and does not require consolidation. Consequently, SeaChange accounts for this investment under the equity method of accounting.

ODG’s original investment in the joint venture was recorded at \$154,000 representing the US dollar equivalent of the initial cash contribution. The difference between the book and fair value of the customer contracts and content license agreements is being accreted over the expected five year life of the contracts and recorded as a gain and an increase in the investment. This gain will be partially offset by ODG’s 50% share of the joint venture’s amortization expense over the same period related to the acquired contracts and content license agreements. ODG also recorded a net payable amount to the joint venture of \$337,000 as of the joint venture formation date (February 27, 2007) reflecting the transfer of net liabilities incurred by ODG related to the joint venture as well as the joint venture’s reimbursement of previously incurred costs by ODG of \$787,000 related to joint venture activities prior to its formation. Consistent with authoritative guidance regarding non-monetary transactions, ODG did not record other income in connection with the reimbursement of these costs or any other gains as ODG is deemed to have a commitment to support the operations of the joint venture. ODG treated the reimbursement and other gain for a total of \$869,000 as a capital distribution in excess of the carrying value of its investment in the joint venture. This capital distribution will be accreted over the expected five year life of the customer contracts and recorded as a gain and an increase in the investment in the joint venture. ODG recorded an income tax provision during fiscal 2008 of \$1.1 million for the taxable gain recognized by ODG related to the \$2.6 million contribution of customer contracts and content licenses to and the reimbursement of previously paid costs from the joint venture.

ODG entered into a Service Agreement with the joint venture whereby ODG provides content aggregation, distribution, marketing and administration services to the joint venture under an arm’s length fee structure. For the years ended January 31, 2011, 2010 and 2009, ODG recorded revenues of \$1.9 million, \$1.8 million, and \$1.5, respectively,

related to the Service Agreement. ODG's share of profits from this agreement in proportion to its equity ownership interest is eliminated in consolidation.

The Shareholder's Agreement requires both ODG and TMG to provide cash contributions up to \$4.2 million upon the request of the joint venture's management and approval by the shareholders of the joint venture. Through the year ended January 31, 2011, ODG and TMG each made additional cash contributions of \$1.6 million to the joint venture.

ODG recorded its proportionate share of the joint venture's losses of \$36,000 for the fiscal year ended January 31, 2011 and losses for the fiscal years ended January 31, 2010 and 2009 of \$653,000 and \$770,000, respectively. Due to the capital distribution and ODG's share of the joint venture's net loss exceeding the book value of its investment in the joint venture, the investment is recorded as a long-term liability of \$1.2 million and \$1.5 million at January 31, 2011 and 2010, respectively.

## **6. Acquisitions**

### ***eventIS Group B.V.***

On September 1, 2009, the Company acquired the entire share capital of eventIS Group B.V. ("eventIS") based in Eindhoven, the Netherlands, which provides video on demand and linear broadcast software and related services to cable television and telecommunications companies primarily in Europe. The results of eventIS's operations have been included in the consolidated financial statements since the acquisition date. The Company acquired eventIS to expand its VOD solutions into the European market.

#### *Fair Value of Consideration Transferred*

The Company has made cash payments to the former shareholder of eventIS under the eventIS Share Purchase Agreement of \$36.7 million plus \$2.2 million based on an estimated working capital adjustment in accordance with the eventIS Share Purchase Agreement.

On September 1, 2010, the Company paid approximately \$1.8 million and issued 75,018 shares (approximate value \$615,000) of restricted stock that will vest annually over three years. The former shareholders of eventIS elected to receive the balance of the Restricted Stock consideration due in cash in the amount of approximately \$410,000, which will be paid out in equal installments on September 1, 2011, 2012, and 2013. The Company is obligated to make additional fixed payments on September 1, 2011 and 2012, each in an aggregate amount of \$2.8 million with \$1.7 million payable in cash and \$1.1 million payable by the issuance of restricted shares of SeaChange common stock, which will vest in equal installments over three years starting on the first anniversary of the date of issuance. Under the earn-out provisions of the share purchase agreement a payment of \$340,000 for fiscal 2011 will be paid in the first quarter fiscal 2012. Additional earn-out payments may be earned over each of the next two years ended January 31, 2012 and 2013 if certain performance goals are met.

#### *Allocation of Consideration Transferred*

The identifiable assets acquired and liabilities assumed in the eventIS acquisition were recognized and measured as of the acquisition date, September 1, 2009, based on their estimated fair values. The excess of the acquisition date fair value of consideration transferred over the fair value of the net tangible assets and intangible assets acquired was recorded as goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the eventIS acquisition date.

Consideration:	<u>(in thousands)</u>
Payment of cash to eventIS shareholders.....	\$ 36,631
Acquisition-related deferred consideration.....	10,098
Total acquisition-date fair value .....	<u>\$ 46,729</u>

	<u>(in thousands)</u>
Cash and cash equivalents.....	\$ 4,374
Accounts receivable.....	4,237
Inventory.....	98
Other tangible assets.....	695
Intangible assets.....	23,833
Total identifiable assets acquired.....	33,237
Accounts payable and other liabilities.....	(2,069)
Deferred taxes.....	(4,495)
Deferred revenue.....	(6,207)
Total liabilities assumed.....	(12,771)
Goodwill.....	26,263
Net assets acquired.....	<u>\$ 46,729</u>

#### *Intangible Assets*

In determining the fair value of the intangible assets, the Company considered, among other factors, the intended use of acquired assets, analyses of historical financial performance and estimates of future performance of eventIS's products. The fair values of identified intangible assets were calculated using an income approach based on estimates and assumptions provided by eventIS's and the Company's management. The rates utilized to discount net cash flows to their present values were based on a weighted average cost of capital of 17%. This discount rate was determined after consideration of the rate of return on debt capital and equity that typical investors would require in an investment in companies similar in size and operating in similar markets as eventIS. The following table sets forth the components of identified intangible assets associated with the eventIS acquisition and their estimated useful lives:

	<u>Useful life</u>	<u>Fair Value</u>
		<u>(in thousands)</u>
Existing technology	3-9 years	\$ 6,748
In process research and development	indefinite	574
Non-compete agreements	3 years	2,153
Customer contracts	10 years	13,927
Trademarks	4 years	431
Total intangible assets		<u>\$ 23,833</u>

SeaChange determined the useful life of intangible assets based on the expected future cash flows associated with the respective asset. Existing technology is comprised of products that have reached technological feasibility and are part of eventIS's product line. In-process research and development assets as of the acquisition date of \$574,000 were recorded as indefinite-lived intangible assets and will be subject to impairment testing at least annually. The useful life of the intangible asset recognized will be reconsidered if and when in-process research and development projects are completed or abandoned. Customer contracts represent the underlying relationships and agreements with eventIS's installed customer base. Trademarks represent the fair value of the brand and name recognition associated with the marketing of eventIS's products and services. Non-compete agreements represent the fair value of the non-compete with the former shareholders and key employees and will be amortized over the term of the agreement. Amortization of existing technology is included in cost of product revenue, and amortization expense for customer relationships and trademarks is included in operating expenses.

### *Goodwill*

Of the total eventIS purchase price of \$46.7 million, \$26.3 million was allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. SeaChange determined that the goodwill included the value of the eventIS work force and expected synergies in global sales and marketing, especially within the European market, and in the deployment of VOD systems. SeaChange considers the acquired business an addition to the Company's Software reporting segment. The Company made this determination based upon the financial information provided and reviewed by our Chief Executive Officer (the chief operating decision maker) and the similar economic characteristics to our other products in our Software segment. None of the goodwill associated with the eventIS acquisition is deductible for income tax purposes.

### *Deferred Revenue*

In connection with the allocation of consideration transferred, SeaChange recorded the fair value of the customer contract obligations assumed from eventIS. The fair value of the customer contract obligations was determined using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that SeaChange would be required to pay a third party to assume the service obligations. The costs to fulfill the service obligations were based on the historical direct costs and indirect costs related to eventIS's contracts with its customers. Direct costs include personnel directly engaged in providing service and support activities, while indirect costs consist of estimated general and administrative expenses based on normalized levels as a percentage of revenue. Profit associated with selling efforts was excluded because eventIS had concluded the selling efforts on the service contracts prior to the date of the Company's acquisition. The research and development costs associated with the customer contracts have been included in the fair value determination, as these costs were deemed to represent a legal obligation to the customers at the time of acquisition. SeaChange recorded \$6.2 million of deferred revenue to reflect the fair value of eventIS's service obligations assumed.

### *Acquisition-related Consideration*

A liability was recognized for the acquisition date fair value of the acquisition-related consideration for the deferred fixed purchase price, and the estimated earnout payments and working capital adjustments. Any change in the fair value of the acquisition-related consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the meeting of performance goals, will be recognized in earnings in the period the estimated fair value changes. The fair value estimate is based on the probability weighted bookings to be achieved over the earnout period. A change in fair value of the acquisition-related consideration could have a material effect on the statement of operations and financial position in the period of the change in estimate.

The fair value of the acquisition-related consideration to be distributed directly to the eventIS selling shareholder was estimated by the Company at the acquisition date to be \$10.1 million on September 1, 2009.

### *VividLogic, Inc.*

On February 1, 2010, the Company completed its acquisition of VividLogic, Inc. ("VividLogic"). VividLogic, based in Fremont, California provides in-home infrastructure software for high definition televisions, home gateways, and set-top boxes to cable television service providers, set-top box manufacturers and consumer electronics (CE) suppliers. The Company acquired VividLogic to expand its in-home solutions. The results of VividLogic's operations have been included in the consolidated financial statements since the acquisition date.

### *Fair Value of Consideration Transferred*

The Company has made cash payments totaling \$18.5 million. In addition, \$3.0 million was paid on February 1, 2011.

The Company is obligated to make additional fixed payments of \$1.0 million in cash on February 1, 2012 and 2013. In addition, under the share purchase agreement with the former shareholders of VividLogic the Company will make an earnout payment of \$257,000 in the first quarter of fiscal 2012. Additional earn-out payments may be earned over each of the next two years ended January 31, 2012 and 2013 if certain performance goals are met.

### *Allocation of Consideration Transferred*

The identifiable assets acquired and liabilities assumed in the VividLogic acquisition were recognized and measured as of the acquisition date, February 1, 2010, based on their estimated fair values. The excess of the acquisition date fair value of consideration transferred over the estimated fair value of the net tangible assets and intangible assets acquired was recorded as goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the VividLogic acquisition date.

	<b>February 1, 2010</b>
	<b>(in thousands)</b>
Payment of cash to VividLogic shareholders .....	\$ 15,470
Acquisition-related deferred consideration .....	8,388
Total acquisition-date fair value .....	<u>\$ 23,858</u>
Cash and cash equivalents .....	\$ 5,932
Accounts receivable .....	2,917
Other assets .....	1,739
Deferred tax assets .....	1,250
Intangible assets .....	9,900
Total identifiable assets acquired .....	<u>21,738</u>
Accounts payable and other liabilities .....	(1,740)
Deferred tax liabilities .....	(3,665)
Deferred revenue .....	(2,500)
Total liabilities assumed .....	<u>(7,905)</u>
Goodwill .....	10,025
Net assets acquired .....	<u>\$ 23,858</u>

### *Intangible Assets*

In determining the fair value of the intangible assets, the Company considered, among other factors, the intended use of acquired assets, analyses of historical financial performance, and estimates of future performance of VividLogic's products. The fair values of identified intangible assets were calculated using an income approach based on estimates and assumptions provided by VividLogic's and the Company's management. The following table sets forth the components of identified intangible assets associated with the VividLogic acquisition and their estimated useful lives:

	<b>Useful life</b>	<b>Fair Value</b>
		<b>(in thousands)</b>
Existing technology	5-9 years	\$ 2,200
Non-compete agreements	5 years	700
Customer contracts	9 years	6,200
Trade name	indefinite	200
Backlog	1 year	600
Total intangible assets		<u>\$ 9,900</u>

SeaChange determined the useful life of intangible assets based on the expected future cash flows associated with the respective asset. Existing technology is comprised of products that have reached technological feasibility and are part of VividLogic's product line. Non-compete agreements represent the fair value of the non-compete with the former shareholders and key employees and will be amortized over the respective terms of the agreements. Customer contracts represent the underlying relationships and agreements with VividLogic's installed customer base. Trade name represents the value of the VividLogic name. Backlog represents the discounted value of the orders received from customers but unfulfilled. Amortization of existing technology is included in cost of product revenue, and amortization expense for customer relationships, non-compete and backlog are included in operating expenses. The weighted average life of the remaining amortization expense is approximately eight years.

#### *Goodwill*

Of the total VividLogic purchase price of \$23.9 million, \$10.0 million was allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. SeaChange determined that the goodwill included the value of VividLogic's work force and expected synergies in global sales and marketing. SeaChange considers the acquired business an addition to the Company's Software reporting segment. The Company made this determination based upon the financial information provided and reviewed by our Chief Executive Officer (the chief operating decision maker) and the similar economic characteristics to our other products in our Software segment. None of the goodwill associated with the VividLogic acquisition is deductible for income tax purposes.

#### *Deferred Revenue*

In connection with the allocation of consideration transferred, SeaChange recorded the fair value of the customer contract obligations assumed from VividLogic. The fair value of the customer contract obligations was determined using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that SeaChange would be required to pay a third party to assume the service obligations. The estimated costs to fulfill the service obligations were based on the historical direct costs and indirect costs related to VividLogic's contracts with its customers. Direct costs include personnel directly engaged in providing service and support activities, while indirect costs consist of estimated general and administrative expenses based on normalized levels as a percentage of revenue. Profit associated with selling efforts was excluded because VividLogic had concluded the selling efforts on the service contracts prior to the date of the Company's acquisition. The research and development costs associated with the customer contracts have been included in the fair value determination, as these costs were deemed to represent a legal obligation to the customers at the time of acquisition. SeaChange recorded \$2.5 million of deferred revenue as of the acquisition date to reflect the fair value of VividLogic's service obligations assumed.

#### *Acquisition-related Consideration*

A liability was recognized for the acquisition date fair value of the acquisition-related consideration for the deferred fixed purchase price, the estimated earnout payments and working capital adjustments. Any change in the fair value of the acquisition-related consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in our estimate of the meeting of performance goals, will be recognized in earnings in the period the estimated fair value changes. The fair value estimate for the earnout payment was estimated at \$700,000 and is based on the probability weighted bookings to be achieved over the earnout period. A change in fair value of the acquisition-related consideration could have a material effect on the statement of operations and financial position in the period of the change in estimate. The fair value of the acquisition-related consideration to be distributed directly to the VividLogic shareholders was estimated by the Company at the acquisition date to be \$8.4 million.

#### *Acquisition-related Costs*

SeaChange recorded transaction costs such as legal, accounting, valuation and other professional services of \$831,000 for the year ended January 31, 2011 and \$341,000 for the year ended January 31, 2010. The transaction costs were expensed and recorded in general and administrative expenses in the Consolidated Statement of Operations. During the year ended January 31, 2011, the Company recorded \$204,000 of interest expense in the Consolidated Statement of Operations for the change in fair value of the acquisition-related contingencies.

## 7. Goodwill and Intangible Assets

At January 31, 2011 and 2010, the Company had goodwill of \$65.3 million and \$55.9 million, respectively. The change in the carrying amount of goodwill for the years ended January 31, 2011 and 2010 are as follows:

	<u>Software</u>	<u>Servers &amp; Storage</u>	<u>Media Services</u>	<u>Total</u>
Balance at January 31, 2009	\$ 10,162	\$ 754	\$ 16,506	\$ 27,422
Mobix consideration payments	-	-	2,478	\$ 2,478
Revaluation of Mobix intangibles	-	-	(1,387)	(1,387)
eventIS acquisition	26,263	-	-	26,263
Cumulative translation adjustment	(889)	-	1,989	1,100
Balance at January 31, 2010	35,536	754	19,586	55,876
VividLogic acquisition	10,025	-	-	10,025
Cumulative translation adjustment	(464)	-	(164)	(628)
Balance at January 31, 2011	<u>\$ 45,097</u>	<u>\$ 754</u>	<u>\$ 19,422</u>	<u>\$ 65,273</u>

As of August 1, 2010, SeaChange reviewed the recoverability of goodwill associated with its three reporting units, Software, Servers and Storage and Media Services, and determined that there was no goodwill impairment. While no impairment charges resulted from the analyses performed during the fourth quarter of fiscal 2011, impairment charges may occur in the future due to changes in projected revenue growth rates, projected operating margins or estimated discount rates, among other factors. The Company's projections used to evaluate goodwill as of August 1, 2010 have included changes to revenue and operating expense resulting from the restructuring plan that occurred during the third quarter of fiscal 2011. (see Note 8)

At January 31, 2011 and 2010, the Company had recorded net intangible assets of \$30.3 million and \$26.3 million respectively, consisting of patents, customer contracts, non-compete agreements, completed technology, in-process research and development and trademarks.

Intangible assets, net, consisted of the following:

		January 31, 2011			January 31, 2010		
	Weighted average remaining life (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
		(in thousands)			(in thousands)		
<b>Finite-lived intangible assets:</b>							
Customer contracts.....	7.2	\$ 34,576	\$ (14,291)	\$ 20,285	\$ 28,643	\$ (11,984)	\$ 16,659
Non-compete agreements.....	2.0	2,742	(1,104)	1,638	2,487	(290)	2,197
Completed technology.....	5.1	11,976	(4,775)	7,201	9,904	(3,250)	6,654
Trademarks and other.....	0.8	2,384	(1,946)	438	1,391	(1,191)	200
Total finite-lived intangible assets		\$ 51,678	\$ (22,116)	\$ 29,562	\$ 42,425	\$ (16,715)	\$ 25,710
<b>Infinite-lived intangible assets:</b>							
Trade names .....	Infinite	\$ 200	\$ -	\$ 200	\$ -	\$ -	\$ -
In-process research and development.....	Infinite	544	-	544	554	-	554
Total infinite-lived intangible assets .....		\$ 744	\$ -	\$ 744	\$ 554	\$ -	\$ 554
Total intangible assets .....		\$ 52,422	\$ (22,116)	\$ 30,306	\$ 42,979	\$ (16,715)	\$ 26,264



Estimated useful lives and the amortization basis for the intangible assets are as follows:

	<b>Estimated Useful Life and Amortization Basis</b>
Customer contracts	1 - 8 years using economic consumption life basis
Non compete agreements	2 - 3 years economic life of the agreement
Completed technology	4 - 6 years using economic consumption life basis
Trademarks and other	5 years using economic consumption life basis
In-process R & D	indefinite life
Trade names	indefinite life

Amortization expense for intangible assets was \$5.4 million, \$3.5 million and \$2.0 million for the years ended January 31, 2011, 2010 and 2009, respectively. In the years ended January 31, 2011, 2010 and 2009, \$2.0 million, \$638,000, and \$450,000, respectively, were charged to cost of product revenues. In the years ended January 31, 2011, 2010 and 2009, \$3.4 million, \$2.8 million and \$1.6 million, respectively, were charged to operating expense. The total amortization expense for each of the next five fiscal years is as follows:

	<b>Amortization Expense</b>
	<b>(in thousands)</b>
Fiscal 2012	\$ 4,892
Fiscal 2013	4,570
Fiscal 2014	3,654
Fiscal 2015	3,507
Fiscal 2016 and thereafter	12,939
Total Future Amortization	<u>\$ 29,562</u>

Actual amounts may change from such estimated amounts due to fluctuations in foreign currency exchange rates, additional intangible asset acquisitions, potential impairment, accelerated amortization, or other events.

## 8. Restructuring

During the fiscal year ended January 31, 2011, the Company lowered its cost structure as it strives to improve its financial performance. The fiscal year ended January 31, 2011 included restructuring charges to its income statement totaling \$7.0 million for severance costs related to the termination of 110 employees, a write down of inventory of \$2.5 million related to the decision to discontinue certain products within the Servers and Storage segment, and a charge for the disposal of fixed assets totaling \$1.3 million as a direct result of the restructuring plan.

The severance amounts reported as a component of accrued liabilities on the Balance Sheet as of January 31, 2011 were as follows:

<b>(in thousands)</b>	<b>Severance</b>
Accrual balance as of January 31, 2010	\$ -
Amount charged to expense	3,241
Severance costs paid	(2,833)
Accrual balance as of January 31, 2011	<u>\$ 408</u>

## 9. Lines of Credit

The Company maintains a revolving line of credit with RBS Citizens (a subsidiary of the Royal Bank of Scotland Group plc) for \$20.0 million which expires on October 31, 2012. Loans made under this revolving line of credit bear interest at a rate per annum equal to the bank's prime rate. Borrowings under this line of credit are collateralized by substantially all of the Company's assets. The loan agreement requires SeaChange to comply with certain financial covenants. As of January

31, 2011, we were in compliance with the financial covenants and there were no amounts outstanding under the revolving line of credit.

We are occasionally required to post letters of credit, issued by a financial institution, to secure certain sales contracts. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as we have satisfied the commitment secured by the letter of credit. We are obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. We believe that it is unlikely we will be required to fund a claim under our outstanding letters of credit. As of January 31, 2011 the full amount of the letters of credit of \$1.5 million was supported by our credit facility.

## 10. Commitments and Contingencies

SeaChange leases certain of its operating facilities, automobiles and office equipment under non-cancelable operating leases, which expire at various dates through 2015. Rental expense under operating leases was \$3.2 million, \$2.6 million and \$3.7 million for the years ended January 31, 2011, 2010 and 2009, respectively. Future commitments under minimum lease payments as of January 31, 2011 are as follows:

	<b>Operating Leases</b>
	<b>(in thousands)</b>
Fiscal Year ended January 31, 2012	\$ 2,943
2013	1,359
2014	787
2015	726
2016 and thereafter	688
Minimum lease payments	<u>\$ 6,503</u>

SeaChange has non-cancelable purchase commitments for its inventories of approximately \$2.9 million at January 31, 2011 and studio content commitments of \$12.3 million at January 31, 2011.

### *ARRIS Litigation*

On July 31, 2009, ARRIS Group, Inc. ("ARRIS") filed a contempt motion in the U.S. District Court for the District of Delaware against SeaChange International relating to U.S. Patent No 5,805,804 (the "804 patent"), a patent in which ARRIS has an ownership interest. In its motion, ARRIS is seeking further patent royalties and the enforcement of the permanent injunction entered by the Court on April 6, 2006 against certain SeaChange products. On August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court that its products do not infringe the '804 patent and asserting certain equitable defenses. Discovery and briefing on the ARRIS contempt motion are expected to be completed on April 18, 2011. SeaChange changed the product that was the subject of the first patent lawsuit regarding the '804 patent to specifically avoid any further claims of alleged infringement under the '804 patent. In addition, on March 15, 2007 SeaChange petitioned the U.S. Patent and Trademark Office to re-examine the '804 patent in view of the claim construction that was given in the prior trial regarding the '804 patent. As a result of the re-examination, the patent examiner cancelled the first three claims of the '804 patent. SeaChange believes that ARRIS's contempt motion is without merit, and that SeaChange's products do not infringe the '804 patent.

### *Guarantees, Indemnification and Warranties*

SeaChange provides indemnification, to the extent permitted by law, to its 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 SeaChange's request in such capacity. With respect to acquisitions, SeaChange provides indemnification to or assumes indemnification obligations for the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies' bylaws and charter. As a matter of practice, SeaChange has maintained directors' and officers' liability insurance including coverage for directors and officers of acquired companies.

SeaChange enters into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require SeaChange to defend and/or indemnify the other party against

intellectual property infringement claims brought by a third party with respect to SeaChange's products. From time to time, SeaChange also indemnifies 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 SeaChange's products and services or resulting from the acts or omissions of SeaChange, its employees, authorized agents or subcontractors. For example, SeaChange has received requests from several of its customers for indemnification of patent litigation claims asserted by Acacia Media Technologies, USA Video Technology Corporation and VTran Media Technologies. Management performed an analysis of these requests under authoritative guidance regarding accounting for contingencies.

SeaChange warrants that its products, including software products, will substantially perform in accordance with its standard published specifications in effect at the time of delivery. Most warranties have at least a one year duration that generally commence upon installation. In addition, SeaChange provides maintenance support to its customers and therefore allocates a portion of the product purchase price to the initial warranty period and recognizes revenue on a straight line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. When SeaChange receives revenue for extended warranties beyond the standard duration, it is deferred and recognized on a straight line basis over the contract period. Related costs are expensed as incurred.

In the ordinary course of business, SeaChange provides minimum purchase guarantees to certain of its vendors to ensure continuity of supply against the market demand. Although some of these guarantees provide penalties for cancellations and/or modifications to the purchase commitments as the market demand decreases, most of the guarantees do not. Therefore, as the market demand decreases, SeaChange re-evaluates the accounting implications of guarantees and determines what charges, if any, should be recorded.

With respect to its agreements covering product, business or entity divestitures and acquisitions, SeaChange provides certain representations and warranties and agrees to indemnify and hold such purchasers harmless against breaches of such representations, warranties and covenants. With respect to its acquisitions, SeaChange may, from time to time, assume the liability for certain events or occurrences that took place prior to the date of acquisition.

SeaChange provides such guarantees and indemnification obligations after considering the economics of the transaction and other factors including but not limited to the liquidity and credit risk of the other party in the transaction. SeaChange believes that the likelihood is remote that any such arrangement could have a material adverse effect on its financial position, results of operation or liquidity. SeaChange records liabilities, as disclosed above, for such guarantees based on the Company's best estimate of probable losses which considers amounts recoverable under any recourse provisions.

## **11. Stockholders' Equity**

### *Stock Authorization*

The Board of Directors is authorized to issue from time to time up to an aggregate of 5,000,000 shares of preferred stock, in one or more series. Each such series of preferred stock shall have the number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges to be determined by the Board of Directors, including dividend rights, voting rights, redemption rights and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights.

### *Stock Repurchase Program*

On March 11, 2009, the Board of Directors authorized the repurchase of up to \$20 million of its common stock through a share repurchase program, which expired on January 31, 2010. During fiscal 2010, 473,415 shares of our common stock were purchased for \$2.8 million at an average price of \$5.85 as part of this repurchase program.

On May 26, 2010, SeaChange's Board of Directors authorized the repurchase of up to \$20.0 million of its common stock, par value \$.01 per share, through a share repurchase program. The repurchase program will terminate on January 31, 2012. During the year ended January 31, 2011, the Company repurchased approximately 178,000 shares at a cost of \$1.4 million at an average purchase price \$8.05. During fiscal 2011, there were 1,484,617 treasury shares retired.

## 12. Segment Information

The Company is managed and operated as three segments; Software, Servers and Storage, and Media Services, as segments defined by authoritative guidance. A description of the three reporting segments is as follows:

- Software segment includes product revenues from the Company's Advertising, VOD, Middleware and Broadcast software solutions, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products, and operating expenses relating to the Software segment such as research and development, selling and marketing and amortization of intangibles. The Software segment includes the results of eventIS Group B.V. as of September 1, 2009 and VividLogic as of February 1, 2010.
- Servers and Storage segment includes product revenues from the VOD and Broadcast server product lines and related services such as professional services, installation, training, project management, product maintenance, and technical support for those products and operating expenses relating to the Servers and Storage segment, such as research and development and selling and marketing.
- Media Services segment includes the operations of ODG, including Mobix Interactive, activities which include content acquisition and preparation services for television and wireless service providers and related operating expenses.

Under this revised reporting structure, the Company further determined that there are significant functions, and therefore costs considered corporate expenses and are not allocated to the reportable segments for the purposes of assessing performance and making operating decisions. These unallocated costs include general and administrative expenses, other than general and administrative expenses related to Media Services, interest and other income, net, taxes and equity income (losses) in affiliates, which are managed separately at the corporate level.

The basis of the assumptions for all such revenues, costs and expenses includes significant judgments and estimations. There are no inter-segment revenues for the periods shown below. The Company does not separately track all assets by operating segments nor are the segments evaluated under this criterion.

The following summarizes the income (loss) from operations by reportable operating segment:

	Year ended January 31,		
	2011	2010	2009
	(in thousands)		
<b>Software</b>			
Revenue:			
Products	\$ 73,626	\$ 66,968	\$ 78,397
Services	82,984	64,346	53,840
Total revenue	156,610	131,314	132,237
Gross profit	87,992	79,543	76,087
Operating expenses:			
Research and development	38,286	39,592	33,373
Selling and marketing	17,807	16,624	16,417
General and administrative	1,465	502	-
Amortization of intangibles	3,073	2,246	1,456
Restructuring	905	-	-
Total operating expenses	61,536	58,964	51,246
<b>Income from operations</b>	<b>\$ 26,456</b>	<b>\$ 20,579</b>	<b>\$ 24,841</b>
<b>Servers and Storage</b>			
Revenue:			
Products	\$ 18,053	\$ 34,974	\$ 38,975
Services	14,033	15,583	14,665
Total revenue	32,086	50,557	53,640
Gross profit	15,966	20,426	24,865
Operating expenses:			
Research and development	10,117	11,072	9,669
Selling and marketing	6,699	9,218	11,025
Restructuring	5,180	-	-
Total operating expenses	21,996	20,290	20,694
<b>(Loss) income from operations</b>	<b>\$ (6,030)</b>	<b>\$ 136</b>	<b>\$ 4,171</b>
<b>Media Services</b>			
Service revenue	\$ 28,031	\$ 19,794	\$ 15,959
Gross profit	4,791	3,284	2,344
Operating expenses:			
Selling and marketing	-	-	64
General and administrative	4,026	3,015	3,049
Amortization of intangibles	286	580	119
Total operating expenses	4,312	3,595	3,232
<b>Income (loss) from operations</b>	<b>\$ 479</b>	<b>\$ (311)</b>	<b>\$ (888)</b>
<b>Unallocated Corporate</b>			
Operating expenses:			
General and administrative	\$ 18,837	\$ 18,202	\$ 17,930
Restructuring	912	-	-
<b>Total unallocated corporate expenses</b>	<b>\$ 19,749</b>	<b>\$ 18,202</b>	<b>\$ 17,930</b>
<b>Consolidated income from operations</b>	<b>\$ 1,156</b>	<b>\$ 2,202</b>	<b>\$ 10,194</b>

The following summarizes revenues by customers' geographic locations. Certain reclassifications have been made to conform prior period amounts to current period presentation, including the reclassification of revenue originated in Canada from Latin American to North American revenue:

	Year ended January 31,					
	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Revenues by customers' geographic locations:	(in thousands, except percentages)					
North America .....	\$ 123,252	57%	\$ 133,947	66%	\$ 139,457	69%
Europe and Middle East .....	67,543	31%	45,787	23%	44,059	22%
Asia Pacific and other international locations .	11,026	5%	8,456	4%	14,165	7%
Latin America .....	14,906	7%	13,475	7%	4,155	2%
Total revenues .....	<u>\$ 216,727</u>		<u>\$ 201,665</u>		<u>\$ 201,836</u>	

Total revenues for the United States for the years ended January 31, 2011, 2010, and 2009, were \$113.0 million, \$130.1 million, and \$130.2 million, respectively.

The following summarizes fixed assets, net by geographic locations:

	Year ended January 31,			
	2011		2010	
	Amount	%	Amount	%
Fixed assets, net by geographic locations:	(in thousands, except percentages)			
North America .....	\$ 20,507	57%	\$ 24,058	61%
United Kingdom .....	10,250	28%	10,700	27%
Europe (excluding UK) and Middle East .....	865	2%	580	1%
Asia Pacific and other international locations .	4,759	13%	4,344	11%
Total	<u>\$ 36,381</u>		<u>\$ 39,682</u>	

### 13. Stock-Based Compensation and Stock Incentive Plans

SeaChange uses on a modified prospective basis, the provisions of the authoritative guidance which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock units and, prior to its termination, employee stock purchases related to the Employee Stock Purchase Plan ("ESPP") based on estimated fair values. The fair value of SeaChange's stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the restricted stock units and Employee Stock Purchase Plan stock units are amortized on a straight line basis. SeaChange has applied the provisions of authoritative guidance allowing the use of a "simplified" method, in developing an estimate of the expected term of "plain vanilla" share options.

Stock-based compensation includes expense charges for all stock-based awards to employees and directors. Such awards include option grants, restricted stock unit awards, and, prior to its termination, shares expected to be purchased under an employee stock purchase plan. The estimated fair value of SeaChange's stock-based options and performance-based restricted stock units, less expected forfeitures, is amortized over the awards' vesting period on a graded vesting basis, whereas the restricted stock units and ESPP stock units are amortized on a straight line basis.

The effect of recording stock-based compensation was as follows:

	Year ended January 31,		
	2011	2010	2009
	(in thousands)		
Stock-based compensation expense by type of award:			
Stock options .....	\$ (60)	\$ 94	\$ 304
Restricted stock units .....	766	639	996
Performance-based restricted stock units .....	2,107	1,628	2,061
Employee stock purchase plan .....	144	744	593
Total stock-based compensation .....	<u>\$ 2,957</u>	<u>\$ 3,105</u>	<u>\$ 3,954</u>

Since additional option grants and restricted stock unit awards are expected to be made each year and options and awards vest over several years, the effects of applying authoritative guidance for recording stock-based compensation for the year ended January 31, 2011 are not indicative of future amounts.

### ***Determining Fair Value***

SeaChange records the fair value of stock options, including rights granted under the ESPP prior to its termination, using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price, the expected option term, the risk-free interest rate over the option's expected term, the expected annual dividend yield and the expected stock price volatility. The expected option term was determined using the "simplified" method for "plain vanilla" options. The expected stock price volatility was established using a blended volatility, which is an average of the historical volatility of SeaChange's common stock over a period of time equal to the expected term of the stock option, and the average volatility of SeaChange's common stock over the most recent one-year and two-year periods.

The fair value of stock options granted was estimated at the date of grant using the following assumptions:

	Year ended January 31,		
	2011	2010	2009
Expected term (in years)	4-5	4-5	4-5
Expected volatility (range)	51%-53%	61%	52%-56%
Weighted average volatility	53%	61%	52%
Risk-free interest rate	1.5%-1.6%	1.2%	2.6%-2.9%
Weighted average interest rate	1.6%	1.2%	2.9%
Expected dividend yield	0%	0%	0%

The fair value of ESPP stock granted was estimated at the date of grant using following assumptions:

	Year ended January 31,		
	2011	2010	2009
Expected term (in years)	0.5	0.5	0.5
Weighted average volatility	48%	71%	61%
Weighted average interest rate	0.1%	0.3%	2.8%
Expected dividend yield	0%	0%	0%

### ***Stock Option Plans***

#### ***Amended and Restated 2005 Equity Compensation and Incentive Plan***

The Amended and Restated 2005 Equity Compensation and Incentive Plan (the "2005 Plan") provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and "other" non-stock option awards as determined by the plan administrator for the purchase of up to an aggregate of 2,800,000 shares of SeaChange's

common stock by officers, employees, consultants and directors of SeaChange. The Company may satisfy awards upon the exercise of stock options or restricted stock units with either newly issued shares. The Board of Directors is responsible for the administration of the 2005 Plan and determining the term of each award, award exercise price, number of shares for which each award is granted and the rate at which each award is exercisable. As of January 31, 2011, there were 603,719 shares available for future grant of which 87,995 RSUs were available.

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 (not less than 110% for an incentive stock option granted to a 10% or more stockholder). Incentive stock options may be granted only to those employees of SeaChange to the extent that the fair value of the options granted that become exercisable during any one calendar year plus previously granted incentive stock options that become exercisable in that period is less than \$100,000. Restricted stock units and other equity-based non-stock option awards may be granted to any officer, employee, director or consultant at a purchase price per share as determined by the Board of Directors. Awards granted under the 2005 Plan generally vest over three years and expire seven years from the date of the grant (five years for incentive stock options granted to holders of more than 10% of SeaChange's voting stock).

The following table summarizes the stock option activity (excluding restricted stock units):

	Year ended January 31,					
	2011		2010		2009	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of period	3,934,973	\$ 15.41	4,228,237	\$ 15.43	4,884,205	\$ 14.99
Granted	15,000	8.77	60,000	6.23	13,500	8.71
Exercised	(309,195)	6.71	(47,805)	6.79	(223,006)	5.29
Forfeited/expired/cancelled	(1,258,604)	23.30	(305,459)	15.38	(446,462)	15.51
Outstanding at end of period	<u>2,382,174</u>	<u>\$ 12.31</u>	<u>3,934,973</u>	<u>\$ 15.41</u>	<u>4,228,237</u>	<u>\$ 15.43</u>
Options exercisable at end of period	2,367,176	\$ 12.33	3,865,221	\$ 15.56	4,169,492	\$ 15.53
Weighted average remaining contractual term (in years)		1.95		3.38		4.06

The weighted-average fair valuation at grant date of stock options granted during the years ended January 31, 2011, 2010 and 2009, was \$3.70, \$3.21, and \$3.52, respectively. As of January 31, 2011, the unrecognized stock-based compensation related to the unvested stock options was \$38,000 net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for any future changes in estimated changes in forfeitures. This cost will be recognized over an estimated weighted average amortization period of seventeen months.

The total intrinsic value of options exercised during the years ended January 31, 2011, 2010 and 2009 was approximately \$473,000, \$60,000 and \$576,000, respectively, with intrinsic value defined as the difference between the market price on the date of exercise and the grant date price.

The cash received from employees as a result of employee stock option exercises during fiscal years 2011, 2010 and 2009 was \$2.1 million, \$324,000, and \$1.2 million, respectively.



The following table summarizes information about employee and director stock options outstanding and exercisable as of January 31, 2011:

	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining contractual terms (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
<b>Range of exercise prices</b>					
\$ 5.85 to 6.88	380,743	1.44	\$ 6.53	380,743	\$ 6.53
6.93 to 8.38	242,829	2.47	7.34	242,829	7.34
8.41 to 10.72	322,471	2.40	10.12	307,471	10.18
11.35 to 13.24	291,517	1.98	12.56	291,517	12.56
13.31 to 13.66	39,338	1.12	13.44	39,338	13.44
13.76 to 13.76	253,732	1.14	13.76	253,732	13.76
14.47 to 15.59	360,513	2.37	15.02	360,513	15.02
15.62 to 17.39	367,921	2.36	16.55	367,921	16.55
17.56 to 29.25	117,112	0.67	20.61	117,112	20.61
32.48 to 32.48	6,000	0.93	32.48	6,000	32.48
	<u>2,382,176</u>	<u>1.95</u>	<u>\$ 12.31</u>	<u>2,367,176</u>	<u>\$ 12.33</u>

### ***Restricted Stock Units***

Pursuant to the 2005 Plan, SeaChange may grant restricted stock units that entitle the recipient to acquire shares of SeaChange's common stock. Awards of restricted stock units vest in equal increments on each of the first three anniversaries of the grant of the award. Stock-based compensation expense associated with the restricted stock units is charged for the market value of the Company's stock on the date of grant, assuming nominal forfeitures, and is amortized over the awards' vesting period on a straight-line basis for awards with only a service condition and graded vesting basis for awards that include both a performance and service condition. As of January 31, 2011 there were 87,995 RSUs available to be granted. For fiscal 2011, approximately 465,446 RSUs were earned by the Company executive officers under the Company's fiscal 2011 performance based plan. These RSUs were not awarded due to the Company not having sufficient RSUs available within the 2005 Plan to satisfy the RSUs earned. The Company recorded a liability totaling \$1.5 million on the Consolidated Balance Sheet as of January 31, 2011 for the estimated fair value of the award. The award will be re-measured quarterly until the increase in the RSUs is approved by the shareholders. These shares will be awarded subject to shareholder approval at the Company's annual meeting on July 20, 2011.

The following table summarizes the restricted stock unit activity:

	Year ended January 31,					
	2011		2010		2009	
	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value
Nonvested at beginning of period	572,489	\$ 7.94	458,674	\$ 8.99	230,508	\$ 8.99
Awarded	223,020	8.12	523,346	6.45	519,814	7.30
Vested	(353,542)	8.15	(409,531)	7.22	(287,648)	6.40
Forfeited/expired/cancelled	(78,889)	7.20	-	-	(4,000)	6.93
Nonvested at end of period	<u>363,078</u>	<u>\$ 8.00</u>	<u>572,489</u>	<u>\$ 7.94</u>	<u>458,674</u>	<u>\$ 8.72</u>

As of January 31, 2011 the unrecognized stock-based compensation related to the unvested restricted stock units was \$4.2 million. This cost will be recognized over an estimated weighted average amortization period of 1.8 years.

### ***Employee Stock Purchase Plan***

In September 1996, SeaChange's Board of Directors adopted and the stockholders approved an employee stock purchase plan (the "ESPP"), effective January 1, 1997 as amended July 16, 2008, which provides for the issuance of a

maximum of 2.2 million shares of common stock to participating employees who meet eligibility requirements. The Plan was terminated on May 31, 2010. Employees who would immediately after the purchase own 5% or more of the total combined voting power or value of SeaChange's stock and directors who are not employees of SeaChange may not participate in the ESPP. The purchase price of the stock is 85% of the lesser of the average market price of the common stock on the first or last business day of each six-month plan period. During the fiscal years ended January 31, 2011, 2010 and 2009, shares of common stock were issued under the Stock Purchase Plan were 135,632, 282,889 and 236,707, respectively. The cash received from employees as a result of the ESPP during fiscal 2011, 2010 and 2009 was \$660,000, \$1.5 million, and \$1.6 million, respectively.

#### 14. Income Taxes

The components of income before income taxes are as follows:

	Year ended January 31,		
	2011	2010	2009
	(in thousands)		
Domestic .....	\$ 18,718	\$ (2,719)	\$ 2,840
Foreign .....	8,327	5,066	8,479
	<u>\$ 27,045</u>	<u>\$ 2,347</u>	<u>\$ 11,319</u>

The components of the income tax benefit (expense) are as follows:

	Year ended January 31,		
	2011	2010	2009
	(in thousands)		
Current:			
Federal .....	\$ (2,546)	\$ (271)	\$ 296
State .....	(188)	32	(80)
Foreign .....	(887)	(1,214)	(915)
	<u>(3,621)</u>	<u>(1,453)</u>	<u>(699)</u>
Deferred:			
Federal .....	4,677	-	-
State .....	137	-	-
Foreign .....	1,145	1,082	124
	<u>5,959</u>	<u>1,082</u>	<u>124</u>
	<u>\$ 2,338</u>	<u>\$ (371)</u>	<u>\$ (575)</u>

The income tax benefit (expense) computed using the federal statutory income tax rate differs from SeaChange's effective tax rate primarily due to the following:

	Year ended January 31,		
	2011	2010	2009
	(in thousands)		
Statutory U.S. federal tax rate .....	\$ (9,471)	\$ (861)	\$ (3,962)
State taxes, net of federal tax benefit .....	(33)	29	52
Losses not benefitted .....	7,967	(1,157)	527
Non-deductible stock compensation expense .....	79	(133)	(255)
Other .....	462	(126)	(35)
Research and development tax credits .....	117	130	650
Foreign tax rate differential .....	3,217	1,747	2,448
	<u>\$ 2,338</u>	<u>\$ (371)</u>	<u>\$ (575)</u>

SeaChange's effective tax rate was 9%, 16%, and 5% in the years ended January 31, 2011, 2010 and 2009, respectively.

The components of deferred income taxes are as follows:

	Year ended January 31,	
	2011	2010
	(in thousands)	
Deferred tax assets:		
Accruals and reserves .....	\$ 2,593	\$ 3,041
Deferred revenue .....	6,478	4,395
Stock-based compensation expense .....	1,277	1,933
U.S. federal and state tax credits .....	1,586	4,297
Net operating loss carryforwards .....	3,403	3,291
Property and equipment .....	30	-
Other .....	15	(28)
Deferred tax assets .....	15,382	16,929
Less: Valuation allowance .....	(6,985)	(14,903)
Net deferred tax assets .....	8,397	2,026
Deferred tax liabilities:		
Property and equipment .....	-	313
Intangible assets .....	7,371	5,110
Other .....	-	-
Deferred tax liabilities .....	7,371	5,423
Total net deferred tax assets(liabilities) .....	\$ 1,026	\$ (3,397)

At January 31, 2011, SeaChange had federal, state and foreign net operating loss carryforwards of \$1.2 million, \$13.5 million and \$10.2 million respectively, which can be used to offset future tax liabilities and expire at various dates beginning in fiscal 2016. Utilization of these net operating loss carryforwards may be limited pursuant to provisions of the respective local jurisdiction. At January 31, 2011, SeaChange had federal and state research and development credit carryforwards of approximately \$216,000 and \$994,000, respectively, and state investment tax credit carryforwards of \$111,000. The federal credit carryforwards will expire at various dates beginning in fiscal 2012, if not utilized. Certain state credit carryforwards will expire at various dates beginning in fiscal 2012, while certain other state credit carryforwards may be carried forward indefinitely. Utilization of these credit carryforwards may be limited pursuant to provisions of the respective local jurisdiction. SeaChange also has alternative minimum tax credit carryforwards of \$652,000 which is available to reduce future federal regular income taxes over an indefinite period.

For the year ended January 31, 2011, the Company has a valuation allowance of \$7.0 million. During the year the Company released \$ 7.9 million of the valuation allowance against the Company's deferred tax assets in the U.S. due to the Company having met the "more than likely than not" realization criteria. The Company met this criteria as a result of the gains related to the Company's equity investments in Casa Systems, Inc. and InSite One, as well as the benefit of the reduction in deferred tax assets associated with the deferred tax liabilities from the acquisition of VividLogic, Inc. Previously, the Company maintained a full valuation allowance and will continue to monitor available information in determining whether there is sufficient evidence to consider releasing some or all of the remaining valuation allowance

At January 31, 2011, the Company has indefinitely reinvested \$45.4 million of the cumulative undistributed earnings of certain foreign subsidiaries. Approximately \$35.3 million of such earnings would be subject to U.S. taxes if repatriated to the U.S. Through January 31, 2011, the Company has not provided deferred income taxes on the undistributed earnings of its foreign subsidiaries because such earnings are considered to be indefinitely reinvested outside the U.S. Non-US income taxes are, however, provided on those foreign subsidiaries' undistributed earnings. Determination of the potential deferred income tax liability on these undistributed earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

For the year ended January 31, 2011, the Company recognized an additional tax expense for unrecognized tax benefits of \$404,000. None of the amounts included in the balance of unrecognized tax benefits at January 31, 2011 of \$7.3 million are related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. The Company recognizes accrued interest and penalties related to uncertain tax

positions in income tax expense. A reconciliation of the beginning and ending balance of the total amounts of gross unrecognized tax benefits, excluding interest of \$708,000 is as follows (in thousands):

	<b>Year ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in thousands)</b>	
Balance of gross unrecognized tax benefits, beginning of period	\$ 6,985	\$ 6,404
Increases due to acquisitions	1,200	-
Gross amounts of increases in unrecognized tax benefits as a result of tax positions taken in the current period	404	521
Decrease due to expiration of statute of limitation	(188)	-
Decrease due to settlement	(1,094)	-
Effect of currency translation	(24)	60
Balance of gross unrecognized tax benefits, end of period	<u>\$ 7,283</u>	<u>\$ 6,985</u>

The Company and its subsidiaries file income tax returns in U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. The Company is no longer subject to U.S. federal examinations before 2007. However, the taxing authorities still have the ability to review the propriety of certain tax attributes created in closed years if such tax attributes are utilized in an open tax year, such as our federal research and development credit carryovers.

### **15. Employee Benefit Plan**

SeaChange sponsors a 401(k) retirement savings plan (the “Plan”). Participation in the Plan is available to full-time employees who meet eligibility requirements. Eligible employees may contribute up to 25% of their annual salary, subject to certain limitations. SeaChange matched contributions up to 50% of the first 6% of compensation. During the fiscal years ended January 31, 2011, 2010 and 2009, SeaChange contributed \$1.3 million, \$1.4 million and \$802,000, respectively. The Company also contributes to various retirement plans in its international subsidiaries, of which the amounts will vary, according to the local plans specific to each foreign location.

### **16. Related Party**

On September 1, 2009, SeaChange completed its acquisition of eventIS from a holding company in which Erwin van Dommelen, elected President of SeaChange Software in March 2010, has a 31.5% interest. On closing the transaction, SeaChange made cash payments to the holding company totaling \$37.0 million and issued \$1.1 million of restricted shares. SeaChange is obligated to make additional fixed payments to the holding company of deferred purchase price under the eventIS share purchase agreement, each such payment to be in an aggregate amount of \$2.8 million with \$1.7 million payable in cash and \$1.1 million payable by the issuance of restricted shares of SeaChange common stock, which will vest in equal installments over three years starting on the first anniversary date of the purchase agreement for three years. At the option of the former shareholder of eventIS, up to forty percent of each payment otherwise to be made in restricted stock may be payable in cash on the vesting dates of the restricted shares. On September 1, 2010, the Company paid \$1.8 million and issued 75,000 shares (approximate value \$615,000) of restricted stock that will vest annually over three years. The remaining \$410,000 will be paid out in equal installments on September 1, 2011, 2012, and 2013. Under the earn-out provisions of the share purchase agreement a payment of \$340,000 for fiscal 2011 will be paid in the first quarter fiscal 2012. Additional earn-out payments may be earned over each of the next two years ended January 31, 2012 and 2013 if certain performance goals are met.

## 17. Quarterly Results of Operations—Unaudited

The following table sets forth certain unaudited quarterly results of operations for the fiscal years ended January 31, 2011 and 2010. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the quarterly information when read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The quarterly operating results are not necessarily indicative of future results of operations.

	Three months ended							
	April 30, 2009	July 31, 2009	October 31, 2009	January 31, 2010	April 30, 2010	July 31, 2010	October 31, 2010	January 31, 2011
Revenue	\$48,876	\$46,507	\$53,290	\$52,992	\$54,589	\$51,636	\$49,135	\$61,367
Gross profit	25,018	23,714	27,557	26,964	27,378	24,859	23,241	33,271
Operating expenses	23,714	24,204	26,977	26,156	31,929	24,634	26,648	24,382
Net income (loss)	998	(376)	657	44	20,298	3,534	(5,215)	10,851
Earnings (loss) per share-Basic	0.03	(0.01)	0.02	-	0.66	0.11	(0.17)	0.34
Earnings (loss) per share-Diluted	0.03	(0.01)	0.02	-	0.64	0.11	(0.17)	0.34

**Schedule II**  
**SEACHANGE INTERNATIONAL, INC.**  
**VALUATION OF QUALIFYING ACCOUNTS AND RESERVES**

**Years ended January 31, 2011, 2010 and 2009**

	<u>Balance at beginning of period</u>	<u>Charged to costs and expenses</u>	<u>Deductions and write- offs</u>	<u>Other Adjustments</u>	<u>Balance at end of period</u>
	(in thousands)				
<b>Accounts Receivable Allowance:</b>					
Year ended January 31, 2011	\$ 852	\$ 147	\$ (4)	\$ -	\$ 995
Year ended January 31, 2010	853	75	(76)	-	852
Year ended January 31, 2009	663	670	(480)	-	853

	<u>Balance at beginning of period</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance at end of period</u>
	(in thousands)				
<b>Deferred Tax Assets Valuation Allowance:</b>					
Year ended January 31, 2011	\$ 14,903	\$ -	\$ (7,918)	\$ -	\$ 6,985
Year ended January 31, 2010	15,692	-	(789)	-	14,903
Year ended January 31, 2009	13,319	2,373	-	-	15,692

## SEACHANGE INTERNATIONAL, INC.

## SUBSIDIARIES OF THE REGISTRANT

<b>Subsidiary Name</b>	<b>Subsidiary Jurisdiction</b>
SeaChange US Pty Limited	Australia
ZQ Interactive, Ltd.	British Virgin Islands
SEAC Canada Limited	Canada
ZQ Interactive (Shanghai), Ltd.	China (Shanghai)
SeaChange International SARL	France
S.E.A.C. Germany GmbH	Germany
ODG Deutschland GmbH	Germany
eventIS GmbH	Germany
SeaChange India Private, Ltd.	India
VividLogic (India) Private Ltd.	India
S.E.A.C. Ireland Limited	Ireland
SeaChange Japan KK	Japan
SeaChange Korea LLC	Korea
Cambio Maritimo Mexico, S. de R.L de C.V.	Mexico
SeaChange B.V.	Netherlands
eventIS Group B.V.	Netherlands
eventIS B.V.	Netherlands
eventIS Software Solutions B.V.	Netherlands
eventIS Interactive Solutions B.V.	Netherlands
SeaChange Philippines Corporation	Philippines
SeaChange LLC	Russia
SeaChange Asia Pacific Pte. Ltd.	Singapore
On Demand Entertainment SA (PTY) Ltd	South Africa
SeaChange Telekomünikasyon Hizmetleri Anonim Sirketi	Turkey
On Demand Group Limited	United Kingdom
On Demand Management Ltd.	United Kingdom
On Demand Productions Ltd.	United Kingdom
Mobix Interactive Ltd.	United Kingdom
Sceneworx Ltd.	United Kingdom
SeaChange International UK Ltd.	United Kingdom
eventIS (UK) Limited	United Kingdom
SeaChange Holdings, Inc.	United States
VividLogic, Inc	United States

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our reports dated April 14, 2011, with respect to the consolidated financial statements, financial statement schedule, and internal control over financial reporting included in the Annual Report of SeaChange International, Inc and subsidiaries on Form 10-K for the year ended January 31, 2011. We hereby consent to the incorporation by reference of said reports in the Registration Statements of SeaChange International, Inc and subsidiaries on Forms S-3 (File No. 333-56410 with an effective date of April 30, 2002) and on Forms S-8 (File Nos. 333-136322 with an effective date of August 4, 2006, 333-17379 with an effective date of December 6, 1996, 333-100160 with an effective date of September 27, 2002, 333-65854 with an effective date of July 25, 2001, 333-113761 with an effective date of March 19, 2004, 333-128987 with an effective date of October 13, 2005, 333-147970 with an effective date of December 10, 2007, and 333-153424 with an effective date of September 11, 2008),.

/s/ Grant Thornton LLP

Boston, Massachusetts  
April 14, 2011



**CERTIFICATION**

I, William C. Styslinger, III, certify that:

1. I have reviewed this annual report on Form 10-K of SeaChange International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2011

By: /s/ WILLIAM C. STYSLINGER, III  
 William C. Styslinger, III  
 Chief Executive Officer,  
 Chairman of the Board and Director  
 (Principal Executive Officer)

# **CERTIFICATION**

I, Kevin M. Bisson, certify that:

1. I have reviewed this annual report on Form 10-K of SeaChange International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2011

By: /s/ KEVIN M. BISSON

**Kevin M. Bisson,  
Chief Financial Officer,  
Senior Vice President,  
Finance and Administration,  
Treasurer and Secretary  
(Principal Financial and Accounting Officer)**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of SeaChange International, Inc. (the “*Company*”) on Form 10-K for the year ended January 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “*Report*”), I, William C. Styslinger, III, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Company’s Annual Report on Form 10-K fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ WILLIAM C. STYSLINGER, III

William C. Styslinger, III  
Chief Executive Officer,  
Chairman of the Board and Director

April 14, 2011

This certification is being furnished to the Securities and Exchange Commission with this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purpose of Section 18 of the Securities Exchange Act of 1934.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of SeaChange International, Inc. (the “*Company*”) on Form 10-K for the year ended January 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “*Report*”), I, Kevin M. Bisson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Company’s Annual Report on Form 10-K fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ KEVIN M. BISSON

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**Kevin M. Bisson**  
Chief Financial Officer, Senior Vice President,  
Finance and Administration,  
Treasurer and Secretary

April 14, 2011

This certification is being furnished to the Securities and Exchange Commission with this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purpose of Section 18 of the Securities Exchange Act of 1934.

## CORPORATE INFORMATION

### Board of Directors

Mary Palermo Cotton  
Peter Feld  
Thomas F. Olson  
Raghu Rau  
Carlo Salvatori  
William C. Styslinger, III – Chairman of the Board  
Edward Terino  
Carmine Vona

### Executive Officers

Kevin M. Bisson – Senior Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary  
Steven M. Davi – Senior Vice President, Advanced Technology and Head of the Office of CTO  
Ira Goldfarb – Executive Vice President, Worldwide Sales and Service  
Yvette Kanouff – President  
Anthony W. Kelly – Senior Vice President  
William C. Styslinger, III – Chairman of the Board and Chief Executive Officer  
Erwin van Dommelen – President, SeaChange Software Division

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### Headquarters

50 Nagog Park  
Acton, MA 01720  
Tel: 978.897.0100  
Fax: 978.897.0132

### Sales and Support Facilities

Acton, MA  
Dundalk, Ireland  
London, UK  
Manila, Philippines  
Shanghai, China  
Singapore  
Tokyo, Japan  
Valbonne, France

### Development Offices

Acton, MA  
Eindhoven, The Netherlands  
Fort Washington, PA  
Greenville, NH  
San Mateo, CA  
Shanghai, China

### Stockholders Information

Requests for information about the Company and additional copies of this report should be directed to:

### INVESTOR RELATIONS

SeaChange International, Inc.  
50 Nagog Park  
Acton, MA 01720  
Tel: 978.897.0100 Fax: 978.897.0132  
investorrelations@schange.com

More information is also available  
on our web site: [www.schange.com](http://www.schange.com)

### Stock Trading Information

SeaChange International's common stock trades  
on the NASDAQ Stock Market under the symbol SEAC

### Transfer Agent and Registrar

BNY Mellon Shareowner Services  
480 Washington Boulevard  
Jersey City, New Jersey 07310 -1900  
[www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd)  
Toll Free Number: 800.288.9541  
TDD for hearing impaired: 800.231.5469  
Foreign shareowners: 201.680.6578

### Independent Accountants

Grant Thornton LLP  
226 Causeway Street  
6th Floor  
Boston, MA 02114  
Tel: 617.723.7900  
Fax: 617.723.3640  
[www.grantthornton.com](http://www.grantthornton.com)

### General Counsel

Choate, Hall & Stewart, LLP  
Two International Place  
Boston, MA 02110

### Annual Meeting of Stockholders

The Annual Meeting of Stockholders of SeaChange International, Inc. will be held on July 20, 2011 at the Company's headquarters at 50 Nagog Park, Acton, MA.

## ABOUT SEACHANGE INTERNATIONAL

SeaChange International (NASDAQ: SEAC) is the global leader in multi-screen video and one of the largest software companies worldwide. The Company provides innovative, Emmy award-winning solutions and services for back office, advertising, content, in-home devices and broadcast to hundreds of media companies, including blue chip companies such as Comcast, Virgin Media, AT&T, Hutchison Whampoa, Vodacom and DISH Network. Headquartered in Acton, Massachusetts, SeaChange has product development, support and sales offices around the world.



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50 Nagog Park, Acton, MA 01720 USA | T 1.978.897.0100 | F 1.978.897.0132  
[www.schange.com](http://www.schange.com)