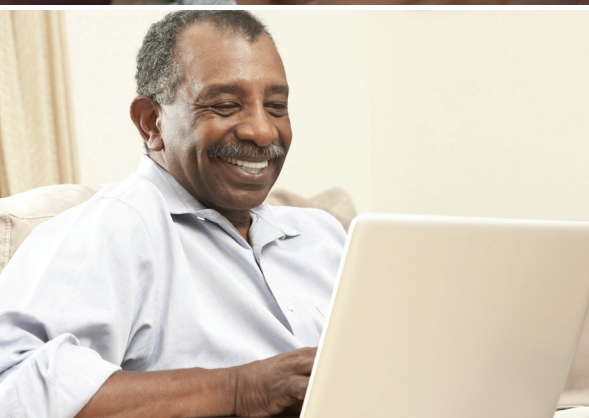
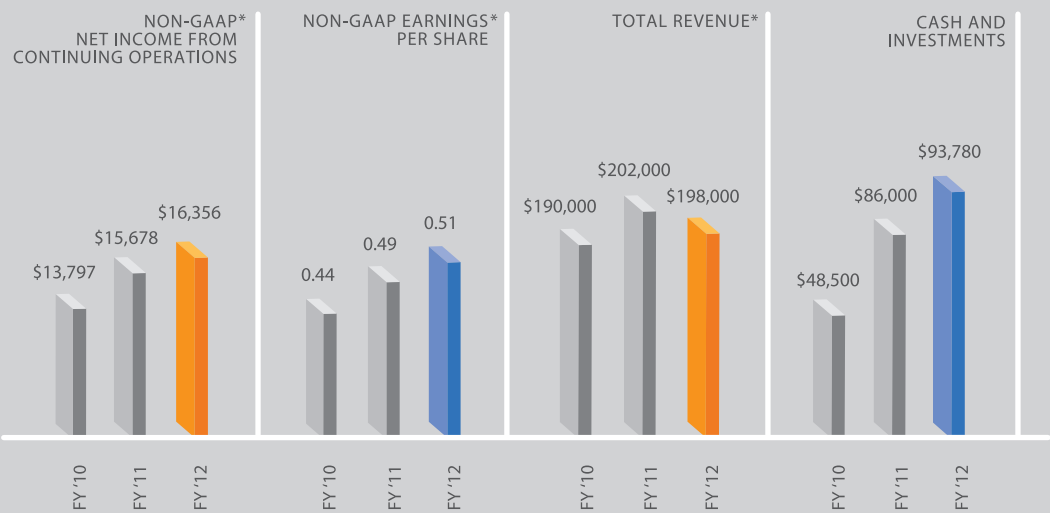


transformative
OTT gateway
personalized
cable software
experiences
video
anytime
advertising
cloud
any device
cable
multi-screen
everywhere
innovative
software
billions of streams
mobile
video
cloud
video
software



It is our mission, as a trusted partner, to enable video service providers to increase ARPU and reduce OPEX, CAPEX and customer churn through personalized video services that seamlessly unite television with the internet.

SEACHANGE INTERNATIONAL, INC.
FINANCIAL HIGHLIGHTS



*After discontinued operations
(all numbers in thousands, except diluted earnings per share)



Letter from the CEO

Dear Fellow Shareholders:

SeaChange International, ranked among the world's top 250 software companies, is enabling multi-screen video services through open, cloud-based, intelligent software solutions trusted by cable, IPTV and mobile operators globally.

Our vision is simple: to provide transformative, personalized video experiences in the home and everywhere, any time on any device through innovative software.

Our mission is to be a trusted partner to video service providers, enabling them to increase ARPU (average revenue per unit) and reduce operating expenses, capital expenses and customer churn through personalized video services that seamlessly unite television with the internet.

Since becoming the Chief Executive Officer (CEO) of SeaChange International on November 30, 2011, I have had the opportunity to meet many of our shareholders and prospective investors. I am very appreciative of the input and support I have received from investors, customers and employees as we execute our transformation strategy to significantly improve shareholder value.

Below are key elements of the transformation strategy and a report on our progress:

1. Become a pure-play software provider and focus on our core business.

When I assumed the role of CEO, SeaChange was comprised of three distinct business units: servers and storage, media services, and software and services. A critical part of our transformation strategy was to become a pure-play software company by focusing on our core software and services business while divesting the non-core hardware and media services assets. I am pleased to report that within

less than six months we completed the sale of the broadcast servers and storage business to XOR Media and the sale of the media services business to Avail-TVN, allowing us to now focus on our core software business, while generating a significant amount of cash.

2. Focus on our core service provider customers.

SeaChange is privileged to list among its customers some of the most distinguished names in the video industry, including Comcast, Cox, Cablevision, Rogers, AT&T, Verizon, UPC, and StarHub. We continue to expand our geographic reach with new service provider customer wins, including most recently announced deals with Starman, Estonia's leading cable television and digital terrestrial television operator; Vectra, Poland's third largest cable operator; and Cablenet, the leading cable TV and telecommunications supplier in Cyprus. We will focus intensely on giving our service provider customers a distinct advantage to compete with "Over the Top" services through robust, innovative software solutions. It is our belief that video service providers will continue to innovate and offer consumers the highest quality video across multiple platforms and hardware devices, and we are in a unique position to lead this innovation.

3. Invest in next generation software solutions.

We have shifted our research and development support and investment from declining legacy products to our next generation software products. These products fall into three categories: video back office software, in-home gateway software and advanced advertising software. Adrenalin is our next

generation video back office software. This product suite allows our customers to reduce their capital and operating expenditures as well as subscriber churn while increasing customer loyalty and ARPU. It streamlines and automates the “back office” functions of a customer’s video operations while integrating the ability to address delivery to multiple devices such as tablets, mobile phones and personal computers (PCs). One of our newest products, Nucleus, is our “soft box” gateway product for in-home networking. This product provides operators with an industry standard software gateway that is completely hardware agnostic. The home gateway addresses the need to deliver advanced functionality in the home across multiple devices and provides new applications such as whole home digital video recorder. And finally, Infusion is our advanced advertising software solution that enables the monetization of video across multiple devices through targeted and interactive advertising.

We are also integrating some additional innovations into our intelligent multi-screen video platform, including a recommendation engine that finds, recommends and delivers personalized content to viewers via TV, PC or mobile, based on their profile, viewing behavior or collaborative inputs; TV ad targeting that is based on web browser activity; and exciting new applications for watching TV shows via mobile devices.

4. Significantly reduce the overall cost structure of the business.

This year we have already realized more than \$5 million in annualized reductions, along with more than \$8 million in operating cost reductions from the divestiture of the broadcast servers and storage and media services businesses. We are committed to achieving further cost reductions by reducing general and administrative expenditures and streamlining operations to ensure that we deliver improved financial results.

5. Deliver quality.

As we continue our pursuit of “best of breed” quality, I am pleased to report that this year we have achieved renewal of our TL 9000 certification. The TL 9000 standard was developed by a consortium of telecommunications suppliers and service providers to pursue a goal of global telecommunications quality and industry-wide performance excellence. We are focused on continuous improvement, and are therefore further simplifying and streamlining all internal processes and instituting quality metrics as we pursue the delivery of quality excellence.

6. Grow revenues.

No transformation strategy is complete without a plan for healthy revenue growth. We are fortunate to have launched this year our three exciting next generation product lines (back office, in-home gateway and advanced advertising), all of which are in the early stages of growth. We intend to drive revenue growth by:

- a. Upgrading existing customers to our next generation software products — we have already announced several design wins for our Adrenalin next generation video back office.
- b. Expanding into adjacent products – in May we announced the licensing of APRICO content recommendation source code and other intellectual property rights from Royal Philips Electronics. This agreement allows us to tightly integrate state-of-the-art personalized, content-aware and collaborative recommendation functionality into our Adrenalin product. In addition, we created a joint solution with Civolution that enables operators — for the first time — to offer premium video-on-demand (VOD) content to their subscribers. The solution is currently being deployed by a large North American cable operator. As mandated by Hollywood studios for offering movies in an

early-release window, operators need to integrate transactional watermarking protection into their VOD workflow and network infrastructure, which allows for forensic tracking to the source of potential illegal copies. In order to do this, SeaChange integrated Civolution's newest NexGuard watermark pre-processor and smart-embedder software into three components of our intelligent video software platform. We will continue to look for viable products to further expand our intelligent video software platform.

- c. Launching into new and adjacent markets and territories such as IPTV and mobile. According to a recent report by Multimedia Research Group, by 2015 the number of IPTV subscribers globally is expected to grow from 54 million in 2011 to 113 million, with a compound annual growth rate (CAGR) of 20.3 percent, and the service revenue for the world IPTV market will grow at a CAGR of 21.7 percent to reach \$49 billion. In addition, a Visiongain report indicates that global mobile video traffic will account for more than 60 percent of mobile data traffic by 2016, and that the mobile video market will increase at a CAGR of 28 percent with revenues reaching \$22.5 billion by 2016.

Our new vision, mission and transformation strategy are re-energizing customers and employees. As we continue to execute on our strategy, we look forward to delivering superior financial performance and future revenue growth to drive shareholder value.

Thank you for your continued support.



A handwritten signature in dark ink, appearing to read 'Raghu Rau' with a stylized flourish at the end.

Raghu Rau
Chief Executive Officer

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

**NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JULY 18, 2012**

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 18, 2012 at 10:00 a.m., local time, to consider and act upon each of the following matters:

1. To elect the nominees named in the proxy statement to the Board of Directors to serve for three-year terms as Class I Directors.
2. To conduct an advisory vote on the compensation of the Company’s named executive officers.
3. To ratify the appointment of SeaChange’s independent registered public accounting firm.
4. 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 21, 2012, 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

Michael Bornak
*Chief Financial Officer, Secretary, Treasurer and Senior
Vice President, Finance and Administration*

Acton, Massachusetts
May 30, 2012

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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**2012 ANNUAL MEETING OF STOCKHOLDERS
PROXY STATEMENT**

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

**PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JULY 18, 2012**

May 30, 2012

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 18, 2012, 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 21, 2012 (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 6, 2012, 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 2012 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 6, 2012 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 I 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 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 I Directors, **FOR** approval of the compensation of the Company’s named executive officers, 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, Raghu Rau and Michael Bornak, 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 21, 2012 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 30; 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 21, 2012. 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 32,815,189 shares of SeaChange’s common stock outstanding as of May 21, 2012.

| Name | Amount and Nature of Beneficial Ownership ⁽¹⁾ | Percent of Common Stock Outstanding |
|---|---|--|
| Raghu Rau | 94,980 | * |
| Michael D. Bornak | — | * |
| Ira Goldfarb | 193,011 | * |
| Anthony Kelly ⁽²⁾ | 428,722 | 1.3% |
| Erwin van Dommelen | 35,554 | * |
| William C. Styslinger, III ⁽³⁾ | 1,047,334 | 3.2% |
| Yvette M. Kanouff ⁽⁴⁾ | 98,821 | * |
| Kevin M. Bisson ⁽⁵⁾ | 81,745 | * |
| Mary Palermo Cotton | 66,500 | * |
| Peter Feld ⁽⁶⁾⁽⁸⁾ | 2,797,342 | 8.5% |
| Thomas F. Olson | 95,888 | * |
| Carlo Salvatori | 36,000 | * |
| Edward Terino | 49,000 | * |
| Carmine Vona | 93,377 | * |
| Dimensional Fund Advisors LP ⁽⁷⁾ Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746 | 2,000,611 | 6.1% |
| Starboard Value LP ⁽⁸⁾ 599 Lexington Avenue, 20 th Floor New York, NY 10022 | 2,797,342 | 8.5% |

| Name | Amount and Nature of Beneficial Ownership ⁽¹⁾ | Percent of Common Stock Outstanding |
|---|---|--|
| Wellington Management Company, LLP ⁽⁹⁾ 75 State Street Boston, MA 02109 | 1,702,274 | 5.2% |
| TAMRO Capital Partners LLC ⁽¹⁰⁾ 1701 Duke Street, Suite 250 Alexandria, VA 22314 | 2,056,496 | 6.3% |
| All executive officers and directors as a group (15 persons) ⁽¹¹⁾ | 5,503,387 | 16.8% |

* 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 21, 2012, as follows: Mr. Goldfarb, 68,000 shares; Ms. Cotton, 5,000 shares; Mr. Olson, 17,500 shares; Mr. Vona, 17,500 shares; Mr. Rau, 50,000 shares. Includes restricted stock units that will have vested within 60 days of May 21, 2012, as follows: Mr. Rau, 6,000 restricted stock units; and Mr. Terino, 6,000 restricted stock units.
- (2) Excludes 5,424 shares of common stock owned by his spouse, Judith Kelly. Mr. Kelly disclaims beneficial ownership of such shares. Effective as of the sale of SeaChange's media services business on May 21, 2012, which sale was announced in a press release furnished by SeaChange in a Form 8-K filed May 21, 2012, Mr. Kelly is no longer employed by SeaChange. Mr. Kelly is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (3) According to an amended Schedule 13G filed on February 14, 2012, Mr. Styslinger may be deemed to beneficially own all of the above mentioned shares. Mr. Styslinger expressly disclaims beneficial ownership of the Shares, except to the extent that Mr. Styslinger is the record owner of such shares. As disclosed in SeaChange's Form 8-K filed November 30, 2011, Mr. Styslinger left SeaChange, effective December 8, 2011. Mr. Styslinger is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee as of the date hereof.
- (4) As disclosed in SeaChange's Form 8-K filed February 3, 2012, Ms. Kanouff left SeaChange, effective January 31, 2012. Ms. Kanouff is a named executive officer for the fiscal year ended January 31, 2012, 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 January 13, 2012, Mr. Bisson left SeaChange, effective January 13, 2012. Mr. Bisson is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (6) Includes 2,344,471 shares held by Starboard Value and Opportunity Fund Ltd ("Value and Opportunity Fund"), 22,650 shares held by Starboard Value and Opportunity S LLC ("Starboard LLC"), and 422,220 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 14, 2012, Dimensional Fund Advisors LP may be deemed to have sole voting power with respect to 1,934,506 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 a Form 4 filed on April 16, 2012 by Mr. Feld. According to the Form 4, as of April 16, 2012, (i) Value and Opportunity Fund had beneficial ownership of 2,344,472 shares, (ii) Starboard LLC had beneficial ownership of 22,650 shares, (iii) Starboard Value LP, as the holder of 422,220 shares and the investment manager of Value and Opportunity Fund and

Starboard LLC, may be deemed to have beneficial ownership of 2,789,342 shares, (iv) 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, (v) 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, Starboard LLC, and Starboard Value LP, and (vi) 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, Starboard LLC 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, Starboard LLC and Starboard Value LP.

- (9) According to an amended Schedule 13G filed on February 14, 2012, Wellington Management Company, LLP shares voting power with respect to 1,004,600 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 8, 2012, TAMRO Capital Partners LLC may be deemed to have sole voting power with respect to 1,678,141 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 30, the remaining executive officers of SeaChange and those persons who were directors of SeaChange as of May 21, 2012. Includes an aggregate of 213,000 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 21, 2012. 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 21, 2012.

PROPOSAL NO. I

ELECTION OF DIRECTORS

SeaChange's Board of Directors currently consists of seven members, six of whom are independent, non-employee directors. The Board of Directors is divided into three classes. Each class is elected 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 current Class I Directors, Messrs. Salvatori and Vona, expires at the Annual Meeting. The Board of Directors, based on the recommendation of the Corporate Governance and Nominating Committee, has nominated Mr. Vona for re-election as a Class I Director and has nominated Mr. Rau (who is currently a Class III director) for election to assume Mr. Salvatori's seat as a Class I Director following the Annual Meeting. Mr. Salvatori has not been nominated for re-election to the Board and will cease to be a member of the Board at the Annual Meeting. The Board of Directors knows of no reason why either 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. Messrs. Rau and Vona have each consented to being named in this proxy statement as a nominee to be a Class I 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 the nominees 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 I Directors (Terms Expire at 2012 Annual Meeting) and Nominee

| Director's Name and Year First Became Director | Position and Principal Occupation and Business Experience During the Past Five Years |
|---|---|
|---|---|

Raghu Rau (2010)

Chief Executive Officer and Director

Raghu Rau, 63, was appointed Chief Executive Officer of SeaChange in November 2011 and joined the SeaChange Board of Directors in July 2010. Mr. Rau previously held a number of senior leadership positions at Motorola, Inc., from 1992 to 2008, and previously served on the Board of Directors of Microtune, Inc., from May 2010 to December 2010, which was then acquired by Zoran Corporation. Mr. Rau has served on the Board of Directors of Aviat Networks, Inc., a leader in wireless transmission systems, since November 2010. Mr. Rau is currently a Class III Director, but has been nominated for election as Class I Director at the 2012 Annual Meeting.

Mr. Rau contributes valuable executive experience as the Chief Executive Officer of SeaChange as well as prior experience in the areas of managing a rapidly expanding business, the integration of strategic acquisitions and joint ventures, and the implementation of corporate strategy.

**Director's Name and Year
First Became Director**

Position and Principal Occupation and Business Experience During the Past Five Years

Carmine Vona (1995)

Director

Carmine Vona, 74, has served as a Director of SeaChange since January 1995. In addition, since December 2001, Mr. Vona has served as a director 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 and as its Chairman from December 2001 through December 2010. 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.

Carlo Salvatori (2009)

Director

Carlo Salvatori, 71, 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 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.

Class II Directors (Terms Expire at 2013 Annual Meeting)

| Nominee's Name and Year First Became Director | Position and Principal Occupation and Business Experience During the Past Five Years |
|--|--|
| Thomas F. Olson (2001) | <p>Chairman of the Board of Directors</p> <p>Thomas F. Olson, 63, has served as a Director of SeaChange since May 2001 and as Chairman since November 2011. 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. Mr. Olson served as Chief Executive Officer of Katz Media Group, a radio, broadcast television and cable television national sales representation firm, from August 1994 to May 1998. 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 the advertising industry, and with the issues confronting companies within these industries.</p> |
| Edward Terino (2010) | <p>Director</p> <p>Edward Terino, 58, 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 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 April 2007 until February 2012, Mr. Terino served as a Director of S1 Corporation, a leading provider of integrated banking solutions, where he was 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.</p> <p>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.</p> |

Class III Directors (Terms Expire at 2014 Annual Meeting)

| Nominee's Name and Year First Became Director | Position and Principal Occupation and Business Experience During the Past Five Years |
|--|---|
| Mary Palermo Cotton (2004) | <p>Director</p> <p>Mary Palermo Cotton, 54, 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) | <p>Director</p> <p>Peter Feld, 33, has served as a Director of SeaChange since December 2010. Currently, Mr. Feld 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 has served as a director of Openwave Systems since July 2011 and as Chairman of the Board of Openwave Systems since September 2011. Previously, Mr. Feld 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.</p> <p>Mr. Feld contributes extensive knowledge of the capital markets and corporate governance practices as a result of his investment and private equity background.</p> |

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, in exchange for certain agreements by Ramius with respect to the 2010 and 2011 Annual Meetings, SeaChange agreed, among other things, to nominate Mr. Terino for election to the Board as a Class II Director at the 2010 Annual Meeting and to elect Mr. Rau to the Board to serve as a Class III Director (with a term to expire at the 2011 Annual Meeting).

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, in exchange for certain agreements by Ramius with respect to the 2011 Annual Meeting, 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 and 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).

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

Determination of Director Independence

The Board of Directors has determined that Messrs. Feld, Olson, 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 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 and Mr. Terino qualified as “independent”.

Stockholder Proposals

Proposals of stockholders intended to be presented at the 2013 Annual Meeting of Stockholders must be received no later than the close of business on February 7, 2013 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 2013 Annual Meeting — other than one that will be included in SeaChange’s proxy materials — must notify SeaChange no earlier than January 8, 2013, and no later than February 7, 2013. If a stockholder who wishes to present a proposal fails to notify SeaChange by February 7, 2013, 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 2013 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 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 twenty times and acted by written consent twice during the fiscal year ended January 31, 2012. During the fiscal year ended January 31, 2012, 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 20, 2011.

Board Leadership Structure

The Board of Directors has appointed an independent director to serve as Chairman of the Board of Directors. 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 Chairman is to set the agenda for Board meetings and 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 Chairman 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. Olson currently serves as the Chairman.

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 nine times and acted by unanimous written consent one time during fiscal year 2012. The responsibilities of the Audit Committee and its activities during fiscal year 2012 are more fully described in the Audit Committee Report contained in this proxy statement.

Compensation Committee

The Compensation Committee members are Messrs. Olson (Chair), Feld, and Terino, 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 seventeen times and acted by unanimous written consent three times during fiscal year 2012. The responsibilities of the Compensation Committee and its activities during fiscal year 2012 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, 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 one time and acted by unanimous written consent one time 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 2012 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, 2012, 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 2012, 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. Until the fourth quarter of fiscal 2012, when Mr. Olson became Chairman, Mr. Vona served as Lead Director. The Lead Director was entitled to receive an additional cash payment of \$10,000 per quarter in consideration of service as Lead Director. Accordingly, for fiscal 2012, Mr. Vona earned \$40,000 for his service as Lead Director in addition to earning \$36,000 for his service as director. Beginning with the first quarter of fiscal 2013 Mr. Olson will receive \$5,000 per quarter in consideration of his service as Chairman.

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 2012, 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, the Compensation Committee and the Independent Advisory Committee of the Board are each entitled to receive an additional cash payment of \$2,500 per quarter. Accordingly, for fiscal 2012, Mr. Olson earned \$10,000 for his service as Chair of the Compensation Committee and Mr. Feld earned \$10,000 for his service as Chair of the Independent Advisory Committee, in each case in addition to earning \$36,000 for service as a director. The Lead Director was not eligible to receive additional fees for service as chair of a committee, and the Chairman will not be either. Accordingly, for fiscal 2012, Mr. Vona was not paid an additional fee for his service as Chair of the Corporate Governance and Nominating Committee and, beginning with the first quarter of fiscal 2013, Mr. Olson will not be paid an additional fee for his service as Chair of the Compensation Committee.

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 2012 was made in November 2011.

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.

Director Compensation Fiscal Year 2012

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards ⁽¹⁾ (\$) | Total (\$) |
|-------------------------------|--|--|---------------|
| Mary Palermo Cotton | \$51,000 | \$ 96,120 | \$147,120 |
| Peter Feld | \$46,000 | \$ 96,120 | \$142,120 |
| Thomas F. Olson | \$46,000 | \$192,525 | \$238,525 |
| Carlo Salvatori | \$36,000 | \$ 96,120 | \$132,120 |
| Ed Terino | \$36,000 | \$ 96,120 | \$132,120 |
| Carmine Vona | \$76,000 | \$ 96,120 | \$172,120 |

(1) 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. | 11/30/2011 | 12,000 | \$96,120 | \$ 96,120 |
| Peter Feld | 11/30/2011 | 12,000 | \$96,120 | \$ 96,120 |
| Thomas F. Olson. | 11/30/2011 | 12,000 | \$96,120 | |
| | 12/1/2011 | 2,898 | \$21,619 | |
| | 1/3/2012 | 2,898 | \$20,866 | |
| | 1/18/2012 | 8,000 | \$53,920 | \$192,525 |
| Carlo Salvatori | 11/30/2011 | 12,000 | \$96,120 | \$ 96,120 |
| Ed Terino. | 11/30/2011 | 12,000 | \$96,120 | \$ 96,120 |
| Carmine Vona. | 11/30/2011 | 12,000 | \$96,120 | \$ 96,120 |

(2) Fees and awards received by Mr. Rau during fiscal 2012 as an outside director prior to his appointment as interim Chief Executive Officer on November 30, 2011 are reflected in the Summary Compensation Table appearing on page 30.

The table below shows the aggregate number of stock awards and options outstanding for each non-employee director as of January 31, 2012. 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 | 28,000 | 0 |
| Thomas F. Olson | 32,000 | 92,500 |
| Carlo Salvatori | 32,000 | 0 |
| Ed Terino | 32,000 | 0 |
| Carmine Vona | 24,000 | 17,500 |

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 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 2012, 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, 2012. The Audit Committee also decided to retain Grant Thornton LLP as SeaChange's independent registered public accounting firm for the 2013 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. Rau, SeaChange's Chief Executive Officer and Director, whose biographical information is set forth above at page 6, SeaChange's executive officers are:

| Executive Officer's Name | Position and Principal Occupation and Business Experience During the Past Five Years |
|--------------------------|---|
| Michael Bornak | <p>Chief Financial Officer, Treasurer, Secretary and Senior Vice President, Finance and Administration</p> <p>Michael Bornak, age 50, joined SeaChange in January 2012 and serves as the Chief Financial Officer, Treasurer, Secretary, and Senior Vice President, Finance and Administration. Mr. Bornak previously served from September 2009 until January 2012 as the Chief Financial Officer of Tollgrade Communications, Inc., a test and measurement telecommunications and utility company. From June 2008 to July 2009 he was Chief Financial Officer of Solar Power Industries, Inc., a solar energy product manufacturer. From February 2006 to June 2008, Mr. Bornak was the Chief Financial Officer of MHF Logistical Solutions, Inc., a logistics company serving primarily the nuclear and hazardous/ non-hazardous waste industries.</p> |
| Steven M. Davi | <p>Senior Vice President, Advanced Technologies and Chief Technology Officer</p> <p>Steven M. Davi, 48, joined SeaChange in November 1997 and was appointed Senior Vice President, Advanced Technologies and Chief Technology Officer in May 2012. From July 2005 to July 2011, he served as Senior Vice President, Software Engineering, and from July 2011 to May 2012 he served as Senior Vice President, Advanced 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, 45, 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 and Service</p> <p>Ira Goldfarb, 54, 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> |

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 other than Mr. van Dommelen is a full time employee of SeaChange. Mr. van Dommelen provides services to SeaChange's subsidiary eventIS Group, B.V. in the Netherlands pursuant to a Management Agreement by and between eventIS Group, B.V. and Erwin van Dommelen Beheer B.V., a private company with limited liability under the laws of the Netherlands.

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 2012 Business Results

Our operating results in fiscal 2012 were largely consistent with those in fiscal 2011, while significant progress was made in our transition to a software and services company and in streamlining our operations. Overall, GAAP revenue decreased 2% in fiscal 2012, from \$201.7 million to \$197.7 million, while non-GAAP net income from continuing operations increased in fiscal 2012 from \$15.7 million or \$0.49 per share to \$16.4 million or \$0.51 per share. We ended fiscal 2012 with our strongest operating performance of the year, and, as previously announced, have realized annualized cost reductions anticipated from the divestiture of our servers and storage business unit and other product and market rationalizations and reductions in general and administrative costs.

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, no payout was made under our fiscal 2012 compensation plan based on the financial performance metrics, as our fiscal 2012 financial results, while largely consistent with those in fiscal 2011, were below both the revenue threshold and non-GAAP net income threshold set as part of our fiscal 2012 compensation plan. Payouts under our fiscal 2012 compensation plan occurred only on the basis of individual performance-based objectives. In contrast, we did make payouts under our fiscal 2011 compensation plan, as our fiscal 2011 financial results were an improvement over those in fiscal 2010, and were above the revenue threshold and non-GAAP net income target set as part of our fiscal 2011 compensation plan. Consistent with this pay for performance focus, our Compensation Committee (the "Committee") exercised discretion under our fiscal 2010 compensation plan not to make any payout based on the financial performance metrics, even though the revenue threshold was exceeded, due to our GAAP net income results.

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 an analysis of each compensation component for our Chief Executive Officer. This analysis 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 analysis 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 analysis 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 2012, the Committee again 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. The updated list of our peer companies is as follows:

- | | |
|-----------------------------------|---------------------------|
| • ARRIS Group, Inc. | • Netscout Systems, Inc. |
| • Concurrent Computer Corporation | • Network Engines, Inc. |
| • Harmonic Inc. | • Progress Software Corp. |
| • iRobot Corp. | • Sonus Networks, Inc. |
| • Limelight Networks Inc. | • Sycamore Networks, Inc. |
| • Mercury Computer Systems, 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 2012 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.

In 2011, we submitted our executive compensation to an advisory vote of our stockholders and it received the support of 94% of the total votes cast at our annual meeting. We pay careful attention to any feedback we receive from our stockholders about our executive compensation, including the say on pay vote. While we had already approved our fiscal 2012 compensation plan by the time we held our say on pay vote in July 2011, we considered the stockholder advisory vote in making grants under our fiscal 2012 compensation plan and in formulating our fiscal 2013 compensation plan. In addition, at our annual meeting a majority of our stockholders supported an annual vote on our executive compensation program and, in response, we determined to hold an annual vote on the matter.

Fiscal 2012 Executive Compensation Components

For the fiscal year ended January 31, 2012, the principal components of compensation for the named executive officers were:

- base salary;
- performance-based incentive compensation;
- discretionary equity awards;
- 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 2012, the Committee did not make adjustments to the base salaries of our named executive officers that were serving as executive officers at the beginning of the fiscal year.

In connection with Mr. Rau's appointment as Chief Executive Officer on November 30, 2011, the Committee approved awards of 5,796 RSUs issued as a base salary equivalent on the first day of each month commencing December 2011, for so long as Mr. Rau continued his service as interim Chief Executive Officer, each award vesting on the last day of the month in which such award is issued. These awards ceased effective as of May 1, 2012 upon Mr. Rau's appointment as Chief Executive Officer on a permanent basis.

In connection with Mr. Bornak's appointment as Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary on January 18, 2012, the Committee approved a base salary for Mr. Bornak of \$279,000.

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 fiscal 2012 performance-based incentive compensation plans established for each of Messrs. Bisson, Goldfarb, Kelly, van Dommelen and Styslinger and Ms. Kanouff provided for a cash base salary and eligibility for an equity-based incentive bonus.

Performance-based compensation for each of the named executive officers pursuant to our fiscal 2012 plan included the overall company financial objectives related to:

- GAAP revenue for fiscal 2012; and
- non-GAAP net income for fiscal 2012.

Performance-based objectives also included, in the case of Mr. Bisson, an improvement in general and administrative expenses by \$3.8 million and an improvement in offshoring capabilities; in the case of Ms. Kanouff, the signing of new contracts with a significant customer and enhanced analyst coverage; in the case of Mr. Kelly, On Demand Group Ltd. achieving a fiscal 2012 revenue target of \$39.1 million, with a threshold of \$34 million, and a non-GAAP net income target of \$4.8 million, with a threshold of \$3.2 million; in the case of Mr. Goldfarb, objectives relating to software revenue, with a target of \$151.7 million, and service quality; in the case of Mr. van Dommelen, objectives relating to software non-GAAP operating income including a target of \$9.4 million with a threshold of \$6.3 million; and, in the case of Ms. Kanouff and Messrs. Kelly, Styslinger and van Dommelen, objectives relating to software architecture.

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 2012 GAAP revenue target of \$227.0 million, with a threshold of \$222.1 million, and a fiscal 2012 non-GAAP net income target of \$25.1 million, with a threshold of \$17.125 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 restricted stock unit (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 RSU payouts in the event that the revenue or non-GAAP net income target, as applicable, were not met, while establishing a threshold 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 in the form of RSUs 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.

No payments were made to SeaChange's named executive officers related to the fiscal 2012 revenue or net income objectives. SeaChange's fiscal 2012 revenue was \$197.7 million, below the \$222.1 million threshold for awards. SeaChange's fiscal 2012 non-GAAP net income was \$14.7 million, below the \$17.125 million threshold for awards. While the thresholds for these objectives established toward the beginning of the fiscal year included anticipated revenue or net income, as applicable, from our servers and storage business unit, the final results for these objectives set forth above and in our fiscal 2012 financial statements exclude the results of that business unit as discontinued operations. The Committee did not exercise its discretion to adjust threshold or target amounts for these objectives based on the discontinuance of the servers and storage business unit operations.

The sole performance-based awards made to SeaChange's named executive officers under the fiscal 2012 compensation plan were an award to Mr. Goldfarb of 7,330 RSUs, based upon achievement of objectives relating to service quality; an award to Mr. Kelly of 9,975 RSUs based on the fiscal 2012 non-GAAP net income results of On Demand Group Ltd.; and an award to Ms. Kanouff of 8,330 RSUs based on enhanced analyst coverage of SeaChange.

Alternate Summary Table Reflecting Actual Performance-Based Amounts

Because the Summary Compensation Table on page 30 includes values of performance-based equity awards based on the amounts that would have been awarded had targeted performance objectives been achieved, we have included the table below that instead presents all compensation amounts actually paid related to a given fiscal year. Amounts for fiscal 2011 and 2010 are presented on the same basis as fiscal 2012.

| Name | Fiscal Year | Salary | Bonus ⁽¹⁾ | Stock Awards ⁽²⁾⁽³⁾ | Option Awards ⁽³⁾ | Non Equity Incentive Plan ⁽²⁾⁽⁴⁾ | All Other ⁽⁵⁾ | Total |
|---|-------------|-----------------------|----------------------|--------------------------------|------------------------------|---|--------------------------|-----------|
| Raghu Rau ⁽⁶⁾ <i>Chief Executive Officer, Director</i> | 2012 | 84,696 ⁽⁷⁾ | — | 168,773 | 441,178 | — | 36,000 | 730,647 |
| Michael D. Bornak ⁽⁸⁾ <i>Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary</i> | 2012 | 7,512 | — | — | 59,805 | — | — | 67,317 |
| Ira Goldfarb <i>Senior Vice President, Worldwide Sales and Service</i> | 2012 | 350,000 | 75,000 | 92,136 | — | — | — | 517,136 |
| | 2011 | 300,000 | — | 495,994 | — | 99,836 | — | 895,830 |
| | 2010 | 150,000 | — | — | — | 392,972 | — | 542,972 |
| Anthony Kelly ⁽⁹⁾ <i>CEO of ODG</i> | 2012 | 320,462 | 100,005 | 81,496 | — | — | — | 501,963 |
| | 2011 | 301,896 | — | 396,449 | — | — | — | 698,345 |
| Erwin van Dommelen ⁽¹⁰⁾ <i>President of Software</i> | 2012 | 277,724 | 70,532 | 86,000 | — | — | — | 434,256 |
| William C. Styslinger, III ⁽¹¹⁾ <i>Former Chief Executive Officer, Chairman of the Board, Director</i> | 2012 | 406,795 | — | 519,321 | — | — | 950,000 | 1,876,116 |
| | 2011 | 452,083 | — | 1,218,888 | — | — | — | 1,670,971 |
| | 2010 | 420,000 | — | — | — | — | — | 420,000 |
| Yvette Kanouff ⁽¹²⁾ <i>Former President and Chief Strategy Officer</i> | 2012 | 400,000 | 75,000 | 92,059 | — | — | 420,000 | 987,059 |
| | 2011 | 359,081 | — | 568,449 | — | 49,918 | — | 977,448 |
| | 2010 | 236,323 | — | 151,101 | — | 283,486 | — | 670,910 |
| Kevin M. Bisson ⁽¹³⁾ <i>Former Chief Financial Officer, Senior Vice President, Finance and Administration Treasurer and Secretary</i> | 2012 | 335,417 | — | — | — | — | 15,829 | 351,246 |
| | 2011 | 341,979 | — | 330,659 | — | — | — | 672,638 |
| | 2010 | 330,750 | — | — | — | — | — | 330,750 |

- (1) The Bonus column reflects for fiscal 2012 the cash awards made to the named executive officers as retention awards. For Mr. Kelly, the amount included in this column for fiscal 2012 represents a cash retention award made by the Compensation Committee that Mr. Kelly ultimately declined.
- (2) Amounts in the Stock Awards column reflect the fair value of the restricted stock units earned by the officer relating to the applicable fiscal year, computed as of the date the issuance of such restricted stock units was finally approved, 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 for fiscal 2011 and 2010 target cash awards under performance-based compensation plans. For fiscal years 2011 and 2010, the Non-Equity Incentive Plan Compensation column includes \$49,918 and \$196,486, respectively, in sales commissions earned by Ms. Kanouff. For Mr. Goldfarb, all of the amounts included in the Non-Equity Incentive Plan Compensation column for fiscal 2011 and 2010 represent sales commissions earned relating to such fiscal years.
- (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. Rau, the amount in this column represents the compensation received during fiscal 2012 by Mr. Rau as an independent director before becoming interim Chief Executive Officer on November 30, 2011. In the case of Mr. Styslinger, the amount in this column represents the cash severance payments payable to Mr. Styslinger under his separation agreement. In the case of Ms. Kanouff, the amount in this column represents \$400,000 in cash severance payments payable to Ms. Kanouff under her separation agreement plus \$20,000 paid to Ms. Kanouff upon the termination of her employment for earned but unused vacation time. For Mr. Bisson, the amount in this column represents the amount paid to Mr. Bisson upon the termination of his employment for earned but unused vacation time.
- (6) As disclosed in SeaChange's Form 8-K filed November 30, 2011, Mr. Rau was appointed interim Chief Executive Officer on November 30, 2011. As disclosed in SeaChange's Form 8-K filed May 1, 2012, Mr. Rau has been appointed Chief Executive Officer on a permanent basis effective May 1, 2012.
- (7) This amount represents the grant date fair value of monthly restricted stock unit awards issued to Mr. Rau in lieu of base salary during the period between his appointment as interim Chief Executive Officer and January 31, 2012.
- (8) As disclosed in SeaChange's Form 8-K filed January 20, 2012, Mr. Bornak was appointed as Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary of SeaChange on January 18, 2012.
- (9) Compensation information related to Mr. Kelly is presented solely with respect to fiscal 2012 and 2011, as Mr. Kelly was not a named executive officer in the fiscal year ended January 31, 2010. Effective as of the sale of SeaChange's media services business on May 21, 2012, which sale was announced in a press release furnished by SeaChange in a Form 8-K filed May 21, 2012, Mr. Kelly is no longer employed by SeaChange. Mr. Kelly is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (10) Compensation information related to Mr. van Dommelen is presented solely with respect to fiscal 2012, as Mr. van Dommelen was not a named executive officer in the fiscal years ended January 31, 2011 and January 31, 2010.
- (11) As disclosed in SeaChange's Form 8-K filed November 30, 2011, Mr. Styslinger left SeaChange, effective December 8, 2011. Mr. Styslinger is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee as of the date hereof.
- (12) As disclosed in SeaChange's Form 8-K filed February 3, 2012, Ms. Kanouff left SeaChange, effective January 31, 2012. Ms. Kanouff is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (13) As disclosed in SeaChange's Form 8-K filed January 13, 2012, Mr. Bisson left SeaChange, effective January 13, 2012. Mr. Bisson is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.

Discretionary Equity Awards

As described in this proxy statement, we experienced turnover in certain of our named executive officers in fiscal 2012. In connection with these changes, we made the following discretionary equity awards:

- an award to Mr. Rau on January 18, 2012, in connection with his prior appointment as interim Chief Executive Officer, of 25,000 RSUs that vest annually over a period of three years beginning November 30, 2011, the date of his appointment;
- an award to Mr. Rau on January 18, 2012, in connection with his prior appointment as interim Chief Executive Officer, of options to purchase 150,000 shares of our common stock at an exercise price of \$6.74 per share, one-half of such options to vest based on the achievement of specified performance goals, and the other half of such options to vest at the rate of 33.33% on the first anniversary of November 30, 2011, the date of his appointment, and an additional 8.34% at the end of each quarter thereafter; and
- an award to Mr. Bornak on January 18, 2012, upon his appointment as Chief Financial Officer, of options to purchase 25,000 shares of our common stock at an exercise price of \$6.74 per share, to vest on January 31, 2013.

The Committee additionally made an incentive equity award to Mr. Styslinger on March 30, 2011 of 48,309 RSUs that vest annually over a period of three years beginning February 9, 2011, except that the award will vest in its entirety upon the achievement of certain stock price goals.

As with other types of equity awards, the Committee made the discretionary equity awards described above in order to further align the interests of these executive officers with those of the stockholders, increase Chief Executive Officer ownership of our stock, discourage excessive levels of risk taking and enhance retention.

As previously announced, in fiscal 2012 we engaged in an evaluation of strategic alternatives, ultimately deciding that it is in the best interests of our shareholders to continue as a publicly traded company. Within that context, the Committee made awards in fiscal 2012 of cash and RSUs to our named executive officers for retention purposes, as listed in the table below.

| Recipient Name | Number of RSUs | Cash Award Amount |
|-------------------------------|-----------------------|--------------------------|
| Bisson, Kevin | 10,000 | \$ 75,000 |
| Kanouff, Yvette | 3,000 | \$ 75,000 |
| Goldfarb, Ira | 3,000 | \$ 75,000 |
| Kelly, Tony | — | \$100,005 ⁽¹⁾ |
| Van Dommelen, Erwin | 8,000 | \$ 75,075 |

(1) Mr. Kelly declined this cash award amount.

The RSU awards listed in the table above vest annually over a period of three years beginning April 30, 2012, with accelerated vesting in the event of a termination without cause or in certain circumstances upon an acquisition of SeaChange. The cash awards listed in the table above became payable on the last day of the fiscal year on January 31, 2012, so long as the recipient remained employed by SeaChange on such date.

Clawback Policy and Stock Ownership Guidelines

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 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 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 was not party to a change in control severance agreement, but was party to an executive service agreement, dated as of September 23, 2005, with us that provided for payment of 12 months base salary on termination without cause, whether or not in connection with a change of control. This payment was not triggered by the sale of our media services business, which resulted in the transfer of Mr. Kelly's employment to the acquirer of that business. Mr. van Dommelen is also not a party to a change in control severance agreement.

Each of our then-existing 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, and the agreements with Messrs. Rau and Bornak entered into following that date do not contain a "parachute payment" tax gross up. 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 2012 year-end, are described in detail on page 37 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 the retirement of Mr. Styslinger effective December 8, 2011, we entered into a separation agreement and release of claims with Mr. Styslinger. A detailed description of our agreements in exchange for Mr. Styslinger's release of claims appears on page 40.

In connection with Mr. Kanouff ceasing to be an employee of SeaChange, effective January 31, 2012, we entered into a separation agreement and release of claims with Ms. Kanouff, dated as of February 21, 2012. A detailed description of our agreements in exchange for Ms. Kanouff's release of claims appears on beginning on page 40. Ms. Kanouff remains subject to the terms of an Employee Noncompetition, Nondisclosure and Developments Agreement with SeaChange previously executed by Ms. Kanouff with SeaChange, pursuant to which there is a one-year post-employment noncompetition and nonsolicitation obligation.

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 2013 Executive Compensation Components

The Committee has determined to continue the existing compensation framework for fiscal 2013. A new peer company group containing companies of similar size and with the significant majority of their revenue coming from software sales and services has been established for fiscal 2013. This new peer group was used in setting the compensation ranges for our new Chief Executive Officer, but was established after fiscal 2013 compensation plans had been drafted for the other named executive officers. For the other named executive officers, the Committee reviewed the prior three fiscal years to determine the actual goal achievement and bonus payouts relative to each year's plan. The Committee then set the fiscal 2013 goals at what it believes to be more realistic levels based primarily on software sales and services revenue and non-GAAP operating income. If achieved, the award payments are expected to equal or exceed actual payout levels of the prior years considered, even though the award payments would be well below the target achievement payout levels from the prior years.

The principal components of fiscal 2013 executive compensation are as follows, the same as existed for fiscal 2012 executive compensation:

- base salary;
- performance-based incentive compensation;
- discretionary equity awards;
- 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 2013 plans, Mr. Rau will be eligible for a target bonus of \$1,250,000, with \$500,000 payable in cash and \$750,000 payable in RSUs; Mr. Bornak will be eligible for a target bonus of \$175,000, with \$100,000 payable in cash and \$75,000 payable in RSUs, and an option award of 25,000 options issuable subsequent to each fiscal quarter subject to the achievement of individualized performance-based objectives; Mr. Goldfarb will be eligible for a target bonus of \$200,000, with \$50,000 payable in cash and \$150,000 payable in RSUs; and Mr. van Dommelen, in addition to receiving a base salary increase to \$305,500, will be eligible for a target bonus of \$300,000, with \$75,000 payable in cash and \$225,000 payable in RSUs. Separate from the fiscal 2013 plans, we also made a discretionary award to in March 2012 Mr. van Dommelen of 14,485 RSUs.

This performance-based compensation is earned based on our achievement of overall company financial objectives for fiscal 2013 related to revenue and non-GAAP operating income. In the case of Messrs. Bornak, Goldfarb and van Dommelen, 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 2013 annual meeting of stockholders.

Similar to prior years, grants or awards of fiscal 2013 performance-based compensation will be determined by the Committee upon conclusion of our 2013 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. The fiscal 2013 performance-based compensation plans also provide that the Compensation Committee has the discretion to determine the amount, if any, of cash bonus and RSUs awarded under the plans, whether or not the criteria are satisfied. The plans also provide that the amount of the cash bonus and RSUs awarded may be adjusted upward or downward in predetermined amounts if actual performance exceeds or is below the target financial criteria, with a specified maximum upward adjustment of fifteen percent above target based upon non-GAAP operating income and ten percent above target based upon revenue.

In connection with Mr. Rau being named our permanent Chief Executive Officer, effective May 1, 2012, we made a one-time equity award of 60,827 RSUs to vest over three years and 875,000 stock options, to vest in increments based upon the closing price of our stock.

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 2012, 2011 and 2010.

As described above in Compensation Discussion and Analysis, final determinations regarding 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 equity awards under SeaChange's performance-based compensation plans, the grant date for purposes of FASB ASC Topic 718 is the service inception date, or the beginning of the period during which performance is measured. In accordance with FASB ASC Topic 718, the amounts reflected below under the headings "Stock Awards" for a given fiscal year, such as 2012, represent the probable outcome as of the service inception date of the performance conditions under the fiscal 2012 performance-based compensation plan, which in each case is the award amount at the targets approved by the Compensation Committee. Because this Summary Compensation Table presents the performance-based equity compensation amounts based on the targets approved by the Compensation Committee, rather than the actual equity awards ultimately paid, we have included at page 23 a supplemental table that presents for all types of compensation the actual compensation amounts paid related to a given fiscal year. In the table below and in the supplemental table at page 23, performance-based compensation paid in cash after fiscal year-end but earned in the prior fiscal year is reflected 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.

| Name | Fiscal Year | Salary | Bonus ⁽¹⁾ | Stock Awards ⁽²⁾⁽³⁾ | Option Awards ⁽³⁾ | Non Equity Incentive Plan ⁽²⁾⁽⁴⁾ | All Other ⁽⁵⁾ | Total |
|---|-------------|-----------------------|----------------------|--------------------------------|------------------------------|---|--------------------------|-----------|
| Raghu Rau ⁽⁶⁾ <i>Chief Executive Officer, Director</i> | 2012 | 84,696 ⁽⁷⁾ | — | 168,773 | 441,178 | — | 36,000 | 730,647 |
| Michael D. Bornak ⁽⁸⁾ <i>Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary</i> | 2012 | 7,512 | — | — | 59,805 | — | — | 67,317 |
| Ira Goldfarb <i>Senior Vice President, Worldwide Sales and Service</i> | 2012 | 350,000 | 75,000 | 634,810 | — | — | — | 1,059,810 |
| | 2011 | 300,000 | — | 235,900 | — | 99,836 | — | 635,736 |
| | 2010 | 150,000 | — | 107,640 | — | 392,972 | — | 650,612 |
| Anthony Kelly ⁽⁹⁾ <i>CEO of ODG</i> | 2012 | 320,462 | 100,005 | 614,301 | — | — | — | 1,034,768 |
| | 2011 | 301,896 | — | 134,800 | — | — | — | 436,696 |
| Erwin van Dommelen ⁽¹⁰⁾ <i>President of Software</i> | 2012 | 277,724 | 70,532 | 542,860 | — | — | — | 891,116 |
| William C. Styslinger, III ⁽¹¹⁾ <i>Former Chief Executive Officer, Chairman of the Board, Director</i> | 2012 | 406,795 | — | 1,926,821 | — | — | 950,000 | 3,283,616 |
| | 2011 | 452,083 | — | 842,500 | — | — | — | 1,294,583 |
| | 2010 | 420,000 | — | 418,600 | — | — | — | 838,600 |
| Yvette Kanouff ⁽¹²⁾ <i>Former President and Chief Strategy Officer</i> | 2012 | 400,000 | 75,000 | 721,010 | — | — | 420,000 | 1,616,010 |
| | 2011 | 359,081 | — | 303,300 | — | 49,918 | — | 712,299 |
| | 2010 | 236,323 | — | 191,360 | — | 283,486 | — | 711,169 |
| Kevin M. Bisson ⁽¹³⁾ <i>Former Chief Financial Officer, Senior Vice President, Finance and Administration Treasurer and Secretary</i> | 2012 | 335,417 | — | 540,300 | — | — | 15,829 | 891,546 |
| | 2011 | 341,979 | — | 202,200 | — | — | — | 544,179 |
| | 2010 | 330,750 | — | 155,480 | — | — | — | 486,230 |

- (1) The Bonus column reflects for fiscal 2012 the cash awards made to the named executive officers as retention awards. For Mr. Kelly, the amount included in this column for fiscal 2012 represents a cash retention award made by the Compensation Committee that Mr. Kelly ultimately declined.

- (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. Performance-based RSUs are valued at the grant date based upon the probable outcome of the performance metrics. Therefore, the amounts under the "Stock Awards" column do not reflect the amount of compensation actually received by the named executive officer during the fiscal year. The maximum value of performance-based RSUs, assuming the highest level of performance conditions is achieved, is not capable of determination for the fiscal years shown due to the net income performance condition having been uncapped. Actual awards based on the achievement against the performance conditions and approved by the Compensation Committee following the end of fiscal years 2012, 2011 and 2010 are reflected in the supplemental table appearing at page 23.
- (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 for fiscal 2011 and 2010 target cash awards under performance-based compensation plans. For fiscal years 2011 and 2010, the Non-Equity Incentive Plan Compensation column includes \$49,918 and \$196,486, respectively, in sales commissions earned by Ms. Kanouff. For Mr. Goldfarb, all of the amounts included in the Non-Equity Incentive Plan Compensation column for fiscal 2011 and 2010 represent sales commissions earned relating to such fiscal years.
- (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. Rau, the amount in this column represents the compensation received during fiscal 2012 by Mr. Rau as an independent director before becoming interim Chief Executive Officer on November 30, 2011. In the case of Mr. Styslinger, the amount in this column represents the cash severance payments payable to Mr. Styslinger under his separation agreement. In the case of Ms. Kanouff, the amount in this column represents \$400,000 in cash severance payments payable to Ms. Kanouff under her separation agreement plus \$20,000 paid to Ms. Kanouff upon the termination of her employment for earned but unused vacation time. For Mr. Bisson, the amount in this column represents the amount paid to Mr. Bisson upon the termination of his employment for earned but unused vacation time.
- (6) As disclosed in SeaChange's Form 8-K filed November 30, 2011, Mr. Rau was appointed interim Chief Executive Officer on November 30, 2011. As disclosed in SeaChange's Form 8-K filed May 1, 2012, Mr. Rau has been appointed Chief Executive Officer on a permanent basis effective May 1, 2012.
- (7) This amount represents the grant date fair value of monthly restricted stock unit awards issued to Mr. Rau in lieu of base salary during the period between his appointment as interim Chief Executive Officer and January 31, 2012.
- (8) As disclosed in SeaChange's Form 8-K filed January 20, 2012, Mr. Bornak was appointed as Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary of SeaChange on January 18, 2012.
- (9) Compensation information related to Mr. Kelly is presented solely with respect to fiscal 2012 and 2011, as Mr. Kelly was not a named executive officer in the fiscal year ended January 31, 2010. Effective as of the sale of SeaChange's media services business on May 21, 2012, which sale was announced in a press release furnished by SeaChange in a Form 8-K filed May 21, 2012, Mr. Kelly is no longer employed by SeaChange. Mr. Kelly is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (10) Compensation information related to Mr. van Dommelen is presented solely with respect to fiscal 2012, as Mr. van Dommelen was not a named executive officer in the fiscal years ended January 31, 2011 and January 31, 2010.
- (11) As disclosed in SeaChange's Form 8-K filed November 30, 2011, Mr. Styslinger left SeaChange, effective December 8, 2011. Mr. Styslinger is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee as of the date hereof.
- (12) As disclosed in SeaChange's Form 8-K filed February 3, 2012, Ms. Kanouff left SeaChange, effective January 31, 2012. Ms. Kanouff is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (13) As disclosed in SeaChange's Form 8-K filed January 13, 2012, Mr. Bisson left SeaChange, effective January 13, 2012. Mr. Bisson is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.

Grants of Plan-Based Awards

The following table sets forth information concerning plan-based awards to the named executive officers during the fiscal year ended January 31, 2012.

| | Grant Date | Estimated Future Payouts under Equity Incentive Plan Awards ⁽¹⁾ | | | All Other Stock Awards: Number of Shares of Stock or Units ⁽²⁾ | All Other Option Awards: Number of Securities Underlying Options ⁽²⁾ | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards |
|---|------------|--|------------|-----------------------------|---|---|---|--|
| | | Threshold (#) | Target (#) | Maximum (\$) ⁽³⁾ | | | | |
| Raghu Rau | 1/18/2012 | — | — | — | 38,679 | — | — | \$ 253,469 |
| | 1/18/2012 | — | — | — | — | 150,000 | \$6.74 | \$ 441,178 |
| Michael D. Bornak | 1/18/2012 | — | — | — | — | 25,000 | \$6.74 | \$ 59,805 |
| Ira Goldfarb | 7/20/2011 | 24,922 | 51,311 | — | — | — | — | \$ 580,090 |
| | 7/20/2011 | — | — | — | 3,000 | — | — | \$ 32,250 |
| Anthony Kelly ⁽⁴⁾ | 7/20/2011 | 25,190 | 48,012 | — | — | — | — | \$ 556,700 |
| Erwin van Dommelen | 7/20/2011 | 9,000 | 22,500 | — | — | — | — | \$ 466,540 |
| | 7/20/2011 | — | — | — | 8,000 | — | — | \$ 86,000 |
| William C. Styslinger, III ⁽⁵⁾ . . . | 7/20/2011 | 61,546 | 153,865 | — | — | — | — | \$1,746,821 |
| | 7/20/2011 | — | — | — | 48,309 | — | — | \$ 519,321 |
| Yvette Kanouff ⁽⁶⁾ | 7/20/2011 | 33,320 | 70,806 | — | — | — | — | \$ 651,890 |
| | 7/20/2011 | — | — | — | 3,000 | — | — | \$ 32,250 |
| Kevin M. Bisson ⁽⁷⁾ | 7/20/2011 | 14,367 | 35,918 | — | — | — | — | \$ 482,700 |
| | 7/20/2011 | — | — | — | 10,000 | — | — | \$ 107,500 |

- (1) The grants under the “Estimated Future Payouts under Equity Incentive Plan Awards” column represent the threshold and target number of RSUs awarded under the fiscal 2012 performance-based compensation plan. The maximum value of the RSUs that may have been awarded under the fiscal 2012 performance-based compensation plan, assuming the highest level of performance conditions is achieved, is not capable of determination due to the net income performance condition having been uncapped.
- (2) The grants under the “All Other Stock Awards: Number of Shares of Stock or Units” column and under the “All Other Option Awards: Number of Securities Underlying Options” column represent the number of RSUs and options, respectively, granted to each named executive officer in 2012 under the Company’s 2011 Compensation and Incentive Plan outside of the fiscal 2012 performance-based compensation plan.
- (3) The maximum value of the RSUs that may have been awarded under the fiscal 2012 performance-based compensation plan, assuming the highest level of performance conditions was achieved, is not capable of determination due to the net income performance condition having been uncapped.
- (4) Effective as of the sale of SeaChange’s media services business on May 21, 2012, which sale was announced in a press release furnished by SeaChange in a Form 8-K filed May 21, 2012, Mr. Kelly is no longer employed by SeaChange. Mr. Kelly is a named executive officer for the fiscal year ended January 31, 2012, 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 November 30, 2011, Mr. Styslinger left SeaChange, effective December 8, 2011. Mr. Styslinger is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee as of the date hereof.
- (6) As disclosed in SeaChange’s Form 8-K filed February 3, 2012, Ms. Kanouff left SeaChange, effective January 31, 2012. Ms. Kanouff is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (7) As disclosed in SeaChange’s Form 8-K filed January 13, 2012, Mr. Bisson left SeaChange, effective January 13, 2012. Mr. Bisson is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

In connection with the retirement of Mr. Styslinger effective December 8, 2011, we entered into a separation agreement and release of claims with Mr. Styslinger. The terms of Mr. Styslinger's separation agreement included our agreements to:

- pay Mr. Styslinger \$950,000, two times his annual base salary at the time of his retirement, in twelve equal monthly installments on SeaChange's regular payroll schedule; and
- waive the continuing employment requirement applicable to unvested RSUs for 191,004 shares of SeaChange's common stock previously granted to Mr. Styslinger, permitting these RSUs to continue to vest in accordance with their current vesting schedules following the termination of Mr. Styslinger's employment.

In connection with Mr. Kanouff ceasing to be an employee of SeaChange, effective January 31, 2012, we entered into a separation agreement and release of claims with Ms. Kanouff, dated as of February 21, 2012. The terms of Ms. Kanouff's separation agreement included our agreements to:

- pay Ms. Kanouff \$400,000, equal to her annual base salary at the time her employment terminated, in twice-monthly installments on our regular payroll schedule for a period of twelve months;
- satisfy the retention award previously granted to Ms. Kanouff, as disclosed in the Form 8-K filed May 5, 2011, by the payment of \$75,000 in cash and the accelerated vesting of the restricted stock units for 3,000 shares of SeaChange's common stock; and
- permit Ms. Kanouff to remain eligible to receive an award under our fiscal year 2012 performance-based compensation plan, with such payments, if any, to be made at the time and under the terms as would have applied had Ms. Kanouff remained actively employed by SeaChange, provided that 8,330 of such RSUs were awarded to Ms. Kanouff on execution of her separation agreement.

The separation agreement with Ms. Kanouff provides that all of Ms. Kanouff's rights and obligations under existing awards of stock options and restricted stock units will continue to be governed by the terms and conditions of the applicable plan pursuant to which such awards were granted.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth summary information regarding the outstanding equity awards at January 31, 2012 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 | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | 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 (\$) |
| Raghu Rau | 75,000 | 75,000 | | 6.74 | 1/18/2019 | 25,000 | 179,500 |
| | | | 62,500 | 6.74 | 1/18/2019 | | |
| Michael D. Bornak | 25,000 | 25,000 | | 6.74 | 1/18/2019 | | |
| Ira Goldfarb | 9,000 | — | — | 13.76 | 4/4/12 | 41,091 | 295,033 |
| | 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 ⁽³⁾ | — | — | — | — | — | 34,563 | 248,162 |
| Erwin van Dommelen | — | — | — | — | — | 29,099 | 208,931 |
| William C. Styslinger, III ⁽⁴⁾ | 55,000 | — | — | 13.76 | 4/4/12 | 123,903 | 889,624 |
| | 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 | | |
| | 20,000 | — | — | 14.47 | 8/4/14 | | |
| | 20,000 | — | — | 17.39 | 11/4/14 | | |
| Yvette Kanouff ⁽⁵⁾ | 7,000 | — | — | 13.76 | 4/4/12 | | |
| | 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 ⁽⁶⁾ | — | — | — | — | — | | |

- (1) All options in the table above, other than with respect to Messrs. Rau and Bornak, 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 Messrs. Rau and Bornak were granted under the Company's 2011 Compensation and Incentive Plan. One-half of Mr. Rau's options vest based on the achievement of specified performance goals, and the other half of such options vest at the rate of 33.33% on the first anniversary of November 30, 2011, the date of his appointment, and an additional 8.34% at the end of each quarter thereafter. Mr. Bornak's options vest on January 31, 2013.

- (2) These columns show the number of shares of Common Stock represented by unvested restricted stock units at January 31, 2012. 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 |
|---|---|---------------|------------------------------|
| Raghu Rau | 25,000 | 1/18/2012 | 11/30/12, 11/30/13, 11/30/14 |
| Michael D. Bornak | — | — | — |
| Ira Goldfarb | 30,761 | 7/20/11 | 1/31/13, 1/31/14 |
| | 7,330 | 1/31/12 | 1/31/13, 1/31/14, 1/31/15 |
| | 3,000 | 7/20/11 | 4/30/12, 4/30/13, 4/30/14 |
| Anthony Kelly | 24,588 | 7/20/11 | 1/31/13, 1/31/14 |
| | 9,975 | 1/31/12 | 1/31/13, 1/31/14, 1/31/15 |
| Erwin van Dommelen | 21,099 | 7/20/11 | 1/31/13, 1/31/14 |
| | 8,000 | 7/20/11 | 4/30/12, 4/30/13, 4/30/14 |
| William C. Styslinger, III ⁽³⁾ | 75,594 | 7/20/11 | 1/31/13, 1/31/14 |
| | 48,309 | 7/20/11 | 2/9/12, 2/9/13, 2/9/14 |
| Yvette Kanouff ⁽⁴⁾ | — | — | — |
| Kevin M. Bisson ⁽⁵⁾ | — | — | — |

- (3) Effective as of the sale of SeaChange's media services business on May 21, 2012, which sale was announced in a press release furnished by SeaChange in a Form 8-K filed May 21, 2012, Mr. Kelly is no longer employed by SeaChange. Mr. Kelly is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (4) As disclosed in SeaChange's Form 8-K filed November 30, 2011, Mr. Styslinger left SeaChange, effective December 8, 2011. Mr. Styslinger is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee as of the date hereof.
- (5) As disclosed in SeaChange's Form 8-K filed February 3, 2012, Ms. Kanouff left SeaChange, effective January 31, 2012. Ms. Kanouff is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (6) As disclosed in SeaChange's Form 8-K filed January 13, 2012, Mr. Bisson left SeaChange, effective January 13, 2012. Mr. Bisson is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.

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 2012.

| 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⁾ (\$) |
| Raghu Rau ⁽²⁾ | — | — | 21,592 | \$177,086 |
| Michael D. Bornak | — | — | — | — |
| Ira Goldfarb | — | — | 24,422 | \$175,350 |
| Anthony Kelly ⁽³⁾ | — | — | 22,919 | \$164,558 |
| Erwin van Dommelen | — | — | 10,547 | \$ 75,727 |
| William C. Styslinger, III ⁽⁴⁾ | — | — | 67,101 | \$481,785 |
| Yvette Kanouff ⁽⁵⁾ | — | — | 39,127 | \$280,932 |
| Kevin M. Bisson ⁽⁶⁾ | — | — | — | \$ — |

- (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.
- (2) The amounts for Mr. Rau include a 10,000 shares and \$93,740 related to awards that vested prior to Mr. Rau being appointed interim Chief Executive Officer on November 30, 2012.
- (3) Effective as of the sale of SeaChange's media services business on May 21, 2012, which sale was announced in a press release furnished by SeaChange in a Form 8-K filed May 21, 2012, Mr. Kelly is no longer employed by SeaChange. Mr. Kelly is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (4) As disclosed in SeaChange's Form 8-K filed November 30, 2011, Mr. Styslinger left SeaChange, effective December 8, 2011. Mr. Styslinger is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee as of the date hereof.
- (5) As disclosed in SeaChange's Form 8-K filed February 3, 2012, Ms. Kanouff left SeaChange, effective January 31, 2012. Ms. Kanouff is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.
- (6) As disclosed in SeaChange's Form 8-K filed January 13, 2012, Mr. Bisson left SeaChange, effective January 13, 2012. Mr. Bisson is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.

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 was not party to a change in control severance agreement, but was party to an executive service agreement, dated as of September 23, 2005, with us that provided for payment of 12 months base salary on termination without cause, whether or not in connection with a change of control. This payment was not triggered by the sale of our media services business, which resulted in the transfer of Mr. Kelly's employment to the acquirer of that business. Mr. van Dommelen is also not a party to a change in control severance agreement.

Under the change in control severance agreements that SeaChange is a party to with its named executive officers, 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.

Immediately prior to 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 executives other than Messrs. Rau and Bornak, 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, (ii) for Mr. Bornak, one times his annual base salary plus one times the bonus, if any, for which he is eligible with respect to the fiscal year in which the termination occurs determined on a pro-rated basis, and (iii) for Mr. Rau, two times his annual base salary plus (A) for a termination occurring during the fiscal year ended January 31, 2013, the annual bonus, if any, for which he is eligible with respect to the fiscal year in which the termination occurs determined on a pro-rated basis, (B) for a termination occurring during the Company's fiscal year ended January 31, 2014, either the annual bonus, if any, for which he is eligible with respect to the fiscal year in which the termination occurs determined on a pro-rated basis or, if larger, the annual bonus for fiscal 2013, or (C) for a termination occurring following January 31, 2014, one times his bonus for the preceding year, or, if larger, the year prior to that;
- continued health, life and disability benefits, for a period of two years for executives other than Mr. Bornak and for a period of one year for Mr. Bornak;
- 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 our then existing 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, and the agreements with Messrs. Rau and Bornak entered into following that date do not contain a "parachute payment" tax gross up.

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, for the named executive officers with SeaChange as of the close of business on January 31, 2012, the payments to which such named executive officers would have been entitled pursuant to his or her change-in-control severance agreement or, in the case of Mr. Kelly and Mr. van Dommelen, his executive service agreement or employment agreement, respectively, had employment been terminated as of January 31, 2012 in circumstances that would have triggered the change-in control severance agreement or executive service agreement, as applicable, and, for each of Ms. Kanouff and Messrs. Styslinger and Bisson, the payments actually made or payable in connection with the termination of his or her employment on or prior to January 31, 2012.

Potential Payments Upon Termination or Change in Control

| Name | Salary \$(⁽¹⁾) | Non-Equity Incentive Plan Compensation \$(⁽²⁾) | Equity Incentive Plan Compensation \$(⁽²⁾) | Benefits \$(⁽³⁾) | Equity Awards \$(⁽⁴⁾) |
|--|--------------------------------|--|--|----------------------------------|---------------------------------------|
| Raghu Rau | 1,000,000 | 500,000 | 750,000 | 73,078 | 256,500 ⁽⁵⁾ |
| Michael D. Bornak | 279,000 | 75,000 | 100,000 | 73,078 | 11,000 |
| Ira Goldfarb | 700,000 | 99,836 | 495,994 | 73,078 | 295,033 |
| Anthony Kelly ⁽⁶⁾ | 320,462 | — | — | — | — |
| Erwin van Dommelen. | — | — | — | — | — |
| William C. Styslinger, III | 1,400,000 | — | — | 50,113 | 1,331,957 |
| Yvette Kanouff | 400,000 | 75,000 | 92,059 | 39,039 | 92,059 |
| Kevin M. Bisson | — | — | — | 15,829 | — |

- (1) For Messrs. Rau and Goldfarb, reflects two times the executive's base salary. For Mr. Kelly, reflects 12 months base salary. For Mr. Styslinger, reflects three times his base salary, which he would have been entitled to as a result of a Change in Control occurring on January 31, 2012. Absent a change in control occurring prior to September 30, 2012, Mr. Styslinger is entitled to \$950,000 in severance payments in connection with the termination of his employment during the fiscal year ended January 31, 2012. For Ms. Kanouff, reflects the payments actually made or payable in connection with the termination of her employment during the fiscal year ended January 31, 2012.
- (2) Messrs. Rau and Bornak were not subject to incentive plans for fiscal 2012 and thus would not have been entitled to incentive plan compensation upon a termination or Change in Control as of January 31, 2012. The amounts shown in the incentive plan columns for Messrs. Rau and Bornak instead show the incentive plan compensation each would be entitled to upon a termination or Change in Control occurring on January 31, 2013 assuming satisfaction of all performance conditions under the fiscal 2013 incentive plans. For Mr. Goldfarb, reflects one times his bonus. For Ms. Kanouff, reflects the payments actually made or payable in connection with the termination of her employment during the fiscal year ended January 31, 2012.
- (3) For executives other than Mr. Bisson, 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. For Ms. Kanouff, reflects in addition \$20,000 paid to Ms. Kanouff upon the termination of her employment for earned but unused vacation time. For Mr. Bisson, reflects the amount paid to Mr. Bisson upon the termination of his employment for earned but unused vacation time.
- (4) For executives other than Ms. Kanouff and Mr. Styslinger, reflects the value of all unvested stock options and restricted stock units that would vest as a result of the termination. For Mr. Styslinger, reflects the value of all unvested restricted stock units that would have vested as a result of a Change in Control occurring on January 31, 2012. For Ms. Kanouff, reflects the value of unvested restricted stock units that vested as a result of the termination of her employment on January 31, 2012. The amounts are based on (i) in the case of accelerated options, the excess of the SeaChange January 31, 2012 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, 2012 multiplied by the number of unvested restricted stock units as of January 31, 2012. The grant date fair value of restricted stock unit awards have previously been disclosed in the Summary Compensation Table.
- (5) Reflects the value of the acceleration of unvested stock options and restricted stock units that Mr. Rau would have been entitled to on January 31, 2012 had his change in control and severance agreement dated as of May 1, 2012 been entered into on or prior to January 31, 2012.

- (6) Effective as of the sale of SeaChange's media services business on May 21, 2012, which sale was announced in a press release furnished by SeaChange in a Form 8-K filed May 21, 2012, Mr. Kelly is no longer employed by SeaChange. Mr. Kelly is a named executive officer for the fiscal year ended January 31, 2012, but is no longer an executive officer or employee of SeaChange as of the date hereof.

As disclosed in SeaChange's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 30, 2012, in connection with the retirement of Mr. Styslinger effective December 8, 2011, we entered into a separation agreement and release of claims with Mr. Styslinger. Under the terms of Mr. Styslinger's separation agreement, in exchange for Mr. Styslinger's release of claims, we agreed to:

- pay Mr. Styslinger \$950,000, two times his annual base salary at the time of his retirement, in twelve equal monthly installments on SeaChange's regular payroll schedule;
- pay for 24 months of Mr. Styslinger's coverage under comparable medical and dental benefit plans to those by which Mr. Styslinger was covered immediately prior to the termination of his employment; and
- waive the continuing employment requirement applicable to unvested RSUs for 191,004 shares of SeaChange's common stock previously granted to Mr. Styslinger, permitting these RSUs to continue to vest in accordance with their current vesting schedules following the termination of Mr. Styslinger's employment.

In the event that a Change in Control occurs after December 8, 2011 but before September 30, 2012, then Mr. Styslinger's separation agreement (i) requires SeaChange to pay Mr. Styslinger an amount equal to the difference between the \$950,000 in severance pay described above and the cash value of the compensation Mr. Styslinger would otherwise have been entitled to under his Change-in-Control Severance Agreement in connection with the Change in Control, and (ii) provides for the full acceleration of all unvested RSUs held by Mr. Styslinger.

As disclosed in SeaChange's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2012, in connection with Ms. Kanouff ceasing to be an employee of SeaChange effective January 31, 2012, we entered into a separation agreement and release of claims with Ms. Kanouff, dated as of February 21, 2012. Under the terms of Ms. Kanouff's separation agreement, in exchange for Ms. Kanouff's release of claims, we will:

- pay Ms. Kanouff \$400,000, equal to her annual base salary at the time her employment terminated, in twice-monthly installments on our regular payroll schedule for a period of twelve months;
- satisfy the retention award previously granted to Ms. Kanouff, as disclosed in the Form 8-K filed May 5, 2011, by the payment of \$75,000 in cash and the accelerated vesting of the restricted stock unit for 3,000 shares of SeaChange's common stock;
- permit Ms. Kanouff to remain eligible to receive an award under our fiscal year 2012 performance-based compensation plan, with such payments, if any, to be made at the time and under the terms as would have applied had Ms. Kanouff remained actively employed by SeaChange, provided that 8,330 of such RSUs were awarded to Ms. Kanouff on execution of her separation agreement; and
- pay for up to 12 months (or such earlier period as Ms. Kanouff becomes eligible for healthcare coverage from a new employer) of her coverage under comparable medical and dental benefit plans to those by which she was covered immediately prior to the termination of her employment.

The separation agreement with Ms. Kanouff provides that all of Ms. Kanouff's rights and obligations under existing awards of stock options and restricted stock units will continue to be governed by the terms and conditions of the applicable plan pursuant to which such awards were granted. Ms. Kanouff remains subject to the terms of an Employee Noncompetition, Nondisclosure and Developments Agreement with SeaChange previously executed by Ms. Kanouff with SeaChange, pursuant to which there is a one-year post-employment noncompetition and nonsolicitation obligation.

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
Peter Feld
Edward Terino

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Messrs. Feld, Olson (Chair), and Terino. 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 2012 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, no payout was made under our fiscal 2012 compensation plan based on the financial performance metrics, as our fiscal 2012 financial results, while largely consistent with those in fiscal 2011, were below both the revenue threshold and non-GAAP net income threshold set as part of our fiscal 2012 compensation plan. Payouts under our fiscal 2012 compensation plan occurred only on the basis of individual performance-based objectives. In contrast, we did make payouts under our fiscal 2011 compensation plan, as our fiscal 2011 financial results were an improvement over those in fiscal 2010, and were above the revenue threshold and non-GAAP net income target set as part of our fiscal 2011 compensation plan. Consistent with this pay for performance focus, our Compensation Committee (the “Committee”) exercised discretion under our fiscal 2010 compensation plan not to make any payout based on the financial performance metrics, even though the revenue threshold was exceeded, due to our GAAP net income results.

The Board urges stockholders to read the Compensation Discussion and Analysis beginning on page 19 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 30 through 41 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. It is currently expected that stockholders will be given an opportunity to cast an advisory vote on this topic annually, with the next opportunity occurring in connection with the Company’s annual meeting in 2013.

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

PROPOSAL NO. III

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, 2013.

Independent Registered Public Accounting Firm for Fiscal Year 2013

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, 2013.

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, 2012 and 2011.

| | 2012 | 2011 |
|------------------------------|-------------|-------------|
| Audit Fees | \$1,185,794 | \$1,327,776 |
| Audit-Related Fees | — | — |
| Tax Fees | — | — |
| All Other Fees | — | — |
| Total: | \$1,185,794 | \$1,327,776 |

Audit Fees. These are aggregate fees billed for professional services rendered by Grant Thornton LLP for the fiscal year ended January 31, 2012, and for the fiscal year ended January 31, 2011 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.

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.

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, 2012, 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) Erwin van Dommelen's of Changes in Beneficial Ownership filed on Form 4 on September 26, 2011, which reported a transaction that occurred on September 1, 2011, was required to be filed by September 6, 2011; (2) Raghu Rau's Annual Statement of Changes in Beneficial Ownership filed on Form 5 on March 16, 2012, which reported transactions that occurred on January 18, 2012, required to be reported on a Form 4 by January 20, 2012; (3) Thomas F. Olson's Annual Statement of Changes in Beneficial Ownership filed on Form 5 on March 16, 2012, which reported transactions that occurred on January 18, 2012, required to be reported on a Form 4 by January 20, 2012; (4) Michael Bornak's Annual Statement of Changes in Beneficial Ownership filed on Form 5 on March 16, 2012, which reported a transaction that occurred on January 18, 2012, required to be reported on a Form 4 by January 20, 2012.

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 made cash payments to date to the holding company of \$41.0 million and issued 227,041 of restricted common shares, 75,018 of which will vest in equal installments over three years beginning fiscal 2011 and 152,023 which will vest in equal installments over three years beginning in fiscal 2012. SeaChange is obligated to make payments of approximately \$137,000 in cash on each of September 1, 2012 and September 1, 2013 and an additional payment 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's common stock on September 1, 2012. SeaChange has also accrued \$1.8 million for additional payments that may become due under the earn-out provisions of the eventIS share purchase agreement, which will be paid to the holding company if certain performance goals are met.

SeaChange is also party to agreements dated June 3, 2010 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."

**EXPLANATORY NOTE REGARDING THE FOLLOWING COPY OF
OUR ANNUAL REPORT ON FORM 10-K**

The copy of our Annual Report on Form 10-K that follows includes on page 47 a signed copy of the report of Grant Thornton LLP (the “Report”) that was filed with the Securities and Exchange Commission with Amendment No. 1 to the Form 10-K, rather than with the initial Form 10-K filing. The version of our Annual Report on 10-K initially filed inadvertently omitted the conformed signature line to the Report. Other than adding the conformed signature line to the Report, we made no other changes to the Form 10-K when filing the Amendment No. 1.

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2012

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

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction 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

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 29, 2011, 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 \$300,598,856. The number of shares of the registrant's Common Stock outstanding as of the close of business on March 29, 2012 was 32,756,219.

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 18, 2012 to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The statements contained in this Annual Report on Form 10-K of SeaChange International, Inc. (“SeaChange,” the “Company,” “us,” or “we”), including, but not limited to the statements contained in Item 1, “Business,” and Item 7, “Management’s Discussion and Analysis of the Financial Condition and Results of Operations, along with statements contained in other reports that we have filed with the Securities and Exchange Commission (the SEC), external documents and oral presentations, which are not historical facts are considered to be “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended. These statements which may be expressed in a variety of ways, including the use of forward looking terminology such as “believe,” “expect,” “seek,” “intend,” “may,” “will,” “should,” “could,” “potential,” “continue,” “estimate,” “plan,” or “anticipate,” or the negatives thereof, other variations thereon or compatible terminology, relate to, among other things, our transition to being a company that primarily provides software solutions, the effect of certain legal claims against us, projected changes in our revenues, earnings and expenses, exchange rate sensitivity, interest rate sensitivity, liquidity, product introductions, industry changes and general market conditions. We do not undertake any obligation to publicly update any forward-looking statements.

These forward-looking statements, and any forward looking statements contained in other public disclosures of the Company which make reference to the cautionary factors contained in this Form 10-K, are based on assumptions that involve risks and uncertainties and are subject to change based on the considerations described below. We discuss many of these risks and uncertainties in greater detail in Item 1A of this Annual Report on Form 10-K under the heading “Risk Factors.” These and other risks and uncertainties may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements.

The following discussion should be read in conjunctions with our “Management Discussion and Analysis of Financial Condition and Results of Operations,” and our financial statements and footnotes contained in this Annual Report.

ITEM 1. Business

SeaChange International, Inc., a Delaware corporation founded on July 9, 1993, is an industry leader in the delivery of multi-screen video. Our products and services facilitate the aggregation, licensing, management and distribution of video, television programming and advertising content. We sell our products and services worldwide primarily to cable system operators, including Cablevision Systems, Comcast Cable Communications Management, LLC, Cox Communications, Inc, Virgin Media, Limited, and Rogers Communications, Inc; and telecommunications companies, including AT&T Services, Inc, Telekom Austria Group, Turk Telekom and Verizon Communications, Inc.

Our products and services are designed to enable our customers to reduce capital expenditures and operating expenses, 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, including cellular telephones, personal computers (PCs) and tablets. This capability allows the operator to offer programming 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 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 is evolving, we are evaluating our non-core assets and focusing on higher margin, recurring revenue generating software products. We believe that our strategy of expanding into adjacent product lines will position us to further support and maintain our existing customer base. By providing our customers more technologically advanced software platforms, they can further reduce their infrastructure costs and improve reliability. Additionally we are positioned to take advantage of new customers entering the on-demand marketplace allowing us to serve adjacent markets, such as telecommunications.

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® technology and for our role in the growth of video-on-demand.

Fiscal 2012 was a transition year for us. During fiscal 2012, we were engaged in an evaluation of strategic alternatives regarding the future direction of the Company and as announced last quarter, the Board of Directors decided that it is in the best interest of shareholders to continue as a standalone publicly traded company. In addition, during our fourth quarter of fiscal 2012, we announced a restructuring plan that will reduce our operating costs in excess of \$5.0 million in annualized cost savings that will be realized in fiscal 2013. We also experienced leadership changes at the senior management level, but we have made swift replacements with the addition of a new Chief Executive Officer and Chief Financial Officer and the elimination of the position of President of the company. In fiscal year 2013, the Company will continue to focus on significantly improving and streamlining its operations while continuing to transform into a pure play software company, which we use to mean a company primarily focused on software solutions. We are also continuing to evaluate alternatives for certain non-core businesses. On March 21, 2012, we signed a definitive asset sale agreement to divest certain portions of our broadcast server and storage business, while retaining video streaming and related hardware. This transaction is expected to close in the near future once customary regulatory approvals are received. Accordingly, our broadcast server and storage business unit is reflected in our financial statements as a discontinued operation. This divestiture will allow us to focus on our core software and services operations including, our next generation back office, home gateway software and advertising solutions.

With the divestiture of a portion of our broadcast servers and storage business, our operations are now realigned into two business segments, the software segment and the media services segment. The software segment includes product revenues from our Back Office including video streamers, Home Gateway and Advertising products as well as related services such as professional services, installation, training, project management, product maintenance, and technical support. Our media services segment is comprised of the operations of On-Demand Group (ODG) whose activities include content acquisition and preparation services for television and wireless service providers. 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.

Software

Our Software business segment is comprised of three distinct product groups: back office products including video streamers, advertising products and in-home gateway products. Our revenue sources from the Software segment consists of:

- product revenues from our advertising, back-office including video streamers, and home gateway product solutions, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products.

Back-Office Products:

In 2006, we began selling our SeaChange Axiom® on-demand back office software independent of our hardware while offering subscription services in an effort to increase market share and generate a more predictable recurring revenue stream. Additionally, by porting our software to other third party hardware platforms, we increased our market share with opportunities at competitive vendors' installations. In 2008, we saw the need to move video to mobile devices, such as cellular telephones, PCs and tablets, and purchased Mobix Interactive Limited, a United Kingdom based company that had developed software and services allowing mobile service operators to offer video products. To further enhance our back office product offerings, in September 2009, we acquired a private software company, eventIS Group B.V. ("eventIS"), in Eindhoven, the Netherlands, who was a leading provider of video-on-demand back office software products supporting operators primarily in Europe. Their software complemented and extended the capabilities of our video-on-demand software products.

The integration of the software from eventIS and Mobix with our legacy Axiom product has become the basis for our next generation back office software platform, Adrenalin. Adrenalin is backward compatible with Axiom and is modular, allowing our installed base to gradually adopt new functionality and features to support multi-screen video distribution. The purpose of back office software is to allow operators to centralize video distribution systems thereby reducing dependence on hardware and ultimately controlling operating expenses. The software automates and streamlines functionality in four crucial areas:

- Ingest of content including custom workflow, transcoding, encryption and distribution.
- Content Management including data analysis and management of metadata.
- Business management such as advertising placement, contract rights and subscriber entitlements, cloud-based monitoring and management and recommendation of social media applications.
- Publishing and purchasing, which allows content to be formatted for viewing on any device as well as in High Definition or 3D formats.

According to SNL Kagan, a leading research firm for the television industry, 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 growth in Europe are expected to rise with the increased investments in video-on-demand products and services from European cable television providers and we believe that through our acquisitions and development of next generation back office product offerings, we have positioned ourselves to capitalize on that penetration rate.

Advertising Products:

As more content moves to mobile devices, the ability to generate additional revenue by inserting personalized, targeted advertising on these devices becomes crucial to operators in offsetting content rights costs and reducing subscriber fees for viewing the content. Our Infusion Advanced Advertising Platform is the foundation for the new breed of linear video advertising operations. Infusion scales to support operators' migration to consolidated regional and national advertising systems that are managed from increasingly web-centric and virtualized datacenters. Infusion supports dynamic targeted advertising across multiple screens. This translates into more advertising spots available for sale by the operators. Advertisers can now reach their audiences in video being viewed on cell phones, tablets, PCs and TVs while targeting those ads to the particular viewer.

With our AdPulse advertising software platform, ads and content are maintained in separate databases. They are ingested, managed and updated separately allowing for fast and easy refresh, simple rotation of ad copy and targeting by geographic, demographic and viewing characteristics. Because the ads are tracked separately from the content, the data provided includes detailed ad viewing and trick-mode (fast forward, rewind, and pause) usage leading to easier analysis of reach and effectiveness.

Video-on-demand, digital video recorders (DVRs) and over-the-top services, which we use to mean the delivery of content without the service provider being involved in the control or distribution of the content itself, are also changing the way audiences view programming. Therefore, our next generation advertising product strategy is creating new opportunities for our customers to capture local, regional and national advertising revenue from linear, targeted linear and targeted dynamic on-demand advertising.

Home Gateway Products:

In February 2010, we acquired VividLogic Inc (“VividLogic”), a private software company located in San Mateo, California. VividLogic’s products and services have enabled us to expand our software product portfolio to participate more competitively in the home gateway market, which we use to mean the market for the porting of video distribution to home devices.

As the state of video consumption evolves, we are using the VividLogic platform to produce software that ports to any gateway hardware and acts as a hub for all video distribution to devices throughout the home. Our Nucleus™ software product is a hybrid gateway, standards-based solution supporting both QAM and IP-delivered video. Nucleus delivers a unified user experience across all platforms throughout the home. The Nucleus Engine provides full control over set-top box functionality including channel changes, VOD/DVR playback and trick mode such as fast forward or rewind. It enables media sharing including photos, audio/MP3, video files and recorded assets. The Nucleus Presentation Manager supports next generation user interfaces (UI) including our own Nitro User Interface. It supports applications and widgets such as smartphone and tablet remote control.

Media Services

Through the acquisition of On Demand Group (ODG) in fiscal 2006, we expanded our media content services, which consists of content aggregation and distribution. In Europe, ODG is a leader 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, the Middle East and, more recently, Latin America. In addition, ODG also specializes in branded service creation and end-to-end management of such services, such as with its ‘TV on-demand’ service which it developed to run on mobile, cable and telecommunication network operators in these regions.

ODG also sources, acquires, packages, and markets 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.

Strategy

Our strategy is to maintain and expand our installed customer base while increasing our revenue base with new customers, especially in the telecommunications industry, delivering exceptional customer service, positioning ourselves as an industry leader in the delivery of multi-screen video through our transformation to a pure play software company, while continually focusing on our customer’s critical needs and problems.

We plan to execute this strategy by:

- Growing revenues through the introduction of our next generation software platforms, such as Adrenalin for back office, Infusion and AdPulse for our advertising product line and the expansion of our home gateway product line;
- Reducing our overall cost structure and further streamlining our operations;
- Divesting of business units or product offerings that are not core or profitable to our business; and
- Acquiring or investing in businesses that will enhance our product offerings and be accretive to our business

Research and Product Development

We believe that our success will depend on our ability to develop and introduce timely new integrated solutions and enhancements to our existing products that meet changing customer requirements in our current and future customer base as well as new markets. We have made and will continue to make substantial investments in our products and new technologies. Our current research and development activities are focused on developing next generation back office software, gateway software and advertising solutions in the multi-screen video market. Our direct sales and marketing groups closely monitor changes in customer needs, changes in the marketplace and emerging industry standards to help us focus our research and development efforts to address our customer's needs, help solve their problems, and lower their operating and capital costs. Our lead engineers are deeply involved in industry standards bodies such as the NCTA and the SCTE where they help define the direction of the next generation of products and standards. Our research and development efforts are performed at our Acton, MA headquarters, Milpitas, CA and Eindhoven, the Netherlands.

During fiscal 2012, we have realigned our research and development efforts to focus on the next generation networks and video delivery platforms which are vital to our customer's success. We are achieving this by reducing or ending our investment on certain legacy product lines, evaluating divestiture of non-core business units and assets while reallocating resources to our three fundamental software products: Adrenalin for the back office, Nucleus the new Home Gateway software for the delivery of video and applications throughout the home and next generation advertising products such as Infusion and AdPulse.

As of January 31, 2012, we had a research and development staff of 427 employees, representing 37% of our total employee workforce. As of January 31, 2011 and 2010, we had a research and development staff of 469 and 502 which represented 39% and 41% of our total workforce, respectively. Upon completion of our divestiture of our former broadcast servers and storage business unit, our research and development staff will be reduced by approximately 99 employees with many of them moving to the acquiring entity.

Selling and Marketing

We sell and market our products worldwide through a direct sales organization, independent agents and distributors. Direct and indirect sales activities are primarily conducted from our Massachusetts headquarters and our European facility in Eindhoven, as well as through sales representatives deployed in different regions of the globe. We also market certain of our products to systems integrators and value-added resellers. Our sales cycle tends to be long, in some instances twelve to twenty-four months, and purchase orders are typically in excess of one million dollars. As a result our revenues are sometimes difficult to predict as to what quarter or fiscal year our revenues may be realized.

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

We use several marketing programs to focus on our targeted markets to support the sale and distribution of our products. We attend and exhibit our products at a limited number of prominent industry trade shows and conferences and we present our technology at seminars and smaller conferences to promote the awareness of our products. We also publish articles in trade and technical journals.

Our Media Services segment based in London uses a direct sales force to market and sell its services to customers throughout Europe, Middle East, and Latin America. This group is highly specialized in providing content and marketing solutions for cable, telecommunications and mobile operators who want to offer pay video services but do not have the capabilities in-house to license, format and market the content.

As of January 31, 2012, we had a marketing and sales staff of 77 employees, representing 7% of our total employee workforce. As of January 31, 2011 and 2010, we had a marketing and sales staff of 94 and 93 people representing 8% of our total workforce for both of these years, respectively. Upon completion of our divestiture of our former broadcast servers and storage business unit, our sales and marketing staff will be reduced by approximately 15 employees.

Manufacturing and Quality Control

Our hardware 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.

In May of 2009, we announced that we had achieved TL9000 certification across multiple locations. The QuEST Forum, a consortium of telecommunications suppliers and service providers, developed the TL9000 standard using the framework of the ISO 9000 international standard as a basis to pursue a goal of global telecommunications quality and industry-wide performance excellence. We continue to maintain this certification for quality management systems.

As of January 31, 2012, 2011, and 2010, we had a manufacturing staff of approximately 27, 29, and 31 people respectively, representing approximately 2% of our total workforce.

Our Customers

We currently sell our products primarily to cable system operators, broadcast and telecommunications companies and mobile communications providers. Our customer base is highly concentrated among a limited number of large customers, primarily due to the fact that the cable and telecommunications industries in the United States are dominated by a limited number of large companies. A significant portion of our revenues 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, 2012, Comcast and Virgin Media comprised 20% and 11%, respectively, of our total revenues. For the year ended January 31, 2011, Comcast and Virgin Media comprised 22% and 12%, respectively, of our total revenues. We expect that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues in the near future, even as we intend to penetrate new markets and customers. As a result of this customer concentration, our business, financial condition and results of operations could be materially adversely affected by the failure of anticipated orders to materialize and by deferrals or cancellations of orders as a result of changes in customer requirements or new product announcements or introductions. In addition, the concentration of customers may cause variations in revenue, expenses and operating results on a quarterly basis due to seasonality of orders 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.

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 multi-screen video-on-demand, we compete with various companies offering video software and server platforms such as Concurrent Computer Corp., Arris Group Inc. (through its 2007 acquisition of C-Cor Corporation), Cisco Systems, Inc., Motorola Mobility Inc., and Ericsson Inc.

In the media home gateway market we compete with set top box manufacturers and gateway vendors who offer proprietary software and hardware solutions. However, because our software has been integrated with the two largest chip manufactures, Intel and Broadcom, we believe we obtain a competitive advantage when these chips are designed into the networks by the operators.

Our Media Services business unit is unique in that the principal competition it faces is from service provider customers who decide to take the licensing and marketing of content in-house and would not have a need for the services we provide. However, it has been our experience that most operators outside of North America do not wish to deal with the complexities of negotiating content rights contracts and license agreements.

In the digital advertisement insertion market, we generally compete with Arris Group Inc. We expect the competition in each of the markets in which we operate to intensify in the future as existing and new competitors with significant market presence and financial resources, including computer hardware and software companies and television equipment manufacturers enter these rapidly evolving markets.

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

Proprietary Rights

Our success and our ability to compete are dependent, in part, upon our proprietary rights. We have been granted nineteen 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

The table below represents the number of employees that we employ in different geographic areas across the world. We believe that our relations with our employees are good. None of our employees are represented by a collective bargaining agreement.

| Country | January 31, | | |
|--------------------------------------|---------------------|--------------|--------------|
| | 2012 ⁽¹⁾ | 2011 | 2010 |
| United States | 449 | 521 | 618 |
| China | 0 | 117 | 154 |
| Philippines. | 193 | 235 | 164 |
| United Kingdom. | 172 | 170 | 122 |
| Netherlands | 87 | 79 | 66 |
| Other International | 82 | 87 | 99 |
| Total employees by country | <u>983</u> | <u>1,209</u> | <u>1,223</u> |

(1) FY12 in the above table does not include 170 employees that are included in the divestiture of our broadcast servers and storage business unit.

Executive Officers

Executive officers of the Company as of March 31, 2012 and their biographical information as set forth below:

Raghu Rau

Chief Executive Officer, and Board member. Mr. Rau became the Chief Executive officer on November 30, 2011; has served as a Director of the Company since July 15, 2010; Mr. Rau currently also serves on the Board of Aviat Networks, Inc.. Since 2010, Mr. Rau has also served as a director of Microtune, Inc., the receiver solutions company. From 1992 to 2008, he held a number of positions with Motorola, Inc., including leadership positions in marketing and strategy and held the title of Senior Vice President, Mobile TV Solutions Business from 2007 to 2008. Age 62.

Michael D. Bornak

Chief Financial Officer, Treasurer, Secretary, and Senior Vice President of Finance and Administration since January 23, 2012; prior thereto, served as Chief Financial Officer of Tollgrade Communications, Inc. from September 2009; prior thereto served as Chief Financial Officer of Solar Power Industries, Inc. from June 2008 to July 2009; Chief Financial Officer for MHF Logistical Solutions, Inc. from February 2005 to June 2008; Vice President of Finance and Chief Financial Officer of Portec Rail Products, Inc. from January 1998 to February 2005. Mr. Bornak is also a Certified Public Accountant. Age 49.

Steven M. Davi

Senior Vice President, Chief Technology Officer since March, 2012.; prior thereto served as Senior Vice President, Software Engineering from July 2005; Mr. Davi joined the company in November 1997, having served as head of our engineering teams for back-office, advertising, applications and multi-screen video software; prior thereto Mr. Davi served in engineering and managerial positions at Banyan Systems Inc., Prior to joining Banyan Systems, he was in various engineering positions within the networking division at Data General. He holds a Bachelors degree and a Masters degree in Computer Science. Age 48.

Erwin van Dommelen

President, SeaChange Software Division, joined us in 2009 when the Company acquired Netherlands-based video software provider eventIS where he served as CEO; prior thereto held numerous technical and management positions including Director/Practice Manager at KPMG UK; Program Director High Speed Data and Voice at Cablecom; and Project Manager/System Architect at Philips Digital Television Services. Mr. van Dommelen attended the Hogeschool (University of Applied Sciences) Utrecht, graduating in Telecommunication Science. Age 45.

Ira Goldfarb

Executive Vice President, Worldwide Sales and Service since October 2010; prior thereto joined the Company in 1994 as U.S. Central Regional Sales Vice President; prior thereto held several sales management positions at Digital Equipment Corporation beginning in September 1983. Age 54.

Anthony Kelly

Executive Vice President, Senior Vice President of SeaChange since September 2005; prior thereto held the position of Chief Executive Officer of ODG since 1996; prior thereto 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. Age 50.

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). 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

We wish to caution each reader of this Form 10-K to consider the following factors and other factors discussed herein and in other past reports, including but not limited to prior year Form 10-K and quarterly Form 10-Q reports filed with the SEC. Our business and results of operations could be materially affected by any of the following risks. The factors discussed herein are not exhaustive. Therefore, the factors contained herein should be read together with other reports that we file with the SEC from time to time, which may supplement, modify, supersede, or update the factors listed in this document.

Our business is dependent on customers’ continued spending on video systems and services, 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 our research and development organization, which we believe are necessary to continue to provide innovative solutions to meet our current and prospective customers’ needs. As a result, it is difficult to forecast revenue and operating results. If our revenue and operating results are below the expectations of our investors and market analysts, it could cause a decline in the price of our common stock.

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

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

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

Because our business plan is based on technological development of new products and enhancements to our existing products, our future success is dependent on our successful introduction of these new products and enhancements on a timely basis. In the future we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these and other new products and enhancements, or find that our new products and enhancements do not adequately meet the requirements of the marketplace or achieve market acceptance. Announcements of currently planned or other new product offerings may cause customers to defer purchasing our existing products. Moreover, despite testing by us and by current and potential customers, errors or failures may be found in our products, and, even if discovered, may not be successfully corrected in a timely manner. These errors or failures could cause delays in product introductions and shipments, or require design modifications that could adversely affect our competitive position. Currently, we are focused on the provision of next generation software products, including SeaChange Adrenalin™ Back Office, SeaChange Nucleus™ Soft Box, and SeaChange Infusion™ Advanced Advertising Platform. 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.

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

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

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

We have taken and continue to take measures to address the variability in the market for our products and services, to increase average revenue per unit of our sales and to reduce our operating expenses, rationalize capital expenditure and minimize customer turnover. These measures include shifting more of our operations to lower cost regions, outsourcing and off shoring manufacturing processes and general and administrative functions, implementing cost reduction programs, reducing the number of our employees, and reducing and rationalizing planned capital expenditures and expense budgets. As previously announced we are selling our broadcast servers and storage business unit and continue to evaluate the divestiture of non-core operations as we focus on becoming a company that primarily provides software solutions. We cannot ensure that the measures we have taken will not impair our ability to effectively develop and market products and services, to remain competitive in the industries in which we compete, to operate effectively, to operate profitably during slowdowns or to effectively meet a rapid increase in customer demand. These measures may have long-term negative effects on our business by reducing our pool of technical talent, decreasing or slowing improvements in our products and services, making it more difficult to hire and retain talented individuals and to quickly respond to customers or competitors in an upward cycle.

Our business has been subject to uncertainties introduced by the evaluation of strategic options completed by us in fiscal 2012.

As previously disclosed, we completed an evaluation of strategic options in fiscal 2012 and concluded that it was in the best interests of stockholders to remain a standalone public company, and to focus on improving and streamlining our operations. This strategic review resulted in the expenditure of substantial management time and resources, and may result in our customers reducing the level of orders they place with us, employees deciding to leave the Company, a third party expressing interest in acquiring the Company, and other factors that may have a negative effect on our business. It is also possible that we may be unsuccessful in improving and streamlining our operations. These factors may create uncertainty in our operations that could cause our revenues to decline and that could have a material adverse effect on our business, financial condition and results of operations and may cause fluctuations in our stock price.

We may be unsuccessful in our efforts to become a pure play software company, by which we mean a company that primarily provides software solutions.

Our efforts to become a company that primarily provides software solutions may result in a reduction both in the range of products and services we offer and in the range of our current and potential future customers. Each of these factors may increase the level of execution risk in our strategy, in that there may be increased variability in our revenues. If we are unsuccessful in this transition, our business, financial condition and results of operation may be adversely affected, and the market price of our common stock may decrease.

Because our customer base is highly concentrated among a limited number of large customers, the loss of or reduced demand by, or return of product by one or more 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 a substantial variation in our operating results, resulting in a decrease in the market price of our common stock and making period-to-period comparisons of our operating results less meaningful.

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

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

Digital video-on-demand, advertising, and content products and services 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, and content products and services is typically lengthy and subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews, over which we have little or no control. Based upon all of the foregoing, we believe that our quarterly revenues and operating results are likely to vary significantly in the future, that period-to-period comparisons of our results of operations are not necessarily meaningful and that these comparisons should not be relied upon as indications of future performance.

If there were a decline in demand or average selling prices for our products, including our back office and advertising products, our revenues and operating results would be materially affected.

We expect our back office 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, particularly as we explore the divestiture of non-core business units as evidenced by our agreement to divest a portion of our broadcast servers and storage business unit executed on March 21, 2012. In light of the growing complexities in managing our expanding portfolio of products and services, our anticipated future operations may continue to strain our operational and administrative resources. To manage future growth effectively, we must continue to improve our operational controls and internal controls over financial reporting, and to integrate the businesses we have acquired and our new personnel and to manage our expanding international operations. A failure to manage our growth may harm our business through a decreased ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees upon which our business is dependent.

Because our business is susceptible to risks associated with international operations, we may not be able to maintain or increase international sales of our products and services, 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 Europe.

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

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

We are 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. We have received certain claims for indemnification from customers but have not been made party to any litigation involving intellectual property infringement claims as a result. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights. This possibility of multiple damages serves to increase the incentive for plaintiffs to bring such litigation. In addition, these lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention away from our operations. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. In addition, any potential intellectual property litigation also could force us to stop selling, incorporating or using the products that use the infringed intellectual property or obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, although this license may not be available on reasonable terms, or at all, or redesign those products that use the infringed intellectual property. If we are forced to take any of the foregoing actions, our business may be seriously harmed.

If content providers, such as movie studios, limit the scope of content licensed for use in the digital 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.

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

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

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

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

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

We may also incorporate open source software into our products. Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. We could also be subject to similar conditions or restrictions should there be any changes in the licensing terms of the open source software incorporated into our products. In either event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely or successful basis, any of which could adversely affect our business, operating results and financial condition.

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

We currently compete against large companies offering video software solutions. In the digital advertisement insertion market, we compete against suppliers of both analog tape-based and digital systems. In addition, a number of well-funded companies have been 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 their purchases of our on-demand products. Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources, including software companies and television equipment manufacturers, may enter those markets, thereby further intensifying competition. Increased competition could result in price reductions, cancellations of purchase orders, losses of business with current customers to competitors, and loss of market share which would adversely affect our business, financial condition and results of operations. Many of our current and potential competitors have greater financial, selling and marketing, technical and other resources than we do. Moreover, our competitors may also foresee the course of market developments more accurately than we. Although we believe that we have certain technological and other advantages over our competitors, realizing and maintaining these advantages will require a continued high level of investment by us in research and product development, marketing and customer service and support. In the future we may not have sufficient resources to continue to make these investments or to make the technological advances necessary to compete successfully with our existing competitors or with new competitors. If we are unable to compete effectively, our business, prospects, financial condition and operating results would be materially adversely affected because of the difference in our operating results from the assumptions on which our business model is based.

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

The markets for our products are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions and enhancements. Future technological advances in the television and video 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 Mobix Interactive Ltd., 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 Mobix Interactive Ltd., 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;
- 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; and
- our ability to retain and incentivize management and key employees of the acquired business.

Future acquisitions or divestitures may adversely affect our financial condition.

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. As previously announced, we are selling our broadcast servers and storage business unit and continue to evaluate the divestiture of non-core operations as we focus on becoming a company that primarily provides software solutions. Negotiation of potential acquisitions, divestitures or joint

ventures and our integration or transfer of acquired or divested products, technologies or businesses could divert management's time and resources.

As part of our strategy for growth, we may continue to explore acquisitions, divestitures, or strategic alliances, which may not be completed or may not be ultimately beneficial to us.

Acquisitions or divestitures may pose risks to our operations, including:

- problems and increased costs in connection with the integration or divestiture of the personnel, operations, technologies, or products of the acquired or divested businesses;
- unanticipated costs;
- diversion of management's attention from our core business;
- inability to make planned divestitures of businesses on favorable terms in a timely manner or at all;
- adverse effects on business relationships with suppliers and customers and those of the acquired company;
- acquired assets becoming impaired as a result of technical advancements or worse-than-expected performance by the acquired company;
- entering markets in which we have no, or limited, prior experience; and
- potential loss of key employees.

In addition, in connection with any acquisitions or investments we could:

- issue stock that would dilute our existing stockholders' ownership percentages;
- incur debt and assume liabilities;
- obtain financing on unfavorable terms;
- incur amortization expenses related to acquired intangible assets or incur large and immediate write-offs;
- incur large expenditures related to office closures of the acquired companies, including costs relating to the termination of employees and facility and leasehold improvement charges resulting from our having to vacate the acquired companies' premises; and
- reduce the cash that would otherwise be available to fund operations or for other purposes.

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 marketable securities in a variety of instruments which may include commercial paper, certificates of deposit, money market funds and government debt securities. 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. 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 have recently experienced the turnover of our Chief Executive Officer, President and Chief Financial Officer. 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 integration of new 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 various tax jurisdictions. 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 in our products or related to our information technology infrastructure 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 insecure, 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.

We may be subject to network disruptions or security breaches that could damage our reputation and harm our business and operating results.

We may be subject to network disruptions or security breaches caused by computer viruses, illegal break-ins or hacking, sabotage, acts of vandalism by third parties or terrorism. Our security measures or those of our third party service providers may not detect or prevent such security breaches. Any such compromise of our information security could result in the unauthorized publication of our confidential business or proprietary information, cause an interruption in our operations, result in the unauthorized release of customer or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation or damage our reputation, which could harm our business and operating results.

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.

Changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations.

A change in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New pronouncements and varying interpretations of existing pronouncements have occurred with frequency and may occur in the future. Changes to existing rules, or changes to the interpretations of existing rules, could lead to changes in our accounting practices, and such changes could adversely affect our reported financial results or the way we conduct our business.

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

| <u>Location</u> | <u>Principal Use</u> | <u>Business Segment</u> | <u>Square Feet</u> |
|---------------------------------|---|-------------------------|--------------------|
| <u>Owned Facilities</u> | | | |
| Acton, Massachusetts | Corporate Headquarters | Software and Servers | 120,000 |
| London, United Kingdom | ODG corporate offices and video content processing services | Media Services | 9,000 |
| <u>Leased Facilities</u> | | | |
| Manila, Philippines | Engineering and Customer Services | Software and Servers | 28,000 |
| Milpitas, California | Engineering | Software and Servers | 20,200 |
| Fort Washington, Pennsylvania | Engineering | Software and Servers | 14,000 |
| Eindhoven, The Netherlands | Engineering, Sales and Customer Services | Software and Servers | 6,300 |
| <u>Held for sale</u> | | | |
| Greenville, New Hampshire | | | 24,000 |

In addition, we lease offices in Illinois, Nevada, Ireland, Singapore, Germany, Japan, India, Turkey, UK, and Mexico. We believe that existing facilities are adequate to meet our foreseeable requirements. Due to restructuring of the VOD server product lines and divestiture of a portion of the broadcast servers and storage business unit, we have determined to sell our Greenville, New Hampshire facility and have classified it as an asset held for sale on our balance sheet.

ITEM 3. Legal Proceedings

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. On June 4, 2010, the Court entered an Order staying the declaratory judgment action pending resolution of the contempt proceeding. On September 2, 2011, the Court entered an Order in which it concluded that a contempt proceeding is the appropriate procedure for resolving the parties’ dispute and that further factual and legal determinations would be necessary. On March 1, 2012, the Court conducted a hearing at which the parties submitted additional information. No determinations were made by the Court at the hearing as to liability, and the parties are now scheduled to submit post-hearing briefs. We believe that our products do not infringe on the ‘804 patent and that we have meritorious defenses against the suit, however, the ultimate resolution of the matter is not reasonably estimable at this time, but could result in a material liability for us.

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. From time to time, we also indemnify customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of our products and services or resulting from the acts or omissions of 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, VTran Media Technologies and ActiveVideo Networks, Inc. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us.

ITEM 4. Mine Safety Disclosures

Not applicable

PART II

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

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol "SEAC".

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, 2012 and 2011.

| | Fiscal Year 2012 | | Fiscal Year 2011 | |
|---------------------------|------------------|--------|------------------|--------|
| | High | Low | High | Low |
| Three Month Period Ended: | | | | |
| First Quarter | \$10.95 | \$8.62 | \$8.61 | \$6.45 |
| Second Quarter | 11.26 | 9.94 | 9.48 | 7.45 |
| Third Quarter | 9.63 | 6.96 | 9.17 | 7.08 |
| Fourth Quarter | 8.82 | 6.59 | 9.04 | 7.90 |

On March 29, 2012, there were 119 holders of record.

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.

On May 26, 2010, our 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 terminated on January 31, 2012 and the Company did not repurchase any shares under this program for fiscal 2012 and purchased 178,000 shares at a cost of \$1.4 million for fiscal 2011.

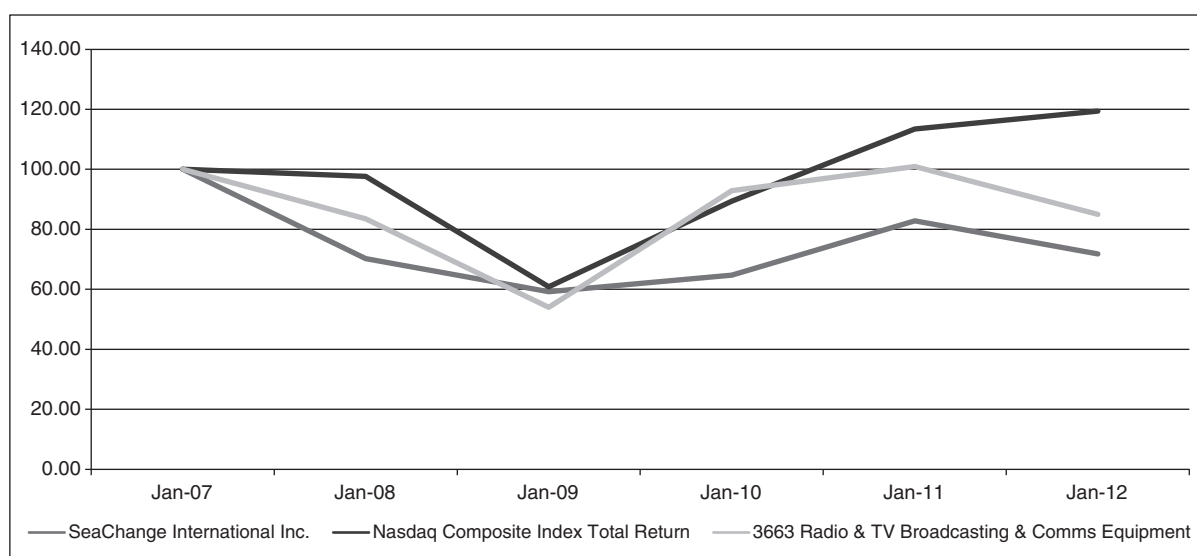
On March 28, 2012, our Board of Directors authorized the repurchase of up to \$25.0 million of its common stock, par value \$.01 per share, through a share repurchase program. The repurchase program terminates on January 31, 2013.

Information regarding equity plans appears in Part III, Item 12 of this annual report on Form 10-K.

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, 2007 through January 31, 2012, 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, 2007 in SeaChange's common stock at the \$10.00 closing price on January 31, 2007 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, 2007.

ITEM 6. Selected Financial Data

The following selected consolidated financial data of the Company has been derived from our audited consolidated financial statements. The following selected financial data may not be representative of our future financial performance and 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. Prior periods results have been restated to reclassify discontinued operations activity to the line in the consolidated statement of operations

| | Year ended January 31, | | | | |
|--|---------------------------------------|-----------|-----------|-----------|-----------|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (in thousands, except per share data) | | | | |
| Consolidated Statement of Operations Data: | | | | | |
| Revenues: | | | | | |
| Products | \$ 73,157 | \$ 82,155 | \$ 97,005 | \$100,348 | \$ 91,103 |
| Services. | 124,548 | 119,532 | 92,935 | 77,635 | 68,214 |
| Total revenues | 197,705 | 201,687 | 189,940 | 177,983 | 159,317 |
| Costs of revenues: | | | | | |
| Products | 22,774 | 30,256 | 35,929 | 35,478 | 37,619 |
| Services. | 76,919 | 68,576 | 54,941 | 47,348 | 42,817 |
| Total cost of revenue | 99,693 | 98,832 | 90,870 | 82,826 | 80,436 |
| Gross profit | 98,012 | 102,855 | 99,070 | 95,157 | 78,881 |
| Operating expenses: | | | | | |
| Research and development | 40,692 | 44,569 | 45,104 | 37,482 | 35,026 |
| Selling and marketing | 21,619 | 21,055 | 22,425 | 24,076 | 19,963 |
| General and administrative | 24,116 | 23,647 | 20,823 | 20,064 | 19,160 |
| Amortization of intangibles | 3,923 | 3,359 | 2,826 | 1,575 | 2,952 |
| Acquisition costs | 3,312 | 764 | — | — | — |
| Restructuring. | 3,316 | 6,997 | — | — | 6,004 |
| Total operating expenses | 96,978 | 100,391 | 91,178 | 83,197 | 83,105 |
| Income (loss) from operations. | 1,034 | 2,464 | 7,892 | 11,960 | (4,224) |
| Interest income, net. | 297 | 269 | 607 | 2,050 | 1,927 |
| Other expense, net | (655) | (687) | (462) | (925) | (43) |
| Gain on sale of investment in affiliates | — | 27,071 | — | — | 10,031 |
| Income before income taxes and equity income (loss) in earnings of affiliates | 676 | 29,117 | 8,037 | 13,085 | 7,691 |
| Income tax expense (benefit) | 2,193 | (2,438) | 271 | 525 | 2,106 |
| Equity income (loss) in earnings of affiliates, net of tax. | 233 | 85 | (653) | (770) | 1,143 |
| Net (loss) income from continuing operations. | (1,284) | 31,640 | 7,113 | 11,790 | 6,728 |
| Loss from discontinued operations. | (2,730) | (2,172) | (5,790) | (1,816) | (3,826) |
| Net (loss) income. | \$ (4,014) | \$ 29,468 | \$ 1,323 | \$ 9,974 | \$ 2,902 |
| (Loss) earnings per share: | | | | | |
| Basic | \$ (0.13) | \$ 0.94 | \$ 0.04 | \$ 0.32 | \$ 0.10 |
| Diluted | \$ (0.13) | \$ 0.92 | \$ 0.04 | \$ 0.32 | \$ 0.10 |
| (Loss) earnings per share from continuing operations: | | | | | |
| Basic | \$ (0.04) | \$ 1.01 | \$ 0.23 | \$ 0.38 | \$ 0.23 |
| Diluted | \$ (0.04) | \$ 0.99 | \$ 0.23 | \$ 0.38 | \$ 0.23 |
| (Loss) earnings per share from discontinued operations: | | | | | |
| Basic | \$ (0.09) | \$ (0.07) | \$ (0.19) | \$ (0.06) | \$ (0.13) |
| Diluted | \$ (0.09) | \$ (0.07) | \$ (0.19) | \$ (0.06) | \$ (0.13) |
| Consolidated Balance Sheet Data (as of January 31): | | | | | |
| Working capital | \$102,991 | \$ 92,628 | \$ 60,887 | \$ 89,549 | \$ 88,344 |
| Total assets. | 299,035 | 305,191 | 267,147 | 233,983 | 217,896 |
| Deferred revenue | 36,473 | 40,643 | 44,554 | 29,396 | 16,185 |
| Long-term liabilities | 21,569 | 27,057 | 15,808 | 3,745 | 3,391 |
| Total liabilities. | 88,097 | 96,049 | 89,225 | 61,747 | 52,494 |
| Total stockholders' equity | 210,938 | 209,142 | 177,922 | 172,236 | 165,402 |

ITEM 7. Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the other sections of this annual report on Form 10-K, including "Item 1: Business," "Item 6: Selected Financial Data" and "Item 8: Financial Statements." Unless otherwise specified, any reference to a "year" is to a year ended January 31. Additionally, when used in this Form 10-K, unless the context requires otherwise, the terms "we", "our", "us" and "the Company" refer to SeaChange International, Inc. and its subsidiaries. Certain statements contained in this MD&A and elsewhere in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, forward-looking statements can be identified by terminology such as "believe," "expect," "intend," "may," "will," "should," "could," "potential," "continue," "estimate," "plan," or "anticipate," or the negatives thereof, other variations thereon or compatible terminology. These statements involve a number of risks and uncertainties. Actual events or results may differ materially from any forward-looking statement as a result of various factors, including those described in Item 1A above under "Risk Factors."

Servers and Storage Business Segment:

On March 21, 2012, we announced the signing of a definitive asset sale agreement to sell a portion of our broadcast services and storage business unit, subject to customary and regulatory approvals. The sale of these assets resulted from our evaluation that this business was no longer a strategic asset that we wished to invest in as we focus our attention to growing into a pure play software company. We have retained certain lines of business that were not included in this asset sale, including video streaming and related hardware, and have reclassified those revenues and earnings into the software segment of our business as they constitute less than ten percent of our total revenues. Unless otherwise indicated, references to the revenues and earnings throughout this MD&A and elsewhere in this Form 10-K refer to revenues from continuing operations and do not include revenue and earnings from the discontinued operations as a result of this asset sale. Similarly, discussion of other matters in our Consolidated Financial Statements refers to continuing operations unless otherwise indicated. The results of the divested portion of our former servers and storage business segment are reported in discontinued operations.

Overview

We are 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.

On September 1, 2009, we completed our 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. We acquired eventIS to expand our VOD solutions into the European market. We have made cash payments to date to the former shareholder of eventIS of \$40.5 million and issued 227,041 of restricted common shares, 75,018 of which will vest in equal installments over three years beginning fiscal 2011 and 152,023 which will vest in equal installments over three years beginning in fiscal 2012. We are obligated to make payments of approximately \$137,000 in cash on each of September 1, 2012 and September 1, 2013 and an additional payment 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 our common stock on September 1, 2012. Under the earn-out provisions of the share purchase agreement, a cash payment of \$1.7 million for earnouts achieved in fiscal 2011 and 2012 will be paid in fiscal 2013. Additional earn-out payments may be earned in fiscal 2013 if certain performance goals are met, we will be obligated to make additional cash payments to the former shareholders of eventIS. Acquisition costs related to this acquisition of approximately \$1.0 million, related primarily to legal, accounting, valuation and other professional services, were recognized in fiscal 2010. These transactions costs were recorded and expensed in general and administrative expenses in our Consolidated Statement of Operations.

On February 1, 2010, we completed our acquisition of VividLogic, Inc. (“VividLogic”). VividLogic is based in Fremont, California. Vividlogic 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. We acquired Vividlogic to expand our home gateway solutions product offerings. Under the purchase agreement we paid \$21.5 million in cash at the closing of the transaction, paid an additional \$1.0 million in cash on February 1, 2012 and are obligated to make a future payment of \$1.0 million on February 1, 2013. In addition, under the share purchase agreement with the former shareholders of VividLogic, in the first quarter of fiscal 2013 we will make a cash earnout payment of \$2.7 million for the earnout earned in fiscal 2012. Additional earn-out payments may be earned over fiscal 2013 if certain performance goals are met.

Our strategy is to grow our revenues with our installed customer base and add potential new customers by continuing to invest and develop our new next generation software platforms for our back office (Adrenalin), advertising (Infusion and AdPulse) and home gateway (Nucleus) product offerings, as our number one focus is to provide superior service and cost-saving products to our customers. We will also continue to invest in technologies that will help make us an industry leader in multi-screen video. In addition, we are reviewing all areas of our operating costs in order to lower our cost structure and streamline operations in order to improve our profitability. We took actions both in fiscal 2012 and 2011 to lower our operating costs. In fiscal year 2012, we announced annualized savings of approximately \$5.0 million primarily related to the reduction in our marketing and sales staff and the elimination or reduction of certain senior executive positions. In fiscal 2011, we eliminated approximately 110 employees, wrote down obsolete inventory and certain fixed assets. We are also evaluating assets that are non-core to our desire to transform into a pure play software company. In that effort, we have signed a definitive asset sale agreement on March 21, 2012 to divest a portion of our former broadcast servers and storage business unit. We expect that sale to close in the near future once customary regulatory approvals are received. We will also look to continue to acquire or invest in new technologies that expand our product offerings and ensure that they will be accretive to shareholder value.

Operating Segment, Significant Customers and Geographic Information

Operating segments are defined as components of an enterprise evaluated regularly by the Company’s senior management in deciding how to allocate resources and assess performance. Following the divestiture of the broadcast servers and storage product lines, the Software and VOD server product line was organized in one business reporting segment. Reportable segments were determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company’s management structure.

Our operations are now organized in the following two business segments:

- **Software segment** — This segment includes product revenues from our advertising, back-office including video streamers, and home gateway product solutions, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products.
- **Media Services segment** — This segment includes the operations of the On Demand Group which include content acquisition and preparation services for television and wireless service providers.

Under this reporting structure, we further determined that there are significant functions, and therefore costs, that are considered corporate expenses and are not allocated to the two 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. We do 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.

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. 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.

Fiscal Year Ended January 31, 2012 Compared to the Fiscal Year Ended January 31, 2011

The following table sets forth summarized consolidated financial information for each of the two fiscal years ended January 31, 2012 and 2011.

| | Year Ended January 31, | |
|--|---------------------------|------------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Revenues: | | |
| Products | \$ 73,157 | \$ 82,155 |
| Services | 124,548 | 119,532 |
| Total revenues | <u>197,705</u> | <u>201,687</u> |
| Costs and expenses: | | |
| Cost of product revenues | 22,774 | 30,256 |
| Cost of service revenues | 76,919 | 68,576 |
| Research and development | 40,692 | 44,569 |
| Selling and marketing | 21,619 | 21,055 |
| General and administrative | 24,116 | 23,647 |
| Amortization of intangibles | 3,923 | 3,359 |
| Acquisition costs | 3,312 | 764 |
| Restructuring costs | 3,316 | 6,997 |
| Income from operations | 1,034 | 2,464 |
| Other expenses, net | (358) | (418) |
| Gain on sale of investment in affiliates | — | 27,071 |
| Income before income taxes and equity income in earnings of affiliates | 676 | 29,117 |
| Income tax expense (benefit) | 2,193 | (2,438) |
| Equity income in earnings of affiliates, net of tax | 233 | 85 |
| (Loss) income from continuing operations | (1,284) | 31,640 |
| (Loss) from discontinued operations | (2,730) | (2,172) |
| Net (loss) income | <u>\$ (4,014)</u> | <u>\$ 29,468</u> |

Revenues

The following table summarizes information about the Company's reportable segments for each of the two fiscal years ended January 31, 2012 and 2011.

| | Fiscal Year Ended January 31, | | |
|------------------------------------|--|------------------|---------------|
| | 2012 | 2011 | % |
| | (in thousands, except for percentage data) | | |
| Software Revenues: | | | |
| Products | \$ 73,157 | \$ 82,155 | (11.0%) |
| Services | 91,635 | 91,501 | 0.1% |
| Total revenues | <u>164,792</u> | <u>173,656</u> | <u>(5.1%)</u> |
| Cost of product revenues | 22,774 | 30,256 | (24.7%) |
| Cost of service revenues | 48,861 | 45,335 | 7.8% |
| Total cost of revenues | <u>71,635</u> | <u>75,591</u> | <u>(5.2%)</u> |
| Gross Margin | <u>\$ 93,157</u> | <u>\$ 98,065</u> | <u>(5.0%)</u> |
| Gross Margin percentage | <u>56.5%</u> | <u>56.5%</u> | <u>0.1%</u> |
| Media Services Revenue: | | | |
| Services | \$ 32,913 | \$ 28,031 | 17.4% |
| Cost of services | 28,058 | 23,241 | 20.7% |
| Gross Margin | <u>\$ 4,855</u> | <u>\$ 4,790</u> | <u>1.4%</u> |
| Gross Margin percentage | <u>14.8%</u> | <u>17.1%</u> | <u>(2.3%)</u> |

Software Product Revenue. In fiscal 2012, product revenue decreased approximately 11% to \$73.1 million from \$82.2 million in the same period in the prior year. The \$9.1 million decrease in product revenues compared to fiscal 2011 was due to decreased shipments of VOD servers to North and South American customers of approximately \$4.2 million. The decrease in product revenues was also due to a portion of middleware revenues from Virgin Media that were recorded as service revenues during the year ended January 31, 2012 totaling \$4.7 million, while recorded entirely as product revenue in the prior year. In the prior year, the agreement with Virgin Media provided for licensing rights and specified enhancements to the software and therefore the associated revenues were classified as product revenues. However, the agreement in the first quarter of fiscal 2012 provided for software licensing rights and software maintenance services, and was accordingly split between product and services revenues.

Software Service Revenue. Service revenues were relatively flat compared to fiscal 2011. Service revenues increased \$4.7 million due to the reclassification of a portion of middleware revenues from Virgin Media from product revenues to service revenues as noted above, and we achieved higher services revenues from VividLogic. This increase was offset due to fiscal 2011 service revenues having included \$4.6 million of maintenance revenues resulting from a deactivation of VOD software and equipment by a U.S customer, and our Comcast software subscription agreement extension being classified as services revenues for the period of February 2010 through May 2010.

Media Services Revenue. Revenues from Media Services increased 17.4% to \$32.9 million in the year ended January 31, 2012 compared to \$28.0 million for the year ended January 31, 2011. The increase in revenue was due primarily to increased content processing revenues from a customer in France and Dubai and new customer contracts in South America signed this year partially offset by lower revenues from Virgin Media.

For fiscal 2012 and 2011, two customers each accounted for more than 10%, and collectively accounted for 31% and 36%, respectively, of our total revenues. Revenues from these customers were primarily in the Software 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 51% or \$100.0 million and 46% or \$93.0 million of total revenues in fiscal 2012 and 2011, respectively. We expect that international products and services revenues will remain a significant portion of our business in the future.

Software Gross Margin. 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. Our software gross margin as a percentage of revenues was flat at 57% compared to fiscal 2011.

Media Services Gross Margin. Our Media Services segment gross margin of 15% for fiscal 2012 was two percentage points lower than the gross margin for fiscal 2011 due to higher headcount-related costs and increased content costs to support new contracts for customers in Latin America and Eastern Europe.

Research and Development. Our research and development expenses consist primarily of employee costs, which include salaries, benefits and related payroll taxes, depreciation of development and test equipment and an allocation of related facility expenses. Research and development expenses were 21% and 22% of total revenues for fiscal 2012 and 2011, respectively, and decreased \$3.9 million from \$44.6 million to \$40.7 million year over year. The year over year decrease is primarily due to lower domestic headcount-related costs primarily related to our VOD server and TV Navigator product lines.

Selling and Marketing. Our selling and marketing expenses consist primarily of payroll costs, which include salaries and related payroll taxes, benefits and commissions, travel expenses and certain promotional expenses. Selling and marketing expenses increased from \$21.1 million, or approximately 10% of total revenues, in fiscal 2011 to \$21.7 million, or approximately 11% of total revenues, for fiscal 2012. The increase of approximately \$600,000 was primarily due to an increase in eventIS headcount-related costs and higher third-party commissions partially offset by lower domestic commission expense due to lower domestic revenues.

General and Administrative. Our general and administrative expenses consist primarily of employee costs, which include salaries and related payroll taxes and benefit related costs, legal and accounting services, insurance and an allocation of related facilities expenses. In fiscal 2012, general and administrative expenses of \$24.1 million increased by approximately \$0.5million from \$23.6 million for the same period in 2011, and these expenses represented 12% of total revenues for both years. The increase is primarily due to higher stock-based compensation relating to fourth quarter departure of senior executives and higher legal fees of \$1.7 million associated with patent litigation and the Company's review of various strategic alternatives. These expenses were partially offset by the absence of transaction costs totaling \$1.6 million related to the VividLogic acquisition, which was included in the prior year's expenses. After an extensive review of strategic alternatives, the Company decided in November 2011 that it was in the best interest of the shareholders to continue as a standalone public company and concluded this review. As described in Item 1A "Risk Factors", this evaluation of strategic alternatives has created uncertainty for our business.

Amortization of Intangibles. Our amortization expense is primarily related to the costs of acquired 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. Total amortization expense of intangible assets was \$5.4 and \$5.9 million for fiscal 2012 and fiscal 2011, respectively. Amortization expense charge to operating expenses increased from \$3.4 million in fiscal 2011 to \$3.9 million in fiscal 2012. An additional \$2.2 million and \$2.0 million of amortization expense related to acquired technology was charged to cost of sales for the years ended January 31, 2012 and 2011, respectively.

Acquisition-Related Costs. Acquisition-related costs include changes in the fair value of acquisition related contingent consideration, and changes in contingent liabilities related to estimated earn-out payments. During fiscal 2012, we revised our estimate of potential earn-out payments to the former shareholders of VividLogic and eventIS and recorded an accrued expense of \$3.3 million to reflect estimated future financial performance compared to the respective earn-out criteria.

Restructuring. During fiscal 2012, we incurred a restructuring charge of \$3.3 million as we continue to take actions to lower our cost structure as we strive to improve our financial performance and streamline our operations. Included in the restructuring charge are severance costs of \$2.8 million related to the termination of 33 employees, including the departure of the President and the retirement of the Chief Executive Officer, the write-down of \$430,000 of inventory relating to discontinued VOD server product lines and a \$270,000 charge for the disposal of fixed assets relating to the New Hampshire facility.

Other expense, net. The table below provides detail regarding our other income and expenses:

| | Fiscal Year ended January 31, | |
|--|----------------------------------|-----------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Interest income | \$ 352 | \$ 307 |
| Interest expense | (55) | (38) |
| Foreign exchange loss | (86) | (1,138) |
| Impairment expense | (684) | — |
| Miscellaneous (expense) income | 115 | 451 |
| | <u>\$(358)</u> | <u>\$ (418)</u> |

Foreign exchange loss. The decrease in foreign exchange losses was a result of the change in exchange rates between the USD and foreign currencies during fiscal 2012 compared to fiscal 2011.

Impairment expense: In fiscal 2012, impairment expense related to the write down to fair value of our New Hampshire facility being held for sale.

Gain from sale of investment in affiliates: During fiscal 2011, we recorded the gain on the sale of the entire equity investments in Casa Systems of \$25.2 million and InSite One of \$1.9 million.

Income Tax Provision. Our effective tax rate and income tax provision for fiscal 2012 was (324%) and \$2.2 million expense compared to an effective tax rate of 8% and a (\$2.4 million) of tax benefit for fiscal 2011. The income tax expense for fiscal 2012 was primarily due to \$1.0 million of state income taxes and income tax expense of \$1.5 million at foreign subsidiaries in the United Kingdom, the Netherlands, and Ireland.

At January 31, 2012 we provided a valuation allowance for the full amount of the U.S. net deferred tax assets due to the uncertainty of realization of those assets. 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.

We recognized tax benefits of \$400,000 and \$300,000 for fiscal 2012 and fiscal 2011, respectively, resulting from the expiration of the statute of limitations for uncertain tax positions. 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 positions taken in these years will result in a reduction of liability for unrecognized tax benefits for that year.

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 | \$ 82,155 | \$ 97,005 |
| Services | 119,532 | 92,935 |
| Total revenues | <u>201,687</u> | <u>189,940</u> |
| Costs and expenses: | | |
| Cost of product revenues | 30,256 | 35,929 |
| Cost of service revenues | 68,576 | 54,941 |
| Research and development | 44,569 | 45,104 |
| Selling and marketing | 21,055 | 22,425 |
| General and administrative | 23,647 | 20,823 |
| Amortization of intangibles | 3,359 | 2,826 |
| Acquisition costs | 764 | — |
| Restructuring costs | 6,997 | — |
| Income from operations | <u>2,464</u> | <u>7,892</u> |
| Other (expense) income, net | (418) | 145 |
| Gain on sale of investment in affiliate | 27,071 | — |
| Income before income taxes and equity income in earnings of affiliates | 29,117 | 8,037 |
| Income tax (benefit) expense | (2,438) | 271 |
| Equity income (loss) in earnings of affiliates, net of tax | 85 | (653) |
| Income from continuing operations | <u>31,640</u> | <u>7,113</u> |
| (Loss) from discontinued operations | <u>(2,172)</u> | <u>(5,790)</u> |
| 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 | \$ 82,155 | \$ 97,005 | (15.3%) |
| Services | 91,501 | 73,141 | 25.1% |
| Total Software revenues | <u>173,656</u> | <u>170,146</u> | <u>2.1%</u> |
| Cost of product revenues | 30,256 | \$ 35,929 | (15.8%) |
| Cost of service revenues | 45,335 | \$ 38,431 | 18.0% |
| Total cost of revenues | <u>\$ 75,591</u> | <u>\$ 74,360</u> | <u>1.7%</u> |
| Gross Margin | <u>\$ 98,065</u> | <u>\$ 95,786</u> | <u>2.4%</u> |
| Gross Margin percentage | <u>56.5%</u> | <u>56.3%</u> | <u>0.2%</u> |
| Media Services Revenue: | | | |
| Services | \$ 28,031 | \$ 19,794 | 41.6% |
| Cost of services | 23,241 | 16,510 | 40.8% |
| Gross Margin | <u>\$ 4,790</u> | <u>\$ 3,284</u> | <u>45.9%</u> |
| Gross Margin percentage | <u>17.1%</u> | <u>16.6%</u> | <u>0.5%</u> |

Software Product Revenue. Our product revenue decreased 15% to \$82.2 million in fiscal 2011 from \$97.0 million in fiscal 2010. 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.

Software Service Revenue. Our service revenues increased 25% to \$91.5 million in fiscal 2011 from \$73.1 million in fiscal 2010. The increase in service revenues year over year was due to the inclusion of a full year of service revenues from the 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 VOD professional services revenue due to lower VOD server revenues.

For fiscal 2011 and 2010, two customers each accounted for more than 10%, and collectively accounted for 36% and 41%, respectively, of our total revenues. International products and services revenues accounted for approximately 46% or \$93.0 million and 33% or \$63.1 million of total revenues in fiscal 2011 and 2010, respectively.

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

Software Gross Margin. 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. Our software gross margin as a percentage of revenues was flat at 56% in both fiscal 2011 and 2010

Media Services Gross Margin. Media Services gross margin of 17% in fiscal 2011 was a half point higher than in fiscal 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. Our research and development expenses consist primarily of employee costs, which include salaries, benefits and related payroll taxes, depreciation of development and test equipment and an allocation of related facility expenses. Research and development expenses were 22% and 24% of total revenues for fiscal 2011 and 2010, respectively, and decreased approximately \$500,000 from \$45.1 million to \$44.6 million year over year. The decrease in this expense year over year was primarily due to lower domestic headcount-related costs resulting from the our second and third quarter restructuring efforts offset by the inclusion of a full years worth of costs associated with our eventIS acquisition and increased headcount costs in the Philippines.

Selling and Marketing. Our selling and marketing expenses consist primarily of payroll costs, which include salaries and related payroll taxes, benefits and commissions, travel expenses and certain promotional expenses. Selling and marketing expenses decreased 6% from \$22.4 million or 12% of total revenues in fiscal 2010 to \$21.1 million, or 10% of total revenues, in fiscal 2011. This decrease in total expenses is primarily due to lower headcount related costs offset by the inclusion of a full year of costs associated with our eventIS acquisition.

General and Administrative. Our general and administrative expenses consist primarily of employee costs, which include salaries and related payroll taxes and benefit related costs, legal and accounting services and an allocation of related facilities expenses. In fiscal 2011, general and administrative expenses of \$23.6 million, or 12% of total revenues, increased \$2.8 million from \$20.8 million, or 11% of total revenues from fiscal 2010. General and administrative expenses increased primarily due to transaction costs related to the VividLogic acquisition and higher legal and professional fees associated with ARRIS litigation that were partially offset by lower corporate headcount-related costs.

Restructuring. During fiscal 2011, we initiated actions to lower our cost structure in order to improve our financial performance. During fiscal 2011, we incurred restructuring charges totaling \$7.0 million including severance costs of \$3.2 million for the termination of approximately 110 employees, a write down of inventory of \$2.5 million related to the decision to discontinue certain VOD server products, and a \$1.3 million charge for the disposal of fixed assets as a direct result of the restructuring plan.

Amortization of Intangibles. Our amortization expense is primarily related to the costs of acquired intangible assets. Total amortization of intangible assets was \$5.4 million and \$3.4 million for fiscal 2011 and 2010, respectively. Amortization expense charged to operating expenses increased to \$3.4 million in fiscal 2011 from \$2.8 million in fiscal 2010 primarily due to a full year's impact of amortization expense related to intangible assets acquired as part of our eventIS and VividLogic acquisitions. 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 \$0.6 million of amortization expense related to acquired technology was charged to cost of sales for fiscal 2011 and 2010, respectively

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

| | Fiscal Year ended January 31, | |
|--|----------------------------------|---------------|
| | 2011 | 2010 |
| | (in thousands) | |
| Interest income (expense), net | \$ 269 | \$ 607 |
| Foreign exchange loss | (1,138) | (572) |
| Miscellaneous income | 451 | 110 |
| | <u>\$ (418)</u> | <u>\$ 145</u> |

Interest income and expense. The decrease in interest income was primarily due to the lower prevailing interest rates earned on our marketable securities.

Foreign exchange (loss). The increase in foreign exchange losses was a result of the change in exchange rates between U.S. Dollars and foreign currencies during fiscal 2011 compared to fiscal 2010.

Acquisition related expenses. For fiscal 2011, our acquisition expenses of \$764,000 included \$1.1 million in expense related to the write-off of an indemnified asset resulting from the settlement of the California tax audit related to our VividLogic acquisition, that was partially offset by a \$870,000 gain resulting from an adjustment to acquisition related intangible assets for which the measurement period had ended as well as changes to the contingent consideration for earn-outs to the former shareholders of eventIS and VividLogic. We incurred no acquisition related expenses in fiscal 2010.

Gain from sale of investment in affiliates. Our fiscal 2011 results reflect the gain on the sale of our entire equity investments in Casa Systems of \$25.2 million and InSite One of \$1.9 million. We had no gain in fiscal 2010.

Equity Income/(Loss) in Earnings of Affiliates. Equity income in earnings of affiliates was \$85,000 in fiscal 2011 compared to a \$653,000 in equity loss in earnings of affiliates for fiscal 2010 due to On Demand Deutschland GmbH & Co. KG increased profitability as a result of a large contract win in Austria and higher content processing in Germany. 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 and tax benefit for fiscal 2011 was 8% and \$2.4 million, respectively, compared to an effective tax rate and an income tax expense of 4% and \$271,000, respectively, for fiscal 2010. The income tax benefit for fiscal 2011 was primarily due to a reduction of a portion of the valuation allowance against our deferred tax assets due to our having met the “more likely than not” realization criteria on its U.S. deferred tax assets resulting from the gain related to our 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, we maintained a full valuation allowance. We 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. In addition, our subsidiary in the United Kingdom. recorded a tax benefit of \$540,000 resulting from a successful claim with the United Kingdom tax authorities for previously paid taxes from the transfer of intangible assets from the United Kingdom 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. equity and tax expense resulting from our profitable operations in foreign tax jurisdictions.

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. We have reached a settlement with the State of California regarding the previously disclosed state tax audit and have recorded a corresponding tax benefit of \$1.0 million. In connection with the settlement of this matter, a \$1.1 million indemnified asset was also written-off and recorded as other expenses in the Statement of Operations.

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 2012, 2011 and 2010 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, other than per share amounts)

| | Twelve months Ended January 31, 2012 | | | Twelve months Ended January 31, 2011 | | | Twelve months Ended January 31, 2010 | | |
|--|---|-----------------|-------------------|---|-------------------|-------------------|---|-----------------|-------------------|
| | GAAP | Adjustment | Non-GAAP | GAAP | Adjustment | Non-GAAP | GAAP | Adjustment | Non-GAAP |
| Revenues | \$197,705 | | \$197,705 | \$201,687 | | \$201,687 | \$189,940 | \$ — | \$189,940 |
| Deferred revenue-acquisition related | — | — | — | — | 3,876 | 3,876 | — | 1,807 | 1,807 |
| Deferred revenue-maintenance acceleration | — | 7 | 7 | — | (4,559) | (4,559) | — | — | — |
| | <u>197,705</u> | <u>7</u> | <u>197,712</u> | <u>201,687</u> | <u>(683)</u> | <u>201,004</u> | <u>189,940</u> | <u>1,807</u> | <u>191,747</u> |
| Operating expenses: | 96,978 | | 96,978 | 100,391 | | 100,391 | 91,178 | — | 91,178 |
| Stock-based compensation | — | 2,869 | 2,869 | — | 2,720 | 2,720 | — | 3,105 | 3,105 |
| Amortization of intangible assets | — | 6,081 | 6,081 | — | 5,345 | 5,345 | — | 3,465 | 3,465 |
| Acquisition related costs | — | 3,312 | 3,312 | — | 1,595 | 1,595 | — | 1,413 | 1,413 |
| Restructuring | — | 3,316 | 3,316 | — | 6,997 | 6,997 | — | — | — |
| Strategic alternatives related costs | — | 1,762 | 1,762 | — | — | — | — | — | — |
| | <u>96,978</u> | <u>17,340</u> | <u>79,638</u> | <u>100,391</u> | <u>16,657</u> | <u>83,734</u> | <u>91,178</u> | <u>7,983</u> | <u>83,195</u> |
| Income from operations | 1,034 | 17,347 | 18,381 | 2,464 | 15,974 | 18,438 | 7,892 | 9,790 | 17,682 |
| Gain from sale of investment in affiliates | — | — | — | 27,071 | (27,071) | — | — | — | — |
| Impairment from asset held for sale | (678) | 678 | — | — | — | — | — | — | — |
| Income tax impact expense (benefit) | 2,193 | 385 | 2,578 | (2,438) | 4,865 | 2,427 | 371 | 3,106 | 3,477 |
| Net (loss) income from continuing operations | <u>\$ (1,284)</u> | <u>\$17,640</u> | <u>\$ 16,356</u> | <u>\$ 31,640</u> | <u>\$(15,962)</u> | <u>\$ 15,678</u> | <u>\$ 7,113</u> | <u>\$ 6,684</u> | <u>\$ 13,797</u> |
| Net (loss) income from discontinued operations | <u>\$ (2,730)</u> | <u>\$ 1,127</u> | <u>\$ (1,603)</u> | <u>\$ (2,172)</u> | <u>\$ 237</u> | <u>\$ (1,935)</u> | <u>\$ (5,790)</u> | <u>\$ 125</u> | <u>\$ (5,665)</u> |
| Net (loss) income | <u>\$ (4,014)</u> | <u>\$18,767</u> | <u>\$ 14,753</u> | <u>\$ 29,468</u> | <u>\$(15,725)</u> | <u>\$ 13,743</u> | <u>\$ 1,323</u> | <u>\$ 6,809</u> | <u>\$ 8,132</u> |
| Diluted earnings per share | <u>\$ (0.13)</u> | <u>\$ 0.59</u> | <u>\$ 0.46</u> | <u>\$ 0.92</u> | <u>\$ (0.49)</u> | <u>\$ 0.43</u> | <u>\$ 0.04</u> | <u>\$ 0.21</u> | <u>\$ 0.25</u> |
| Diluted income per share for continuing operations | <u>\$ (0.04)</u> | <u>\$ 0.55</u> | <u>\$ 0.51</u> | <u>\$ 0.99</u> | <u>\$ (0.50)</u> | <u>\$ 0.49</u> | <u>\$ 0.23</u> | <u>\$ 0.21</u> | <u>\$ 0.44</u> |
| Diluted income per share for discontinued operations | <u>\$ (0.09)</u> | <u>\$ 0.04</u> | <u>\$ (0.05)</u> | <u>\$ (0.07)</u> | <u>\$ 0.01</u> | <u>\$ (0.06)</u> | <u>\$ (0.18)</u> | <u>\$ 0.00</u> | <u>\$ (0.18)</u> |
| Diluted weighted average common shares outstanding | 32,093 | 32,093 | 32,093 | 31,986 | 31,986 | 31,986 | 31,433 | 31,433 | 31,433 |

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: We recognized previously deferred maintenance revenue due to a termination by a customer of our maintenance obligation for certain products previously purchased.

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 costs: We incurred expenses in connection with our acquisition of eventIS Group B.V. and VividLogic Inc. during fiscal 2012, 2011, and 2010 which would not have otherwise occurred in the periods presented as part of our operating expenses.

Impairment expense: We incurred an impairment charge from the write-down of an asset held for sale.

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 in which the non-GAAP adjustment occurs and any exclusion of changes in the tax valuation allowance.

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. At the end of fiscal 2012, our cash and marketable securities balance was \$93.8 million, or a \$7.6 million increase over the balance at January 31, 2011. The increase was primarily related to cash generated from operations. Our working capital also increased \$9.7 million to \$102.3 million at January 31, 2012 from \$92.6 million at January 31, 2011. 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. Given our cash and marketable securities and working capital balances, we believe that repatriation of cash from outside the United States will not be a material factor for us.

In fiscal year 2012, we generated \$14.4 million of cash from continuing operations. This cash provided by operating activities was primarily the result of \$24.9 million in non cash expenses and accrued expenses providing \$4.6 million. These amounts were offset by uses of cash including a net loss of \$1.4 million, a decrease in accounts payable of \$2.6 million and deferred revenues of \$4.0 million along with an increase in accounts receivable of \$2.0 million.

We used \$8.6 million of cash in investing activities primarily related to capital expenditures of \$3.3 million and the payment of fixed consideration of \$1.7 million to the former shareholders of eventIS and \$3.2 million of earnout payments to the former shareholders of VividLogic.

Our financing activities provided \$1.8 million in cash primarily due to proceeds received from the issuance of common stock for the exercise of employee stock options.

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 us to comply with certain financial covenants. As of January 31, 2012, 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, 2012 (in thousands):

| | Total | Less than one year | One to three years | Three to five years | Over five years |
|--|-----------------|-----------------------|-----------------------|------------------------|--------------------|
| | | | (in thousands) | | |
| Purchase obligations | \$ 3,037 | \$ 3,037 | \$ — | \$ — | \$ — |
| Non-cancelable lease obligations . . . | 5,620 | 2,222 | 2,830 | 568 | — |
| Studio content deals | 13,301 | 8,346 | 4,955 | — | — |
| Contingent consideration | 12,255 | 3,794 | 8,461 | — | — |
| Total. | <u>\$34,213</u> | <u>\$17,399</u> | <u>\$16,246</u> | <u>\$568</u> | <u>\$ —</u> |

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

We have 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, 2012, we have gross unrecognized tax benefits of \$6.5 million.

Under the share purchase agreement with the former shareholder of eventIS on September 1, 2012, we are obligated to make an additional fixed payment 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 our common stock, which will vest in equal installments over three years starting on the first anniversary of the date of issuance. Additionally, we are obligated to make payments of approximately \$137,000 in cash on each of September 1, 2012 and September 1, 2013. Under the earn-out provisions of the share purchase agreement a cash payment of \$1.7 million for earnouts earned in fiscal 2012 and 2011 will be paid in fiscal 2013. An additional earn-out payment may be earned for fiscal 2013 if certain performance goals are met.

We are obligated to make a payment of \$1.0 million in cash on February 1, 2013 to the former shareholders of VividLogic. In addition, under the share purchase agreement with the former shareholders of VividLogic, we will make cash earnout payment of \$2.7 million in the first quarter of fiscal 2013. Additional earn-out payments may be earned for fiscal 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, 2012, the full amount of our outstanding letters of credit of \$1.6 million was supported by our credit facility.

Critical Accounting Policies

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The application of certain of these accounting principles is more critical than others in gaining the understanding of the basis upon which our financial statements have been prepared. We consider the following accounting policies to involve critical accounting estimates.

Principles of Consolidation

We consolidate the financial statements of our wholly-owned subsidiaries and all inter-company accounts are eliminated in consolidation. We also hold minority investments in the capital stock of certain private companies having product offerings or customer relationships that have strategic importance. We evaluate our 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. We have concluded that we are not the primary beneficiary for any variable interest entities as of January 31, 2012.

Our 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, our 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

Our transactions frequently involve the sales of hardware, software, systems and services in multiple element arrangements. 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 have 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. Our share of intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.

We have historically applied the software revenue recognition rules as prescribed by Accounting Standards Codification (ASC) Subtopic 985-605. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Number 2009-14, "Certain Revenue Arrangements That Include Software Elements," which amended ASC Subtopic 985-605. This ASU removes tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of the software revenue recognition rules. In the case of our hardware products with embedded software, we have determined that the hardware and software components function together to deliver the product's essential functionality, and therefore, the revenue from the sale of these products no longer falls within the scope of the software revenue recognition rules. Revenue from the sale of software-only products remains within the scope of the software revenue recognition rules. Maintenance and support, training, consulting, and installation services no longer fall within the scope of the software revenue recognition rules, except when they are sold with and relate to a software-only product. Revenue recognition for products that no longer fall under the scope of the software revenue recognition rules are similar to that for other tangible products and ASU Number 2009-13, "Multiple-Deliverable Revenue Arrangements," which amended ASC Topic 605 and was also issued in October 2009, which is applicable for multiple-deliverable revenue arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction's economics. ASU 2009-13 and 2009-14 are effective for revenue arrangements entered into or materially modified in our fiscal year 2012 and thereafter.

Under the software revenue recognition rules, the fee is allocated to the various elements based on VSOE of fair value. 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 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. All multiple-deliverable revenue arrangements negotiated prior to February 1, 2011 and the sale of all software-only products and associated services have been accounted for under this guidance.

Under the revenue recognition rules for tangible products as amended by ASU 2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence (TPE) if VSOE is not available, and best estimate of selling price (BESP) if neither VSOE nor TPE are available. TPE is the price of the Company's or any competitor's largely interchangeable products or services in stand-alone sales to similarly situated customers. BESP is the price at which we would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors. All multiple-deliverable revenue arrangements negotiated after February 1, 2011, excluding the sale of all software-only products and associated services, have been accounted for under this guidance.

The selling prices used in the relative selling price allocation method for certain of our services are based upon VSOE. The selling prices used in the relative selling price allocation method for third-party products from other vendors are based upon TPE. The selling prices used in the relative selling price allocation method for our hardware products, software, subscriptions, and customized services for which VSOE does not exist are based upon BESP. We do not believe TPE exists for these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes BESP with consideration for market conditions, such as the impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product, discounts provided and profit objectives. Management believes that BESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis.

Since all of our revenue prior to the adoption of ASU 2009-14 fell within the scope of the software revenue recognition rules and we have only established VSOE for services and revenue in a multiple-deliverable arrangement involving products, revenue was frequently deferred until the last item was delivered. The adoption of ASU 2009-13 and 2009-14 has resulted in earlier revenue recognition in multiple-deliverable arrangements involving our hardware products with embedded software because revenue can be recognized for each of these deliverables based upon their relative selling prices as defined above. The revenue impact was an increase of \$3.3 million during fiscal 2012.

Allowance for Doubtful Accounts

We recognize revenue for products and services only in those situations where collection from the customer is probable. We perform ongoing credit evaluations of customers' financial condition but generally do not require collateral. For some international customers, we may require an irrevocable letter of credit to be issued by the customer before the purchase order is accepted. We monitor payments from customers and assess any collection issues. We maintain allowances for specific doubtful accounts and other risk categories of accounts based on estimates of losses resulting from the inability of our customers to make required payments and record these allowances as a charge to general and administrative expenses. We base our 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.

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 our 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. We record 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, 2012, 2011 and 2010, we recorded \$1.0 million, \$3.0 million and \$1.0 million in inventory write-downs, respectively, of which \$430,000 and \$2.5 million were recorded in restructuring expense for fiscal 2012 and 2011, 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 and Acquired Intangible Assets

Acquired intangible assets result from our various business acquisitions and certain licensed technologies, and consist of identifiable intangible assets, including completed technology, licensing agreements, non-compete agreements and customer relationships. Acquired intangible assets are reported at cost, net of accumulated amortization and are either amortized on a straight-line basis over their estimated useful lives during the period the economic benefits of the intangible asset are consumed or otherwise used up.

Goodwill is the amount by which the cost of the acquired net assets in a business acquisition exceeded the fair values of the net identifiable assets on the date of purchase. Goodwill is not amortized and is assessed for impairment at least annually, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. We determine our reporting units by assessing whether discrete financial information is available and if management regularly reviews the operating results of that component. Following our annual assessment completed in fiscal 2012, we have determined that our reporting units are the same as our operating segments, which consist of the Software and Media Services operating segments. We test goodwill for impairment by evaluating the fair value of the reporting unit as compared to the book value. If the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess.

Software Development Costs

We develop 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.

We also purchase software for resale and capitalize those costs associated with projects that meet technological feasibility. As of January 31, 2012, \$737,000 of purchased software costs was capitalized. 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 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 \$361,000, \$8,000 and \$5,100 for fiscal 2012, 2011 and 2010, respectively. As a result of the divestiture of a portion of broadcast servers and storage business unit and our restructuring, in fiscal 2012 we recorded an impairment charge to restructuring expenses of \$138,000 for purchased software that will no longer be used.

Long-Lived Assets

We also evaluate 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, we evaluate the carrying value of long-lived assets to determine if impairment exists based upon estimated undiscounted future cash flows over the remaining useful life of the assets and compare that value to the carrying value of the assets. Our cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time. Due to restructuring of the VOD server product lines and divestiture of a portion of the broadcast and servers product line, we determined we would vacate the facility in New Hampshire and place the building for sale. As such, in fiscal 2012, we recorded a \$678,000 impairment charge for the building and a \$270,000 impairment charge for equipment in New Hampshire included on the consolidated statement of operations.

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. We do 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.

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 was \$86,000, \$1.1 million and \$572,000 for the years ended January 31, 2012, 2011 and 2010, respectively.

Recent Accounting Guidance Not Yet Effective

Other Comprehensive Income

The amendments in ASU 2011-05 revise the manner in which companies present comprehensive income in their financial statements in order to make U.S. GAAP and international standards more consistent. This ASU requires companies to report the components of comprehensive income in either a continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement would present the components of net income, similar to the Company's current Consolidated Statements of Operations, while the second statement would include the components of other comprehensive income, as well as a cumulative total for comprehensive income

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-12 to defer one provision of ASU 2011-05. The amendments in ASU 2011-12 defer the requirements under ASU 2011-05 to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented. This deferral was prompted by users’ concerns that the presentation requirements would be costly to implement and could add unnecessary complexity to financial statements.

Neither of these ASU’s changes the items that must be reported in other comprehensive income. Both Updates must be applied retrospectively beginning in the first quarter of 2012. Our adoption date will be February 1, 2012, the beginning of our first quarter for fiscal 2013.

Fair Value Measurement

In May 2011, the FASB issued amended guidance clarifying how to measure and disclose fair value. This guidance amends the application of the “highest and best use” concept to be used only in the measurement of the fair value of nonfinancial assets, clarifies that the measurement of the fair value of equity-classified financial instruments should be performed from the perspective of a market participant who holds the instrument as an asset, clarifies that an entity that manages a group of financial assets and liabilities on the basis of its net risk exposure to those risks can measure those financial instruments on the basis of its net exposure to those risks, and clarifies when premiums and discounts should be taken into account when measuring fair value. The fair value disclosure requirements also were amended. These provisions are effective for reporting periods beginning on or after December 15, 2011 applied prospectively. Early application is not permitted. We are currently reviewing what effect, if any, this new provision will have on our Consolidated Financial Statements.

Goodwill Impairment Test

In September 2011, the FASB issued additional guidance on goodwill impairment testing. This guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We anticipate that it will not have a material impact on our consolidated financial position or results of operations.

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, 2012, we generated a foreign currency translation loss of \$872,000 which was recorded as accumulated other comprehensive gain increasing the equity section of the balance sheet.

We do not enter into derivative financial instruments for trading purposes and do not currently have outstanding derivative financial instruments related to payment obligations of the company. While we do not anticipate that near-term changes in exchange rates will have a material impact on our operating results, financial position and liquidity, a sudden and significant change in the value of foreign currencies could harm our 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 2012, we recorded approximately \$86,000 in 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 our investment portfolio of marketable debt securities of various issuers, types and maturities and to our borrowings under our bank line of credit facility. We do not use derivative instruments in our investment portfolio, and our 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 we 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, 2012, 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, 2012, we had \$7.9 million in short-term marketable securities and \$4.1 million in long-term marketable securities.

ITEM 8. Financial Statements and Supplementary Data

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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 (the “Company”) as of January 31, 2012 and 2011, 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, 2012. 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2012, 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 consolidated 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), the Company’s internal control over financial reporting as of January 31, 2012, 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 5, 2012 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Boston, Massachusetts
April 5, 2012

SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEET
(in thousands, except share data)

| | January 31, 2012 | January 31, 2011 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 80,585 | \$ 73,145 |
| Restricted cash | 1,200 | 1,332 |
| Marketable securities | 7,855 | 7,340 |
| Accounts receivable, net of allowance for doubtful accounts of \$972 in 2012 and \$995 in 2011, respectively | 49,079 | 48,843 |
| Unbilled receivables | 6,066 | 5,644 |
| Inventories, net | 10,218 | 11,041 |
| Prepaid expenses and other current assets | 8,695 | 6,956 |
| Assets held for sale | 646 | — |
| Deferred tax assets | 2,065 | 3,775 |
| Current assets related to discontinued operations | 3,110 | 3,544 |
| Total current assets | 169,519 | 161,620 |
| Property and equipment, net | 30,566 | 34,858 |
| Marketable securities, long-term | 4,140 | 4,379 |
| Investments in affiliates | 3,013 | 2,913 |
| Intangible assets, net | 23,761 | 30,306 |
| Goodwill | 63,640 | 64,679 |
| Other assets | 1,515 | 2,055 |
| Deferred tax assets, long-term | 526 | 2,156 |
| Non-current assets related to discontinued operations | 2,355 | 2,225 |
| Total assets | <u>\$299,035</u> | <u>\$305,191</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 9,362 | \$ 11,249 |
| Other accrued expenses | 19,271 | 16,528 |
| Customer deposits | 3,067 | 3,993 |
| Deferred revenues | 31,835 | 33,713 |
| Deferred tax liabilities | 214 | 183 |
| Current liabilities related to discontinued operations | 2,779 | 3,326 |
| Total current liabilities | 66,528 | 68,992 |
| Deferred revenue, long-term | 4,638 | 6,930 |
| Other liabilities, long-term | 8,461 | 11,231 |
| Distribution and losses in excess of investment | 743 | 1,161 |
| Taxes payable, long-term | 3,043 | 3,013 |
| Deferred tax liabilities, long-term | 4,684 | 4,722 |
| Total liabilities | <u>88,097</u> | <u>96,049</u> |
| Commitments and contingencies (Note 10) | | |
| Stockholders Equity: | | |
| Common stock, \$0.01 par value; 100,000,000 shares authorized; 32,534,444 and 31,876,815 shares issued; 32,494,660 and 31,837,031 shares outstanding, respectively | 326 | 319 |
| Additional paid-in capital | 213,880 | 207,121 |
| Treasury stock, at cost 39,784 and 39,784 common shares, respectively | (1) | (1) |
| Accumulated income | 6,507 | 10,521 |
| Accumulated other comprehensive loss | (9,774) | (8,818) |
| Total stockholders' equity | <u>210,938</u> | <u>209,142</u> |
| Total liabilities and stockholders' equity | <u>\$299,035</u> | <u>\$305,191</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)

| | Fiscal Year ended January 31, | | |
|---|-------------------------------|------------------|------------------|
| | 2012 | 2011 | 2010 |
| Revenues: | | | |
| Products | \$ 73,157 | \$ 82,155 | \$ 97,005 |
| Services | 124,548 | 119,532 | 92,935 |
| Total revenues | <u>197,705</u> | <u>201,687</u> | <u>189,940</u> |
| Cost of revenues: | | | |
| Products | 22,774 | 30,256 | 35,929 |
| Services | 76,919 | 68,576 | 54,941 |
| Total cost of revenues | <u>99,693</u> | <u>98,832</u> | <u>90,870</u> |
| Gross profit | <u>98,012</u> | <u>102,855</u> | <u>99,070</u> |
| Operating expenses: | | | |
| Research and development | 40,692 | 44,569 | 45,104 |
| Selling and marketing | 21,619 | 21,055 | 22,425 |
| General and administrative | 24,116 | 23,647 | 20,823 |
| Amortization of intangibles | 3,923 | 3,359 | 2,826 |
| Acquisition costs | 3,312 | 764 | — |
| Restructuring costs | 3,316 | 6,997 | — |
| Total operating expenses | <u>96,978</u> | <u>100,391</u> | <u>91,178</u> |
| Income from operations | 1,034 | 2,464 | 7,892 |
| Interest income | 352 | 307 | 763 |
| Interest expense | (55) | (38) | (156) |
| Other expense, net | (655) | (687) | (462) |
| Gain on sale of investment in affiliates | — | 27,071 | — |
| Income before income taxes and equity income (loss) in earnings of affiliates | 676 | 29,117 | 8,037 |
| Income tax expense (benefit) | 2,193 | (2,438) | 271 |
| Equity income (loss) in earnings of affiliates, net of tax | 233 | 85 | (653) |
| (Loss) income from continuing operations | <u>(1,284)</u> | <u>31,640</u> | <u>7,113</u> |
| Loss from discontinued operations, net of tax | <u>(2,730)</u> | <u>(2,172)</u> | <u>(5,790)</u> |
| Net (loss) income | <u>\$ (4,014)</u> | <u>\$ 29,468</u> | <u>\$ 1,323</u> |
| Earnings per share: | | | |
| Basic (loss) income per share | <u>\$ (0.13)</u> | <u>\$ 0.94</u> | <u>\$ 0.04</u> |
| Diluted (loss) income per share | <u>\$ (0.13)</u> | <u>\$ 0.92</u> | <u>\$ 0.04</u> |
| Earnings per share from continuing operations: | | | |
| Basic (loss) income per share | <u>\$ (0.04)</u> | <u>\$ 1.01</u> | <u>\$ 0.23</u> |
| Diluted (loss) income per share | <u>\$ (0.04)</u> | <u>\$ 0.99</u> | <u>\$ 0.23</u> |
| Loss per share from discontinued operations: | | | |
| Basic (loss) income per share | <u>\$ (0.09)</u> | <u>\$ (0.07)</u> | <u>\$ (0.19)</u> |
| Diluted (loss) income per share | <u>\$ (0.09)</u> | <u>\$ (0.07)</u> | <u>\$ (0.19)</u> |
| Weighted average common shares outstanding: | | | |
| Basic | <u>32,093</u> | <u>31,434</u> | <u>30,860</u> |
| Diluted | <u>32,093</u> | <u>31,986</u> | <u>31,433</u> |

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 | | Additional paid-in capital | Accumulated Deficit | Accumulated other comprehensive income (loss) | | Treasury Stock | | Total Stockholders' Equity | Comprehensive income (loss) |
|--|---------------------|--------------|----------------------------------|------------------------|---|---|---------------------|---------|----------------------------------|--------------------------------|
| | Number of shares | Par value | | | Cumulative translation adjustment | Unrealized gain/loss on investments | Number of shares | Amount | | |
| 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 | |
| Issuance of common stock pursuant to exercise of stock options | 253,668 | 3 | 1,784 | — | — | — | — | — | 1,787 | |
| Issuance of common stock pursuant to vesting of restricted stock units | 378,955 | 4 | (4) | — | — | — | — | — | — | |
| Issuance of common stock pursuant to deferred consideration | 25,006 | — | 204 | — | — | — | — | — | 204 | |
| Liability stock compensation awards reclassified to equity | — | — | 1,417 | — | — | — | — | — | 1,417 | |
| Stock-based compensation expense | — | — | 3,358 | — | — | — | — | — | 3,358 | |
| Change in fair value on marketable securities, net of tax | — | — | — | — | — | (84) | — | — | (84) | \$ (84) |
| Translation adjustment | — | — | — | — | (872) | — | — | — | (872) | (872) |
| Net loss | — | — | — | (4,014) | — | — | — | — | (4,014) | (4,014) |
| Comprehensive loss | | | | | | | | | | <u>\$ (4,970)</u> |
| Balance at January 31, 2012 | 32,534,444 | \$326 | \$213,880 | \$ 6,507 | \$ (9,810) | \$ 36 | \$ (39,784) | \$ (1) | \$210,938 | |

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, | | |
|---|------------------------|-----------|-----------|
| | 2012 | 2011 | 2010 |
| Cash flows from operating activities: | | | |
| Net (loss) income | \$ (4,014) | \$ 29,468 | \$ 1,323 |
| Net loss income from discontinued operations | 2,730 | 2,172 | 5,790 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Depreciation and amortization of fixed assets | 7,450 | 8,198 | 7,995 |
| Amortization of intangibles and capitalized software | 6,081 | 5,345 | 3,461 |
| Loss on disposal of fixed assets | 318 | 1,283 | — |
| Impairment of assets held for sale | 678 | — | — |
| Loss on disposal of inventory | 430 | 2,474 | — |
| Inventory valuation charge | 575 | 556 | 585 |
| Provision for doubtful accounts receivable | 100 | 2 | 75 |
| Discounts earned and amortization of premiums on marketable securities | 66 | 62 | 110 |
| Equity loss (income) in earnings of affiliates | (234) | (65) | 654 |
| Gain on sale of investment in affiliate | — | (27,071) | — |
| Stock-based compensation expense | 3,358 | 2,957 | 3,105 |
| Deferred income taxes | 6,520 | (7,074) | (1,210) |
| Change in contingent consideration related to acquisitions | 3,031 | — | — |
| Excess tax benefit related to share based compensation expense | — | (4) | (159) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (1,965) | 3,689 | (4,380) |
| Unbilled receivables | (321) | (1,204) | 654 |
| Inventories | (1,250) | (2,407) | (5,711) |
| Prepaid expenses and other assets | (3,647) | 767 | (3,836) |
| Accounts payable | (2,605) | 664 | (3,048) |
| Accrued expenses | 4,555 | 3,442 | (3,232) |
| Customer deposits | (926) | (286) | 2,313 |
| Deferred revenues | (3,957) | (6,204) | 9,240 |
| Other | 255 | 63 | 23 |
| Net cash (used in) provided by discontinued operations | (2,843) | (546) | (5,153) |
| Net cash provided by operating activities from continuing operations | 14,385 | 16,281 | 8,599 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (3,273) | (3,926) | (8,806) |
| Purchases of marketable securities | (19,944) | (8,382) | (43,402) |
| Proceeds from sale and maturity of marketable securities | 19,517 | 7,325 | 54,091 |
| Acquisition of businesses and payment of contingent consideration, net of cash acquired | (4,935) | (14,661) | (35,019) |
| Investments in affiliates | — | (1,107) | (1,824) |
| Proceeds from sale of investment in affiliate | — | 38,717 | — |
| (Deposit) release of restricted cash | 132 | (55) | 1,512 |
| Net cash (used in) provided by investing activities of discontinued operations | (130) | 154 | 451 |
| Net cash (used in) provided by investing activities from continuing operations | (8,633) | 18,065 | (32,997) |
| Cash flows from financing activities: | | | |
| Purchase of treasury stock | — | (1,435) | (2,768) |
| Proceeds from issuance of common stock relating to the stock plans | 1,787 | 2,740 | 1,838 |
| Excess tax benefit related to share based compensation expense | — | 4 | 159 |
| Net cash provided by (used in) financing activities | 1,787 | 1,309 | (771) |
| Effect of exchange rates on cash | (99) | (157) | 358 |
| Net increase (decrease) in cash and cash equivalents | 7,440 | 35,498 | (24,811) |
| Cash and cash equivalents, beginning of period | 73,145 | 37,647 | 62,458 |
| Cash and cash equivalents, end of period | \$ 80,585 | \$ 73,145 | \$ 37,647 |
| Supplemental disclosure of cash flow information: | | | |
| Income taxes paid | \$ 565 | \$ 3,174 | \$ 554 |
| Interest paid | — | — | 41 |
| Supplemental disclosure of non-cash activities: | | | |
| Transfer of items originally classified as inventories to equipment | 1,402 | 2,283 | 2,841 |

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

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

We are an industry leader in the delivery of multi-screen video. Our products and services facilitate the aggregation, licensing, management and distribution of video, television programming, and advertising content to cable system operators and telecommunications 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 management 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. Management bases these estimates on historical and anticipated results and trends and on various other assumptions that management 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

We consolidate the financial statements of our wholly-owned subsidiaries and all intercompany accounts are eliminated in consolidation. We also hold minority investments in the capital stock of certain private companies having product offerings or customer relationships that have strategic importance. We evaluate our 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. We use qualitative analysis to determine whether or not we are the primary beneficiary of a VIE (variable interest entity). We consider the rights and obligations conveyed by the 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 we determine that our variable interests will absorb a majority of the VIE's expected losses, receive a majority of their expected residual returns, or both, we consolidate the VIE as the primary beneficiary, and if not, it is not consolidated.

We have reviewed our 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. We have concluded that we are not the primary beneficiary for any variable interest entities during fiscal 2012. Accordingly, we used the equity method to account for these investments.

Discontinued Operations

We evaluated our decision to sell the broadcast servers and storage business unit and determined that we met the criteria for classification as held for sale as of January 31, 2012. We have recorded all assets and liabilities as held for sale and all operating results as discontinued operations for fiscal 2012, 2011 and 2010. (see Note 18)

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

Equity Investments

Our 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, our 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.

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

Our transactions frequently involve the sales of hardware, software, systems and services in multiple element arrangements. 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. Our share of intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership

We have historically applied the software revenue recognition rules as prescribed by Accounting Standards Codification (ASC) Subtopic 985-605. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Number 2009-14, "Certain Revenue Arrangements That Include Software Elements," which amended ASC Subtopic 985-605. This ASU removes tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of the software revenue recognition rules. In the case of our hardware products with embedded software, we have determined that the hardware and software components function together to deliver the product's essential functionality, and therefore, the revenue from the sale of these products no longer falls within the scope of the software revenue recognition rules. Revenue from the sale of software-only products remains within the scope of the software revenue recognition rules. Maintenance and support, training, consulting, and installation services no longer fall within the scope of the software revenue recognition rules, except when they are sold with and relate to a software-only product. Revenue recognition

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

for products that no longer fall under the scope of the software revenue recognition rules are similar to that for other tangible products and ASU Number 2009-13, “Multiple-Deliverable Revenue Arrangements,” which amended ASC Topic 605 and was also issued in October 2009, which is applicable for multiple-deliverable revenue arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction’s economics. ASU 2009-13 and 2009-14 are effective for revenue arrangements entered into or materially modified in our fiscal year 2012.

Under the software revenue recognition rules, the fee is allocated to the various elements based on VSOE of fair value. 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 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. All multiple-deliverable revenue arrangements negotiated prior to February 1, 2011 and the sale of all software-only products and associated services have been accounted for under this guidance.

Under the revenue recognition rules for tangible products as amended by ASU 2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence (TPE) if VSOE is not available, and best estimate of selling price (BESP) if neither VSOE nor TPE are available. TPE is the price of our or any competitor’s largely interchangeable products or services in stand-alone sales to similarly situated customers. BESP is the price at which the Company would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors. All multiple-deliverable revenue arrangements negotiated after February 1, 2011, excluding the sale of all software-only products and associated services, have been accounted for under this guidance.

The selling prices used in the relative selling price allocation method for certain of our services are based upon VSOE. The selling prices used in the relative selling price allocation method for third-party products from other vendors are based upon TPE. The selling prices used in the relative selling price allocation method for our hardware products, software, subscriptions, and customized services for which VSOE does not exist are based upon BESP. We do not believe TPE exists for these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes BESP with consideration for market conditions, such as the impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product, discounts provided and profit objectives. Management believes that BESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

Since all of our revenue prior to the adoption of ASU 2009-14 fell within the scope of the software revenue recognition rules and we have only established VSOE for services and revenue in a multiple-deliverable arrangement involving products, revenue was frequently deferred until the last item was delivered. The adoption of ASU 2009-13 and 2009-14 has resulted in earlier revenue recognition in multiple-deliverable arrangements involving our hardware products with embedded software because revenue can be recognized for each of these deliverables based upon their relative selling prices as defined above. The revenue impact, as a result of implementing the software revenue recognition guidance, was an increase of \$3.3 million during fiscal 2012.

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.

Concentration of Credit Risk and Major Customers

Financial instruments which potentially expose us 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. We restrict our 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, we evaluate customers' financial condition, require advance payments from certain of our customers and maintain reserves for potential credit losses. We perform ongoing credit evaluations of customers' financial condition but generally do not require collateral. For some international customers, we require an irrevocable letter of credit to be issued by the customer before the purchase order is accepted. We monitor payments from customers and assess any collection issues. We maintain 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 record these allowances as a charge to general and administrative expenses. We base our 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, 2012 and 2011, we had an allowance for doubtful accounts of \$972,000 and \$995,000, respectively, to provide for potential credit losses. At January 31, 2012, two separate customers accounted for 16% and 14%, respectively, of our gross accounts receivable balance. For fiscal 2012 and 2011, two customers each accounted for more than 10%, and collectively accounted for 31% and 34%, respectively, of our total revenues. Revenues from these customers were primarily in our Software segment.

Cash Equivalents and Marketable Securities

We account for investments in accordance with authoritative guidance that defines investment classifications. We determine the appropriate classification of debt securities at the time of purchase and reevaluate such designation as of each balance sheet date. Our 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. Our marketable securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, reported in stockholders' equity as a component of accumulated other comprehensive 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.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

We evaluate our 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 our 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. We record charges to reduce inventory to its net realizable value when impairment is identified through a 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 years ended January 31, 2012, 2011 and 2010, we recorded \$1.0 million, \$3.0 million and \$569,000 in inventory write-downs, respectively, of which \$430,000 and \$2.5 million were recorded in restructuring expense for fiscal 2012 and 2011, 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 our installed base.

Demonstration equipment consists of systems manufactured by us 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 us 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

We recognize 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.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

We account 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.

We also evaluate 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, we evaluate the carrying value of long-lived assets to determine if impairment exists based upon estimated undiscounted future cash flows over the remaining useful life of the assets and compares that value to the carrying value of the assets. Our cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time.

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.

We develop 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 our 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 \$2.2 million, \$2.0 million and \$0.6 million for fiscal 2012, 2011 and 2010, respectively.

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

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

from these estimates, our provision for income taxes could be materially impacted. We do not provide for U.S. federal and state income taxes on the undistributed earnings of our 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 it has 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 and Employee Stock Purchase Plan stock units are amortized on a straight line basis.

Restructuring

We record restructuring charges 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.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

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 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, we translate our 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 \$86,000, \$1,100,000 and \$572,000 for fiscal 2012, 2011 and 2010, respectively.

Comprehensive Income (Loss)

We present accumulated other comprehensive income (loss) and total comprehensive income (loss) in the Statement of Stockholders' Equity. At the end of fiscal 2012, our total comprehensive loss of \$5.0 million consists primarily of net loss, cumulative translation adjustments and unrealized gains and losses on marketable securities, net of income tax.

Forward Exchange Contracts not Designated as Hedging Instruments

We may enter into foreign currency forward exchange contracts ("forward exchange contracts") to manage our 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 our foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuation. We do not enter into derivative financial instruments for trading or speculative purposes. We do 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, 2012, we have no outstanding foreign currency forward exchange contracts. We recorded approximately \$0, \$142,000 and \$87,000 of losses related to its foreign currency forward exchange contract during fiscal 2012, 2011 and 2010, respectively. Our 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 \$374,000, \$319,000 and \$386,000 for fiscal 2012, 2011 and 2010, respectively.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

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 fiscal 2012, 2011 and 2010 respectively, 1.6 million, 2.5 million and 3.6 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. For fiscal 2012, an additional 1.0 million stock awards have been excluded from diluted earnings per share due the net loss. Below is a summary of the shares used in calculating basic and diluted earnings per share for the periods indicated:

| | Year ended January 31, | | |
|---|------------------------|-------------------|-------------------|
| | 2012 | 2011 | 2010 |
| Weighted average shares used in calculating earnings per share – Basic | 32,093,125 | 31,434,398 | 30,860,194 |
| Dilutive common stock equivalents | — | 551,404 | 573,174 |
| Weighted average shares used in calculating earnings per share – Diluted. | <u>32,093,125</u> | <u>31,985,802</u> | <u>31,433,368</u> |

Impact of Recently Adopted Accounting Guidance

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. We adopted the new guidance in the first quarter of 2011 on a prospective basis. (See Note 2).

Recent Accounting Guidance Not Yet Effective

Other Comprehensive Income

The amendments in ASU 2011-05 revise the manner in which companies present comprehensive income in their financial statements in order to make U.S. GAAP and international standards more consistent. This ASU requires companies to report the components of comprehensive income in either a continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement would present the components of net income, similar to the Company’s current Consolidated Statements of Operations, while the second statement would include the components of other comprehensive income, as well as a cumulative total for comprehensive income

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies – (continued)

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-12 to defer one provision of ASU 2011-05. The amendments in ASU 2011-12 defer the requirements under ASU 2011-05 to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented. This deferral was prompted by users’ concerns that the presentation requirements would be costly to implement and could add unnecessary complexity to financial statements.

Neither of these ASU’s changes the items that must be reported in other comprehensive income. Both Updates must be applied retrospectively beginning in the first quarter of 2012. Our adoption date will be February 1, 2012, the beginning of our first quarter for fiscal 2013.

Fair Value Measurement

In May 2011, the FASB issued amended guidance clarifying how to measure and disclose fair value. This guidance amends the application of the “highest and best use” concept to be used only in the measurement of the fair value of nonfinancial assets, clarifies that the measurement of the fair value of equity-classified financial instruments should be performed from the perspective of a market participant who holds the instrument as an asset, clarifies that an entity that manages a group of financial assets and liabilities on the basis of its net risk exposure to those risks can measure those financial instruments on the basis of its net exposure to those risks, and clarifies when premiums and discounts should be taken into account when measuring fair value. The fair value disclosure requirements also were amended. These provisions are effective for reporting periods beginning on or after December 15, 2011 applied prospectively. Early application is not permitted. We are currently reviewing what effect, if any, this new provision will have on our Consolidated Financial Statements.

Goodwill Impairment Test

In September 2011, the FASB issued additional guidance on goodwill impairment testing. This guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We anticipate the adoption of this guidance will not have a material impact on our consolidated financial position or results of operations.

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 us to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a non-recurring basis in periods subsequent to initial measurement, in a 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.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Fair value of Assets and Liabilities – (continued)

- 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. We primarily use broker quotes for valuation of our 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.

Our financial assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2012 are as follows:

| | January 31, 2012 | Fair Value Measurements Using | | |
|---|---------------------|-------------------------------|----------------|-----------------|
| | | Level 1 | Level 2 | Level 3 |
| | | (in thousands) | | |
| Financial assets: | | | | |
| Cash | \$74,226 | \$74,226 | — | — |
| Cash equivalents | 6,359 | 6,359 | — | — |
| Available for sale marketable securities: | | | | |
| Current marketable securities: | | | | |
| U.S. government agency issues | 7,855 | 4,311 | 3,544 | — |
| Non-current marketable securities: | | | | |
| U.S. government agency issues | 4,140 | 2,111 | 2,029 | — |
| Total | <u>\$92,580</u> | <u>\$87,007</u> | <u>\$5,573</u> | <u>\$ —</u> |
| Other liabilities: | | | | |
| Acquisition-related consideration | <u>\$12,255</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$12,255</u> |

Our 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> |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Fair value of Assets and Liabilities – (continued)

The following tables set forth a reconciliation of assets and liabilities in Level 1 and Level 2. There have been no transfers between fair value measurement levels during the year ended January 31, 2012:

| | Level 1 Marketable Securities | Level 2 Marketable Securities |
|--|----------------------------------|----------------------------------|
| | Year Ended January 31 | Year Ended January 31 |
| | 2012 | 2012 |
| | (in thousands) | |
| Beginning balance | \$ 7,963 | \$ 3,756 |
| Purchases | 18,368 | 4,068 |
| Sales and maturities | (19,751) | (2,251) |
| Amortization and unrealized losses | (158) | — |
| Ending balance | <u>\$ 6,422</u> | <u>\$ 5,573</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 Accrued Contingent Consideration |
|---|--|
| | Year Ended January 31 |
| | 2012 |
| | (in thousands) |
| Beginning balance | \$14,410 |
| Additional contingent earnout | 3,326 |
| Contingency payments | (4,992) |
| Change in fair value | 307 |
| Translation adjustment | (796) |
| Ending balance | <u>\$12,255</u> |

We rely on mark to market valuations to record the fair value of our 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, 2012, we had \$7.9 million in short-term marketable securities and \$4.1 million in long-term marketable securities.

We determine the appropriate classification of debt securities at the time of purchase and reevaluate such designation as of each balance sheet date. Our 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. Our marketable securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, reported in stockholders' equity as a component of accumulated other comprehensive 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.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Fair value of Assets and Liabilities – (continued)

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, 2012 and 2011:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| | (in thousands) | | | |
| January 31, 2012: | | | | |
| Cash | \$74,226 | \$ — | \$ — | \$74,226 |
| Cash equivalents | 6,359 | — | — | 6,359 |
| Cash and cash equivalents | 80,585 | — | — | 80,585 |
| US government agency issues | 6,781 | 68 | — | 6,849 |
| Corporate debt securities | 1,000 | 6 | — | 1,006 |
| Marketable securities – short-term. | 7,781 | 74 | — | 7,855 |
| US government agency issues | 4,126 | 14 | — | 4,140 |
| Corporate debt securities | — | — | — | — |
| Marketable securities – long-term | 4,126 | 14 | — | 4,140 |
| Total cash equivalents and marketable securities | <u>\$92,492</u> | <u>\$ 88</u> | <u>\$ —</u> | <u>\$92,580</u> |
| January 31, 2011: | | | | |
| 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> |

During fiscal 2012, 2011 and 2010, available-for-sale securities were sold for total proceeds of \$0, \$519,000, and \$11.6 million, respectively. The gross realized gains and losses for fiscal years 2012, 2011 and 2010 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, 2012 are as follows (in thousands):

| | Estimated Fair Value |
|---|-------------------------|
| Maturity of one year or less | \$ 7,855 |
| Maturity between one and five years | 4,140 |
| Total | <u>\$11,995</u> |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Fair value of Assets and Liabilities – (continued)

We concluded that there were no other than temporary declines in investments recorded as of January 31, 2012, 2011 and 2010. The unrealized holding (losses)/gains, net of tax, on available-for-sale securities in the amount of (\$84,000), (\$77,000) and \$262,000 for the years ended January 31, 2012, 2011 and 2010, 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, 2012 and 2011 was \$93.8 million and \$84.9 million, respectively, and approximated fair value.

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 \$1.2 million and \$1.3 million at January 31, 2012 and 2011, respectively.

Foreign Currency Exchange Risk

We 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 our 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. Our derivative instrument did not meet 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. We do not use derivative financial instruments for trading or speculative purposes. As of January 31, 2012, we had no outstanding foreign currency forward exchange contracts. During the year ended January 31, 2011, we recorded approximately \$142,000 of losses related to our 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. Our 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 B.V. 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 shareholders is \$12.3 million as of January 31, 2012.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Consolidated Balance Sheet Detail

Inventories consist of the following:

| | Year ended January 31, | |
|-------------------------------------|------------------------|-----------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Components and assemblies | \$ 6,402 | \$ 5,948 |
| Finished products | 3,816 | 5,093 |
| Total inventories, net | <u>\$10,218</u> | <u>\$11,041</u> |

Property and equipment, net consist of the following:

| | Estimated useful life (years) | Year ended January 31, | |
|---|-------------------------------------|------------------------|------------------|
| | | 2012 | 2011 |
| | | (in thousands) | |
| Land | | \$ 3,989 | \$ 4,285 |
| Buildings | 20 | 11,426 | 13,586 |
| Office furniture and equipment | 5 | 3,153 | 3,099 |
| Computer equipment, software and demonstration equipment | 3 | 62,084 | 66,252 |
| Deployed assets | 2 – 7 | 3,280 | 3,280 |
| Service and spare components | 5 | 9,003 | 8,912 |
| Leasehold improvements | 1 – 7 | 2,643 | 3,232 |
| Automobiles and trucks | 5 | 211 | 211 |
| Assets not yet placed in service | | 366 | 298 |
| | | <u>96,155</u> | <u>103,155</u> |
| Less – Accumulated depreciation and amortization | | <u>(65,589)</u> | <u>(68,297)</u> |
| Total property and equipment, net. | | <u>\$ 30,566</u> | <u>\$ 34,858</u> |

Depreciation and amortization expense of fixed assets was \$7.5 million, \$8.2 million and \$8.0 million for the years ended January 31, 2012, 2011 and 2010, respectively.

Other accrued expenses consist of the following:

| | Year ended January 31, | |
|--|------------------------|-----------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Accrued compensation and commissions | \$ 5,514 | \$ 3,864 |
| Acquisition-related consideration | 3,793 | 3,179 |
| Accrued content | 4,374 | 3,818 |
| Employee benefits | 852 | 668 |
| Accrued other | 4,738 | 4,999 |
| Total other accrued expenses | <u>\$19,271</u> | <u>\$16,528</u> |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments in Affiliates

We periodically review indicators of the fair value of our 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, 2012 and 2011, respectively. Our investments in affiliates under the cost method of accounting are as follows:

| | Year ended January 31, | |
|---|------------------------|----------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Minerva | 1,000 | 1,000 |
| Visible World | 552 | 552 |
| Other investments | 1,461 | 1,361 |
| Total investments in affiliates | <u>\$3,013</u> | <u>\$2,913</u> |

Minerva. We own 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. We account for this investment under the cost method of accounting.

Visible World. We own less than 5% of the common and preferred stock of Visible World and we account for this investment under the cost method of accounting. For fiscal years 2012, 2011 and 2010, we recognized revenues of approximately \$11,000, \$532,000 and \$641,000 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. We determined that this investment is an operating joint venture and does not require consolidation. Consequently, we account for this investment under the equity method of accounting.

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, 2012, 2011 and 2010, ODG recorded revenues of \$1.8 million, \$1.9 million, and \$1.8, 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.

ODG recorded its proportionate share of the joint venture’s losses of \$487,000, \$36,000 and \$653,000 for fiscal 2012, 2011 and 2010, 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 \$743,000 and \$1.2 million at January 31, 2012 and 2011, respectively.

Casa Systems. On April 26, 2010, we sold our entire equity investment in Casa Systems, Inc., a Massachusetts based 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.

InSite One. In the fourth quarter of fiscal 2011, we sold our entire equity investment in InSite One for \$4.6 million in cash realizing a pre-tax profit of \$1.9 million.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Acquisitions

eventIS Group B.V.

On September 1, 2009, we 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. We acquired eventIS to expand our VOD solutions into the European market.

Fair Value of Consideration Transferred

We have made cash payments to the former shareholder of eventIS under the eventIS Share Purchase Agreement of \$40.5 million in accordance with the eventIS Share Purchase Agreement.

On September 1, 2010, we 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 and approximately \$273,000 remains to be paid, which will be paid out in equal installments on September 1, 2012 and 2013. We are obligated to make an additional fixed payment on September 1, 2012 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 our 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 cash payment of \$1.7 million for earnouts achieved in fiscal 2011 and 2012 will be paid in fiscal 2013. Additional earn-out payments may be earned in fiscal 2013 if certain performance goals are met.

VividLogic, Inc.

On February 1, 2010, we completed our acquisition of VividLogic, Inc. (“VividLogic”). VividLogic, based in Fremont, California provides in-home infrastructure software for high definition televisions, home gateway, and set-top boxes to cable television service providers, set-top box manufacturers and consumer electronics (CE) suppliers. We acquired VividLogic to expand our 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

As of January 31, 2012, we had made cash payments totaling \$18.5 million to the former shareholders of VividLogic. We are 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, in the first quarter of fiscal 2013 we will make a cash earnout payment of \$2.7 million for the earnout earned in fiscal 2012. Additional earn-out payments may be earned over fiscal 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.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Acquisitions – (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the VividLogic acquisition date.

| | February 1, 2010 |
|--|---------------------|
| | (in thousands) |
| 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, we 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 our management. The following table sets forth the components of identified intangible assets associated with the VividLogic acquisition and their estimated useful lives:

| | Useful life | Fair Value |
|-----------------------------------|-------------|----------------|
| | | (in thousands) |
| 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> |

We 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

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Acquisitions – (continued)

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. We determined that the goodwill included the value of VividLogic's work force and expected synergies in global sales and marketing. We consider the acquired business an addition to our Software reporting segment. We 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, we 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 we 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 our 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. We 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 us at the acquisition date to be \$8.4 million.

Acquisition-related Costs

We recorded transaction costs such as legal, accounting, valuation and other professional services of \$831,000 and \$341,000 during fiscal 2011 and 2010. The transaction costs were expensed and recorded in general and administrative expenses in the Consolidated Statement of Operations.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Goodwill and Intangible Assets

At January 31, 2012 and 2011, we had goodwill of \$63.6 million and \$64.7 million, respectively. The change in the carrying amount of goodwill for the years ended January 31, 2012 and 2011 are as follows:

| | Software | Media Services | Total |
|--|-----------------|-----------------|-----------------|
| Balance at January 31, 2010 | \$35,696 | \$19,586 | \$55,282 |
| VividLogic acquisition | 10,025 | — | 10,025 |
| Cumulative translation adjustment. | (464) | (164) | (628) |
| Balance at January 31, 2011 | 45,257 | 19,422 | 64,679 |
| Cumulative translation adjustment. | (842) | (197) | (1,039) |
| Balance at January 31, 2012 | <u>\$44,415</u> | <u>\$19,225</u> | <u>\$63,640</u> |

The Goodwill balance excludes \$594,000 of goodwill assigned based on a relative fair value calculation to the divestiture of the broadcast servers and storage business unit that is included in non-current assets related to discontinued operations in the Consolidated Balance Sheet.

As of August 1, 2011, we reviewed the recoverability of goodwill associated with our previously reported three segments, Software, Servers and Storage, and Media Services, and determined that there was no goodwill impairment. Following the divestiture of a portion of the broadcast servers and storage product lines, the Software and VOD server product line was organized in the one business reporting segment. Reportable segments were determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company's management structure. During the fourth quarter of fiscal 2012, we evaluated the impairment analysis and updated for the change in its estimates from August 1, 2011 to January 31, 2012. While no impairment charges resulted from the analyses performed during the fourth quarter of fiscal 2012, 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.

At January 31, 2012 and 2011, we have recorded net intangible assets of \$23.8 million and \$30.3 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:

| | Weighted average remaining life (Years) | January 31, 2012 | | | January 31, 2011 | | |
|---|---|------------------|--------------------------|-----------------|------------------|--------------------------|-----------------|
| | | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| | | | (in thousands) | | | (in thousands) | |
| Finite-lived intangible assets: | | | | | | | |
| Customer contracts | 5.5 | \$34,106 | \$(17,131) | \$16,975 | \$34,576 | \$(14,291) | \$20,285 |
| Non-compete agreements | 1.5 | 2,673 | (1,869) | 804 | 2,742 | (1,104) | 1,638 |
| Completed technology | 4.4 | 12,294 | (6,646) | 5,648 | 11,976 | (4,775) | 7,201 |
| Trademarks and other | 0.9 | 2,345 | (2,211) | 134 | 2,384 | (1,946) | 438 |
| Total finite-lived intangible assets. | | <u>\$51,418</u> | <u>\$(27,857)</u> | <u>\$23,561</u> | <u>\$51,678</u> | <u>\$(22,116)</u> | <u>\$29,562</u> |
| Infinite-lived intangible assets: | | | | | | | |
| In-process research and development | Infinite | | | | 544 | | 544 |
| Trade names. | Infinite | \$ 200 | \$ — | \$ 200 | \$ 200 | \$ — | \$ 200 |
| Total intangible assets | | <u>\$51,618</u> | <u>\$(27,857)</u> | <u>\$23,761</u> | <u>\$52,422</u> | <u>\$(22,116)</u> | <u>\$30,306</u> |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Goodwill and Intangible Assets – (continued)

Estimated useful lives and the amortization basis for the intangible assets are as follows:

| | Estimated Useful Life and Amortization Basis |
|------------------------|---|
| 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 \$6.1 million, \$5.4 million and \$3.5 million for fiscal 2012, 2011 and 2010, respectively. In fiscal 2012, 2011 and 2010, \$2.2 million, \$2.0 million, and \$638,000, respectively, were charged to cost of product revenues. In fiscal 2012, 2011 and 2010, \$3.9 million, \$3.4 million and \$2.8 million, respectively, were charged to operating expense. The total amortization expense for each of the next five fiscal years is as follows:

| | Amortization Expense (in thousands) |
|-------------------------------------|--|
| Fiscal 2013. | \$ 5,805 |
| Fiscal 2014. | 4,661 |
| Fiscal 2015. | 4,324 |
| Fiscal 2016. | 3,499 |
| Fiscal 2017 and thereafter. | 5,272 |
| Total Future Amortization. | <u>\$23,561</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 Expenses

During fiscal 2012, the Company continued to take actions to lower its cost structure as it strives to improve its financial performance and incurred restructuring charges totaling \$3.3 million including severance costs of \$2.8 million for the termination of 33 employees, including the departure of the President and the retirement of the Chief Executive Officer, the write-down of \$430,000 of inventory relating to discontinued VOD server product lines and \$270,000 charge for the disposal of fixed assets relating to the New Hampshire facility. During fiscal 2011, we incurred restructuring charges of approximately \$7.0 million related to the termination of 110 employees, incurred an inventory write-down of approximately \$2.5 million and took a charge related to the disposal of fixed assets of \$1.3 million as part of an overall restructuring plan.

The severance amounts reported as a component of accrued liabilities on the Balance Sheet as of January 31, 2012 were as follows:

| (in thousands) | Severance |
|--|-----------------|
| Accrual balance as of January 31, 2011 | \$ 408 |
| Amount charged to expense | 2,840 |
| Severance costs paid | <u>(1,023)</u> |
| Accrual balance as of January 31, 2012 | <u>\$ 2,225</u> |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Lines of Credit

We maintain 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 us to comply with certain financial covenants. As of January 31, 2012, 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, 2012 the full amount of the letters of credit of \$1.6 million was supported by our credit facility.

10. Commitments and Contingencies

We lease certain of our operating facilities, automobiles and office equipment under non-cancelable operating leases, which expire at various dates through 2015. Rental expense under operating leases was \$3.4 million, \$3.2 million and \$2.6 million for fiscal 2012, 2011 and 2010, respectively. Future commitments under minimum lease payments as of January 31, 2012 are as follows:

| | Operating Leases |
|----------------------------------|-----------------------------|
| | (in thousands) |
| Fiscal 2013 | \$2,222 |
| 2014 | 1,027 |
| 2015 | 990 |
| 2016 | 813 |
| 2017 and thereafter | 569 |
| Minimum lease payments | <u>\$5,621</u> |

We have non-cancelable purchase commitments for its inventories of approximately \$3.0 million at January 31, 2012 and studio content commitments of \$13.3 million at January 31, 2012.

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. On June 4, 2010, the Court entered an Order staying the declaratory judgment action pending resolution of the contempt proceeding. On September 2, 2011, the Court entered an Order in which it concluded that a contempt proceeding is the appropriate procedure for resolving the parties' dispute and that further factual and legal determinations would be necessary. On March 1, 2012, the Court conducted a hearing at which the parties submitted additional information. No determinations were made by the Court at the hearing as to liability, and the parties are now scheduled to submit post-hearing briefs. We believe that our products do not infringe on the '804 patent and that we have meritorious defenses against the suit, however, the ultimate resolution of the matter is not reasonably estimable at this time, but could result in a material liability for the Company.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Commitments and Contingencies – (continued)

Indemnification and Warranties

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. From time to time, we also indemnify customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of our products and services or resulting from the acts or omissions of us, our employees, authorized agents or subcontractors. For example, we have received requests from several of our customers for indemnification of patent litigation claims asserted by Acacia Media Technologies, USA Video Technology Corporation, VTran Media Technologies and Active Video Networks, Inc. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us.

We warrant that our 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, we provide maintenance support to our customers and therefore allocate 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, we provide minimum purchase guarantees to certain of our 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, we re-evaluate the accounting implications of guarantees and determine what charges, if any, should be recorded.

With respect to our agreements covering product, business or entity divestitures and acquisitions, we provide certain representations and warranties and agrees to indemnify and hold such purchasers harmless against breaches of such representations, warranties and covenants. With respect to our acquisitions, we may, from time to time, assume the liability for certain events or occurrences that took place prior to the date of acquisition.

We provide 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. We believe that the likelihood is remote that any such arrangement could have a material adverse effect on our financial position, results of operation or liquidity. We record liabilities, as disclosed above, for such guarantees based on our 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. No preferred stock has been issued as of January 31, 2012.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Stockholders' Equity – (continued)

Stock Repurchase Program

On May 26, 2010, our 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 terminated on January 31, 2012. During the year ended January 31, 2011, we 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. During fiscal 2012, we did not repurchase any shares.

On March 28, 2012, our Board of Directors authorized the repurchase of up to \$25.0 million of its common stock, par value \$.01 per share, through a share repurchase program. The repurchase program terminates on January 31, 2013.

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 \$1.4 million on the Consolidated Balance Sheet as of January 31, 2011 for the estimated fair value of the award. The award was re-measured quarterly until the increase in the RSUs was approved by the shareholders. These shares were awarded at the Company's annual meeting on July 20, 2011.

12. Segment Information

Operating segments are defined as components of an enterprise evaluated regularly by our senior management in deciding how to allocate resources and assess performance. Through the third quarter of fiscal 2012, we managed and operated as three segments, Software, Servers and Storage, and Media Services. Following the classification of a portion of the broadcast servers and storage business unit as an asset held for sale, the Software and VOD product line was organized in the one business reporting segment. We have two segments in which senior management decides how to allocate resources and assess performance. Reportable segments were determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company's management structure.

- Software segment — This segment includes product revenues from our advertising, back-office including video streamers, and home gateway software solutions, related services such as professional services, installation, training, project management, product maintenance, technical support and software development for those software products.
- Media Services segment — This segment includes the operations of the On Demand Group which include content acquisition and preparation services for television and wireless service providers.

Under this revised reporting structure, we 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 segment data for the fiscal years ended January 31, 2012, 2011, and 2010 has been recast to reflect the realignment of the new segments.

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. We do not separately track all assets by operating segments nor are the segments evaluated under this criterion.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Segment Information – (continued)

The following summarizes the income from operations by reportable operating segment:

SeaChange International, Inc.
Condensed Consolidated Operating Segments — Unaudited
(in thousands)

| | Year ended January 31, | | |
|---|------------------------|------------------|------------------|
| | 2012 | 2011 | 2010 |
| | | (in thousands) | |
| Software | | | |
| Revenue: | | | |
| Products | \$ 73,157 | \$ 82,155 | \$ 97,005 |
| Services | 91,635 | 91,501 | 73,141 |
| Total revenue | 164,792 | 173,656 | 170,146 |
| Gross profit | 93,157 | 98,064 | 95,786 |
| Operating expenses: | | | |
| Research and development | 40,692 | 44,569 | 45,104 |
| Selling and marketing | 21,619 | 21,055 | 22,425 |
| General and administrative | 2,032 | 1,465 | 502 |
| Amortization of intangibles | 3,784 | 3,073 | 2,246 |
| Acquisition costs | 3,312 | 764 | — |
| Restructuring | 2,366 | 6,085 | — |
| Total operating expenses | 73,805 | 77,011 | 70,277 |
| Income from operations | \$ 19,352 | \$ 21,053 | \$ 25,509 |
| Media Services | | | |
| Service revenue | \$ 32,913 | \$ 28,031 | \$ 19,794 |
| Gross profit | 4,855 | 4,791 | 3,284 |
| Operating expenses: | | | |
| Selling and marketing | — | — | — |
| General and administrative | 3,421 | 4,026 | 3,015 |
| Amortization of intangibles | 139 | 286 | 580 |
| Total operating expenses | 3,560 | 4,312 | 3,595 |
| Income (loss) from operations | \$ 1,295 | \$ 479 | \$ (311) |
| Unallocated Corporate | | | |
| Operating expenses: | | | |
| General and administrative | \$ 18,663 | \$ 18,156 | \$ 17,306 |
| Restructuring | 950 | 912 | — |
| Total unallocated corporate expenses | \$ 19,613 | \$ 19,068 | \$ 17,306 |
| Consolidated income from operations | \$ 1,034 | \$ 2,464 | \$ 7,892 |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Segment Information – (continued)

The following summarizes revenues by customers' geographic locations.

| | Year ended January 31, | | | | | |
|--|------------------------|-----|------------------|-----|------------------|-----|
| | 2012 | | 2011 | | 2010 | |
| | Amount | % | Amount | % | Amount | % |
| (in thousands, except percentages) | | | | | | |
| Revenues by customers' geographic locations: | | | | | | |
| North America | \$107,277 | 54% | \$118,895 | 59% | \$130,642 | 69% |
| Europe and Middle East | 80,789 | 41% | 63,127 | 31% | 41,794 | 22% |
| Latin America | 5,578 | 3% | 10,477 | 5% | 12,776 | 7% |
| Asia Pacific and other international locations | 4,061 | 2% | 9,188 | 5% | 4,728 | 2% |
| Total revenues | <u>\$197,705</u> | | <u>\$201,687</u> | | <u>\$189,940</u> | |

Total revenues for the United States for the years ended January 31, 2012, 2011, and 2010, were \$97.3 million, \$108.6.0 million, and \$126.8 million, respectively.

The following summarizes fixed assets, net by geographic locations:

| | Year ended January 31, | | | |
|--|------------------------|-----|-----------------|-----|
| | 2012 | | 2011 | |
| | \$ Amount | % | \$ Amount | % |
| (in thousands, except percentages) | | | | |
| Fixed assets, net by geographic locations: | | | | |
| North America | \$15,734 | 52% | \$20,233 | 59% |
| United Kingdom | 10,478 | 35% | 10,250 | 29% |
| Europe (excluding UK) and Middle East | 997 | 3% | 835 | 2% |
| Asia Pacific and other international locations | 3,357 | 10% | 3,540 | 10% |
| Total fixed assts by geographic location | <u>\$30,566</u> | | <u>\$34,858</u> | |

13. Stock-Based Compensation and Stock Incentive Plans

We use 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 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 and Employee Stock Purchase Plan stock units are amortized on a straight line basis. We have 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 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 and ESPP stock units are amortized on a straight line basis.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Stock-Based Compensation and Stock Incentive Plans – (continued)

The effect of recording stock-based compensation was as follows:

| | Year ended January 31, | | |
|--|------------------------|----------------|----------------|
| | 2012 | 2011 | 2010 |
| | (in thousands) | | |
| Stock-based compensation expense by type of award: | | | |
| Stock options | \$ 77 | \$ (60) | \$ 94 |
| Restricted stock units | 1,317 | 766 | 639 |
| Performance-based restricted stock units | 1,964 | 2,107 | 1,628 |
| Employee stock purchase plan | — | 144 | 744 |
| Total stock-based compensation | <u>\$3,358</u> | <u>\$2,957</u> | <u>\$3,105</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, 2012 are not indicative of future amounts.

Determining Fair Value

We record 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 our common stock over a period of time equal to the expected term of the stock option, and the average volatility of our 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, | | |
|--|------------------------|-------------|-------|
| | 2012 | 2011 | 2010 |
| Expected term (in years). | 4 – 5 | 4 – 5 | 4 – 5 |
| Expected volatility (range) | 52% | 51% – 53% | 61% |
| Weighted average volatility | 52% | 53% | 61% |
| Risk-free interest rate | 0.8% | 1.5% – 1.6% | 1.2% |
| Weighted average interest rate | 0.8% | 1.6% | 1.2% |
| 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, | | |
|--|------------------------|------|------|
| | 2012 | 2011 | 2010 |
| Expected term (in years). | * | 0.5 | 0.5 |
| Weighted average volatility | * | 48% | 71% |
| Weighted average interest rate | * | 0.1% | 0.3% |
| Expected dividend yield | * | 0% | 0% |

* No ESPP shares granted in fiscal 2012. The ESPP plan was cancelled in fiscal 2011

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Stock-Based Compensation and Stock Incentive Plans – (continued)

Stock Option Plans

2011 Compensation and Incentive Plan.

On July 20, 2011 our stockholders approved the adoption of our 2011 Compensation and Incentive Plan (the “2011 Plan”) under a number shares of common stock equal to 2.8 million plus the number of expired, terminated, surrendered or forfeited awards under the Amended and Restated 2005 Equity Compensation and Incentive Plan (the “2005 Plan”) subsequent to July 20, 2011 were authorized and terminated the Amended and Restated 2005 Equity Compensation and Incentive Plan. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and other equity based non stock option awards as determined by the plan administrator for the purchase of up to an aggregate of 2,800,000 shares of our common stock by officers, employees, consultants and directors of the Company. We may satisfy awards upon the exercise of stock options or vesting of restricted stock units with newly issued shares or treasury shares. The Board of Directors is responsible for the administration of the 2011 Plan and determining the term of each award, award exercise price, the number of shares for which each award is granted and the rate at which each award vests. As of January 31, 2012, there were 1.9 million shares available for future grant.

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. 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 2011 Plan generally vest over three years and expire seven years from the date of the grant.

Amended and Restated 2005 Equity Compensation and Incentive Plan

The 2005 plan was terminated upon the adoption of the 2011 Plan on July 20, 2011. No further awards will be granted under the 2005 Plan. The 2005 Plan provided 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 our common stock by officers, employees, consultants and directors of the Company. We may satisfy awards upon the exercise of stock options or vesting of restricted stock units with either newly issued shares or treasury 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.

The following table summarizes the stock option activity (excluding restricted stock units):

| | Year ended January 31, | | | | | |
|--|------------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | 2012 | | 2011 | | 2010 | |
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Outstanding at beginning of period. | 2,382,174 | \$12.31 | 3,934,973 | \$15.41 | 4,228,237 | \$15.43 |
| Granted | 250,000 | 6.74 | 15,000 | 8.77 | 60,000 | 6.23 |
| Exercised | (253,668) | 7.04 | (309,195) | 6.71 | (47,805) | 6.79 |
| Forfeited/expired/cancelled | (253,135) | 16.11 | (1,258,604) | 23.30 | (305,459) | 15.38 |
| Outstanding at end of period | <u>2,125,371</u> | <u>\$11.83</u> | <u>2,382,174</u> | <u>\$12.31</u> | <u>3,934,973</u> | <u>\$15.41</u> |
| Options exercisable at end of period. | <u>1,878,707</u> | <u>\$12.51</u> | <u>2,367,176</u> | <u>\$12.33</u> | <u>3,865,221</u> | <u>\$15.56</u> |
| Weighted average remaining contractual term (in years) | | 2.10 | | 1.95 | | 3.38 |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Stock-Based Compensation and Stock Incentive Plans – (continued)

The weighted-average fair valuation at grant date of stock options granted during the years ended January 31, 2012, 2011 and 2010, was \$2.86, \$3.70, and \$3.21, respectively. As of January 31, 2012, the unrecognized stock-based compensation related to the unvested stock options was \$682,000 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, 2012, 2011 and 2010 was approximately \$754,000, \$473,000 and \$60,000, 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 2012, 2011 and 2010 was \$1.8 million, \$2.1 million, and \$324,000, respectively.

The following table summarizes information about employee and director stock options outstanding and exercisable as of January 31, 2012:

| | Options Outstanding | | | Options Exercisable | |
|---------------------------------|---------------------|--|---------------------------------|---------------------|---------------------------------|
| | Number outstanding | Weighted average remaining contractual terms (years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| Range of exercise prices | | | | | |
| \$5.85 to 6.88 | 95,336 | 0.68 | \$ 6.16 | 95,336 | \$ 6.16 |
| 6.74 to 6.74 | 250,000 | 6.56 | 6.74 | 12,500 | 6.74 |
| 6.78 to 7.00 | 219,002 | 0.98 | 6.94 | 219,002 | 6.94 |
| 7.23 to 10.33 | 234,465 | 1.73 | 9.21 | 225,298 | 9.23 |
| 10.45 to 12.21 | 276,346 | 1.85 | 11.65 | 276,346 | 11.65 |
| 12.95 to 13.66 | 113,273 | 0.70 | 13.29 | 113,273 | 13.29 |
| 13.76 to 13.76 | 236,976 | 0.18 | 13.76 | 236,976 | 13.76 |
| 14.57 to 15.59 | 339,691 | 1.99 | 15.02 | 339,694 | 15.02 |
| 15.62 to 17.39 | 334,682 | 2.35 | 16.56 | 334,682 | 16.56 |
| 17.86 to 28.26 | 25,600 | 1.23 | 22.51 | 25,600 | 22.51 |
| | <u>2,125,371</u> | <u>2.10</u> | <u>\$11.83</u> | <u>1,878,707</u> | <u>\$12.51</u> |

Restricted Stock Units

Pursuant to the 2011 Plan, we may grant restricted stock units that entitle the recipient to acquire shares of our common stock. Awards of restricted stock units generally 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 our 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, 2012 there were 1.9 million RSUs available to be granted. For fiscal 2012, approximately 51,000 RSUs were earned by our executive officers under the Company's fiscal 2012 performance based plan

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Stock-Based Compensation and Stock Incentive Plans – (continued)

The following table summarizes the restricted stock unit activity:

| | Year ended January 31, | | | | | |
|---------------------------------|------------------------|--|----------------|--|----------------|--|
| | 2012 | | 2011 | | 2010 | |
| | 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 | 363,078 | \$ 8.00 | 572,489 | \$7.94 | 458,674 | \$8.99 |
| Awarded | 855,143 | 10.10 | 223,020 | 8.12 | 523,346 | 6.45 |
| Vested | (381,955) | 7.53 | (353,542) | 8.15 | (409,531) | 7.22 |
| Forfeited/expired/cancelled . . | (114,901) | 9.73 | (78,889) | 7.20 | — | — |
| Nonvested at end of period . . | <u>721,365</u> | <u>\$10.46</u> | <u>363,078</u> | <u>\$8.00</u> | <u>572,489</u> | <u>\$7.94</u> |

As of January 31, 2012 the unrecognized stock-based compensation related to the unvested restricted stock units was \$4.5 million. This cost will be recognized over an estimated weighted average amortization period of 2.1 years. Due to the retirement of our Chief Executive Officer on December 8, 2011, his unvested restricted stock units were accounted for as a modification to the terms and conditions. This modification resulted in the cancellation of unvested restricted awards with a grant date value of \$1.9 million and recognition of stock compensation expense of \$1.3 million.

Employee Stock Purchase Plan

In September 1996, our 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 provided 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. The purchase price of the stock was 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 fiscal 2011 and 2010, the number of shares of common stock issued under the Employee Stock Purchase Plan were 135,632 and 282,889, respectively. The cash received from employees as a result of the ESPP during fiscal 2011 and 2010 was \$660,000, and \$1.5 million, respectively.

14. Income Taxes

The components of income before income taxes are as follows:

| | Year ended January 31, | | |
|--------------------|------------------------|-----------------|----------------|
| | 2012 | 2011 | 2010 |
| | | (in thousands) | |
| Domestic | \$(13,610) | \$20,769 | \$3,192 |
| Foreign | 14,286 | 8,348 | 4,845 |
| | <u>\$ 676</u> | <u>\$29,117</u> | <u>\$8,037</u> |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Income Taxes – (continued)

The components of the income tax benefit (expense) are as follows:

| | Year ended January 31, | | |
|-------------------|-------------------------|------------------------|------------------------|
| | 2012 | 2011 | 2010 |
| | (in thousands) | | |
| Current: | | | |
| Federal | \$ 3,429 | \$(2,546) | \$ (271) |
| State | (667) | (188) | 32 |
| Foreign. | (1,565) | (787) | (1,114) |
| | <u>1,197</u> | <u>(3,521)</u> | <u>(1,353)</u> |
| Deferred: | | | |
| Federal | (3,183) | 4,677 | — |
| State | (348) | 137 | — |
| Foreign. | 141 | 1,145 | 1,082 |
| | <u>(3,390)</u> | <u>5,959</u> | <u>1,082</u> |
| | <u><u>\$(2,193)</u></u> | <u><u>\$ 2,438</u></u> | <u><u>\$ (271)</u></u> |

The income tax benefit (expense) computed using the federal statutory income tax rate differs from our effective tax rate primarily due to the following:

| | Year ended January 31, | | |
|---|-------------------------|------------------------|------------------------|
| | 2012 | 2011 | 2010 |
| | (in thousands) | | |
| Statutory U.S. federal tax rate | \$ (237) | \$(10,191) | \$(2,813) |
| State taxes, net of federal tax benefit | (660) | (49) | 29 |
| Losses not benefitted | (3,889) | 8,633 | 713 |
| Non-deductible stock compensation expense | 68 | 79 | (133) |
| Other. | (961) | 529 | 39 |
| Research and development tax credits. | 291 | 117 | 130 |
| Foreign tax rate differential. | 3,195 | 3,320 | 1,764 |
| | <u><u>\$(2,193)</u></u> | <u><u>\$ 2,438</u></u> | <u><u>\$ (271)</u></u> |

Our effective tax rate was (324%), 8%, and 4% in the years ended January 31, 2012, 2011 and 2010, respectively. The income tax expense for fiscal 2012 was primarily due to \$1.0 million of state income taxes and income tax expense of \$1.5 million at foreign subsidiaries in the United Kingdom, the Netherlands, and Ireland.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Income Taxes – (continued)

The components of deferred income taxes are as follows:

| | Year ended January 31, | |
|---|------------------------|----------|
| | 2012 | 2011 |
| | (in thousands) | |
| Deferred tax assets: | | |
| Accruals and reserves | \$ 1,890 | \$ 2,593 |
| Deferred revenue | 3,255 | 6,478 |
| Stock-based compensation expense | 1,549 | 1,277 |
| U.S. federal, state and foreign tax credits | 4,951 | 1,586 |
| Net operating loss carryforwards | 4,321 | 3,403 |
| Property and equipment | — | 30 |
| Other | 29 | 15 |
| Deferred tax assets | 15,995 | 15,382 |
| Less: Valuation allowance | (12,254) | (6,985) |
| Net deferred tax assets | 3,741 | 8,397 |
| Deferred tax liabilities: | | |
| Intangible assets | 5,928 | 7,371 |
| Property and equipment | 120 | — |
| Total net deferred tax assets(liabilities) | \$ (2,307) | \$ 1,026 |

At January 31, 2012, we had federal, state and foreign net operating loss carryforwards of \$2.6 million, \$27.0 million and \$14.4 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, 2012, we had federal and state research and development credit carryforwards of approximately \$3.1 million and \$848,000 respectively, and state investment tax credit carryforwards of \$178,000. The federal credit carryforwards will expire at various dates beginning in fiscal 2016, if not utilized. Certain state credit carryforwards will expire at various dates beginning in fiscal 2013, 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. We also have alternative minimum tax credit carryforwards of \$558,000 which are available to reduce future federal regular income taxes over an indefinite period. We have foreign tax credit carryforwards of \$600,000 which are available to reduce future federal regular income taxes.

We review quarterly the adequacy of the valuation allowance for deferred tax assets. We have evaluated the positive and negative evidence bearing upon the realizability of our deferred tax assets and have established a valuation allowance of approximately \$12.3 million for such assets, which are comprised principally of net operating loss carryforwards, research and development credits, deferred revenue, inventory and stock based compensation. If we generate pre-tax income in the future, some portion or all of the valuation allowance could be reversed and a corresponding increase in net income would be reported in future periods. The valuation allowance increased from \$7.0 million at January 31, 2011 to \$12.3 million at January 31, 2012.

At January 31, 2012, we have indefinitely reinvested \$68.3 million of the cumulative undistributed earnings of certain foreign subsidiaries. Approximately \$45.1 million of such earnings would be subject to U.S. taxes if repatriated to the U.S. Through January 31, 2012, we have not provided deferred income taxes on the undistributed earnings of our 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 with the exception of ZQ Interactive, LTD based in the British Virgin

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Income Taxes – (continued)

Islands. 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, 2012, we recognized an additional tax expense for unrecognized tax benefits of \$431,000. None of the amounts included in the balance of unrecognized tax benefits at January 31, 2012 of \$6.5 million are related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. We recognize 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 \$721,000 is as follows (in thousands):

| | Year ended January 31, | |
|---|------------------------|-----------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Balance of gross unrecognized tax benefits, beginning of period | \$7,283 | \$ 6,985 |
| Increases due to acquisitions | — | 1,200 |
| Gross amounts of increases in unrecognized tax benefits as a result of: | | |
| Gross amounts of increases in unrecognized tax benefits as a result of | | |
| tax positions taken in the current period | 431 | 404 |
| Decrease due to expiration of statute of limitation | (319) | (188) |
| Decrease due to settlement | (876) | (1,094) |
| Effect of currency translation. | (55) | (24) |
| Balance of gross unrecognized tax benefits, end of period | <u>\$6,464</u> | <u>\$ 7,283</u> |

We and our subsidiaries file income tax returns in U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. We are no longer subject to U.S. federal examinations before 2008. 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

We sponsor 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. We matched contributions up to 50% of the first 6% of compensation. During fiscal 2012, 2011 and 2010, we contributed \$1.2 million, \$1.3 million and \$1.4 million, respectively. We also contribute 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, we completed our acquisition of eventIS from a holding company in which Erwin van Dommelen held a 31.5% interest. Subsequent to the acquisition Mr. van Dommelen was appointed President of SeaChange’s Software segment in March 2010. On closing the transaction, we made cash payments to the holding company totaling \$37.0 million and issued \$1.1 million of restricted shares. We have made and are obligated to make additional fixed and variable earnout payments to the holding company of deferred purchase price under the eventIS share purchase agreement. See note 6 for payment details.

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Quarterly Results of Operations — Unaudited

The following table sets forth certain unaudited quarterly results of operations for fiscal 2012 and 2011. 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, 2010 | July 31, 2010 | October 31, 2010 | January 31, 2011 | April 30, 2011 | July 31, 2011 | October 31, 2011 | January 31, 2012 |
| Revenue | \$51,882 | \$45,587 | \$46,335 | \$57,883 | \$49,072 | \$46,158 | \$50,778 | \$51,697 |
| Gross profit. | 26,550 | 22,448 | 22,285 | 31,572 | 23,542 | 23,023 | 25,137 | 26,310 |
| Operating expenses | 30,095 | 22,700 | 24,694 | 22,902 | 23,833 | 22,283 | 24,598 | 26,264 |
| Net income (loss) from continuing operations | 21,395 | 3,194 | (4,163) | 11,214 | 255 | 846 | 1,179 | (3,564) |
| Net (loss) income from discontinued operations | (1,122) | 314 | (1,128) | (236) | (639) | (59) | (771) | (1,261) |
| Net income (loss). | 20,273 | 3,508 | (5,291) | 10,978 | (384) | 787 | 408 | (4,825) |
| Earnings per share from continuing operations: | | | | | | | | |
| Basic (loss) income per share . . | 0.68 | 0.10 | (0.13) | 0.36 | 0.01 | 0.03 | 0.04 | (0.11) |
| Diluted (loss) income per share. | 0.67 | 0.10 | (0.13) | 0.36 | 0.01 | 0.03 | 0.04 | (0.11) |
| Loss per share from discontinued operations: | | | | | | | | |
| Basic loss per share | (0.04) | 0.01 | (0.04) | (0.01) | (0.02) | (0.00) | (0.02) | (0.04) |
| Diluted loss per share | (0.04) | 0.01 | (0.04) | (0.01) | (0.02) | (0.00) | (0.02) | (0.04) |
| Earnings per share: | | | | | | | | |
| Basic income (loss) per share . . | 0.65 | 0.11 | (0.17) | 0.35 | (0.01) | 0.02 | 0.01 | (0.15) |
| Diluted income (loss) per share. | 0.64 | 0.11 | (0.17) | 0.34 | (0.01) | 0.02 | 0.01 | (0.15) |

SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Events

During the fourth quarter of fiscal 2012, we initiated the sale of the broadcast servers and storage business unit. On March 21, 2012, we entered into an asset sale agreement to sell a portion of our broadcast servers and storage business unit to a company located in China. As such we have reflected the results of the associated sale as discontinued operations in our financial statements.

The following table details selected financial information for the former Servers and Storage business unit:

| | Fiscal Year ended January 31, | | |
|---|-------------------------------|-----------------|-----------------|
| | 2012 | 2011 | 2010 |
| | (in thousands) | | |
| Revenues: | | | |
| Products | \$ 6,159 | \$ 9,524 | \$ 4,936 |
| Services | 5,720 | 5,516 | 6,789 |
| Total revenues. | <u>\$11,879</u> | <u>\$15,040</u> | <u>\$11,725</u> |
| Loss from discontinued operations | | | |
| Loss from discontinued operations, before tax | \$ 2,630 | \$ 2,072 | \$ 5,690 |
| Income tax expense | (100) | (100) | (100) |
| Loss from discontinued operations, after tax. | <u>\$ 2,730</u> | <u>\$ 2,172</u> | <u>\$ 5,790</u> |

The major classes of assets and liabilities related to discontinued operations are as follows:

| | January 31, 2012 | January 31, 2011 |
|---|---------------------|---------------------|
| | (in thousands) | |
| Assets | | |
| Current assets: | | |
| Inventories, net | \$2,940 | \$3,352 |
| Prepaid expenses and other current assets | 170 | 192 |
| Current assets related to discontinued operations | <u>3,110</u> | <u>3,544</u> |
| Non current assets: | | |
| Goodwill | 594 | 594 |
| Other assets. | 108 | 108 |
| Property and equipment, net | 1,597 | 1,523 |
| Non-current assets related to discontinued operations | <u>\$2,299</u> | <u>\$2,225</u> |
| Liabilities | | |
| Deferred revenues | \$2,779 | \$3,226 |
| Current liabilities related to discontinued operations. | <u>\$2,779</u> | <u>\$3,226</u> |

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. Raghu Rau, our Chief Executive Officer, and Michael D. Bornak, our Chief Financial Officer, participated in this evaluation. Based upon that evaluation, Messrs. Rau and Bornak 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, 2012. 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, 2012, 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, 2012 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, 2012, 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, 2012, 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, 2012 and 2011, 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, 2012 and our report dated April 5, 2012 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Boston, Massachusetts
April 5, 2012

(C) Changes in Internal Control over Financial Reporting

As a result of the evaluation completed by management, and in which Messrs. Rau and Bornak participated, we have concluded that there were no changes during the fiscal quarter ended January 31, 2012 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 our directors is hereby incorporated by reference from the information contained under the heading “Election of Directors” in our definitive proxy statement related to our Annual Meeting of Stockholders to be held on or about July 18, 2012 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 our existing equity compensation plans as of January 31, 2012, including the 2011 Equity Compensation and Incentive 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⁾ | 2,846,736 | \$11.83 | 1,860,179 ⁽²⁾ |

(1) Consists of the 2011 Equity Compensation and Incentive Plan, the Amended and Restated 2005 Equity Compensation and Incentive Plan.

(2) As of January 31, 2012, there were 1,860,179 shares remaining available for issuance under the 2011 Equity Compensation and Incentive Plan.

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

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

The following Consolidated Financial Statements of the Registrant are included in Item 8 filed as part of this Annual Report on Form 10-K:

| | <u>Page</u> |
|---|-------------|
| Report of Independent Registered Public Accounting Firm. | 47 |
| Consolidated Balance Sheet as of January 31, 2011 and 2010. | 48 |
| Consolidated Statement of Operations for the years ended January 31, 2011, 2010 and 2009 | 49 |
| Consolidated Statement of Stockholders' Equity and Comprehensive Income (Loss) for the years ended January 31, 2011, 2010 and 2009 | 50 |
| Consolidated Statement of Cash Flows for the years ended January 31, 2011, 2010 and 2009 | 51 |
| Notes to Consolidated Financial Statements. | 52 |

(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. | 91 |

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

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

Schedule II
SEACHANGE INTERNATIONAL, INC.
VALUATION OF QUALIFYING ACCOUNTS AND RESERVES

Years ended January 31, 2012, 2011 and 2010

| | <u>Balance at beginning of period</u> | <u>Charged to costs and expenses</u> | <u>Deductions and write-offs</u> (in thousands) | <u>Other Adjustments</u> | <u>Balance at end of period</u> |
|---|---|--|--|------------------------------|-------------------------------------|
| Accounts Receivable Allowance: | | | | | |
| Year ended January 31, 2012 | \$995 | \$100 | \$(123) | \$ — | \$972 |
| Year ended January 31, 2011 | \$852 | \$147 | \$ (4) | \$ — | \$995 |
| Year ended January 31, 2010 | 853 | 75 | (76) | — | 852 |
| | <u>Balance at beginning of period</u> | <u>Additions</u> | <u>Deletions</u> (in thousands) | <u>Adjustments</u> | <u>Balance at end of period</u> |
| Deferred Tax Assets Valuation Allowance: | | | | | |
| Year ended January 31, 2012 | \$ 6,985 | \$5,269 | | \$ — | \$12,254 |
| Year ended January 31, 2011 | \$14,903 | \$ — | \$(7,918) | \$ — | \$ 6,985 |
| Year ended January 31, 2010 | 15,692 | — | (789) | — | 14,903 |

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 3, 2012

SEACHANGE INTERNATIONAL, INC.

By: /s/ Raghu Rau

Raghu Rau
Chief Executive Officer and Director

POWER OF ATTORNEY AND SIGNATURES

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Raghu Rau and Michael D. Bornak, 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 |
|---|--|---------------|
| /s/ RAGHU RAU Raghu Rau | Chief Executive Officer, Director (Principal Executive Officer) | April 5, 2012 |
| /s/ MICHAEL D. BORNAK Michael D. Bornak | Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary (Principal Financial and Accounting Officer) | April 5, 2012 |
| /s/ MARY PALERMO COTTON Mary Palermo Cotton | Director | April 5, 2012 |
| /s/ THOMAS F. OLSON Thomas F. Olson | Director | April 5, 2012 |
| /s/ CARLO SALVATORI Carlo Salvatori | Director | April 5, 2012 |
| /s/ CARMINE VONA Carmine Vona | Director | April 5, 2012 |
| /s/ PETER FELD Peter Feld | Director | April 5, 2012 |
| /s/ EDWARD TERINO Edward Terino | Director | April 5, 2012 |

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| 2.1 | 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). |
| 2.2 | 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 | 2011 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). |
| 10.2 | Form of Restricted Stock Unit Agreement pursuant to the Company's 2011 Compensation and Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed July 20, 2011 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.3 | 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 31, 2011 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.4 | 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). |
| 10.5 | 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). |

| Exhibit No. | Description |
|-------------|--|
| 10.6 | 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). |
| 10.7 | 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). |
| 10.8 | 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). |
| 10.9 | 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). |
| 10.10 | 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). |
| 10.11 | 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). |
| 10.12 | 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). |
| 10.13 | 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). |
| 10.14 | 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). |
| 10.15 | 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). |
| 10.16 | 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). |

| Exhibit No. | Description |
|-------------|--|
| 10.17 | 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). |
| 10.18 | 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). |
| 10.19 | 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). |
| 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 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). |
| 10.22 | 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). |
| 10.23 | 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). |
| 10.24 | 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). |
| 10.25 | Separation Agreement and Release of Claims, dated as of November 30, 2011, 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 November 30, 2011 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.26 | Change-In-Control Severance Agreement, dated as of January 23, 2012, by and between SeaChange International, Inc. and Michael Bornak (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed on January 20, 2012 with the Commission (File No. 000-21393) and incorporated herein by reference). |
| 10.27 | Separation Agreement and Release of Claims, dated as of February 23, 2012, by and between SeaChange International, Inc. and Yvette Kanouff (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed on February 23, 2012 with the Commission (File No. 000-21393) and incorporated herein by reference). |

| Exhibit No. | Description |
|-------------|---|
| 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. |
| 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. |
| 101.INS** | XBRL Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase |

* Provided herewith.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

**SEACHANGE INTERNATIONAL, INC.
SUBSIDIARIES OF THE REGISTRANT**

| Subsidiary Name | Subsidiary Jurisdiction |
|--|--------------------------------|
| 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 |

* Subsidiaries included in the divestiture of the broadcast servers and storage business unit

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated April 5, 2012, 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, 2012. 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, and 333-175707 with an effective date of July 21, 2011).

/s/ Grant Thornton LLP

Boston, Massachusetts

April 5, 2012

CERTIFICATION

I, Raghu Rau 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 5, 2012

By: /s/ Raghu Rau

Raghu Rau
Chief Executive Officer, Director
(Principal Executive Officer)

CERTIFICATION

I, Michael D. Bornak, 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 5, 2012

By: /s/ MICHAEL D. BORNAK

**Michael D. Bornak,
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, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “*Report*”), I, Raghu Rau, 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/ Raghu Rau

Raghu Rau
Chief Executive Officer and Director

April 5, 2012

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, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “*Report*”), I, Michael D. Bornak, 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/ MICHAEL D. BORNAK

Michael D. Bornak
Chief Financial Officer,
Senior Vice President,
Finance and Administration,
Treasurer and Secretary

April 5, 2012

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.

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Corporate Information

Board of Directors

Thomas F. Olson – Chairman of the Board
Mary Palermo Cotton
Peter Feld
Raghu Rau
Carlo Salvatori
Edward Terino
Carmine Vona

Executive Officers

Raghu Rau – Chief Executive Officer
Michael D. Bornak – Senior Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary
Steven M. Davi – Senior Vice President, Advanced Technologies and Chief Technology Officer
Ira Goldfarb – Executive Vice President, Worldwide Sales and Services
Erwin van Dommelen – President, SeaChange Software

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
Singapore

Development Offices

Acton, MA
Eindhoven, The Netherlands
Fort Washington, PA
Manila, Philippines
Milpitas, CA

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

Stock Trading Information

SeaChange International's common stock trades on the NASDAQ Stock Market under the symbol SEAC.

Transfer Agent and Registrar

Computershare Shareowner Services
480 Washington Boulevard
Jersey City, New Jersey 07310-1900
www.bnymellon.com/shareowner/equityaccess
Toll Free (Domestic): 800.288.9541
Foreign: 201.680.6578
TDD Foreign Shareholders: 201.680.6610
TDD for hearing impaired: 201.231.5469

Independent Accountants

Grant Thornton LLP
226 Causeway Street
6th Floor
Boston, MA 02114
Tel: 617.723.7900
Fax: 617.723.3640
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 18, 2012 at the Company's headquarters at 50 Nagog Park, Acton, MA.

