SEACHANGE INTERNATIONAL INC
Form 10-K
April 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	04-3197974
(State or other jurisdiction of incorporation or organization)	(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, $0.01 par value

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

None

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

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

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

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

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

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

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

If an emerging growth company, indicate by a check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, the aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price for the registrant's Common Stock on the NASDAQ Global Select Market on such date was $98,541,508. The number of shares of the registrant's Common Stock outstanding as of the close of business on April 12, 2018 was 35,614,396.

DOCUMENTS INCORPORATED BY REFERENCE:

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

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

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

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

The following discussion should be read in conjunction with Part II, Item 7., "Management Discussion and Analysis of Financial Condition and Results of Operations," and our financial statements and footnotes contained in this Form 10-K.

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PART I

ITEM 1. BUSINESS
GENERAL

SeaChange International, Inc., a Delaware corporation founded on July 9, 1993, is an industry leader in the delivery of multiscreen, advertising and premium over the top ("OTT") video management solutions headquartered in Acton, Massachusetts. Our products and services facilitate the aggregation, licensing, management and distribution of video and advertising content for cable television system operators, telecommunications companies, satellite operators and media companies. We sell our software products and services worldwide, primarily to television service providers including: cable television system operators, such as Liberty Global, plc. ("LGI"), Comcast Corporation ("Comcast"), Cox Communications, Inc. and Rogers Communications, Inc.; telecommunications companies, such as Verizon Communications, Inc., AT&T, Inc. and Frontier Communications Corporation; satellite operators such as Direct TV and Dish Network Corporation; and media companies such as Filmbank Media.

Our products and services are designed to empower video providers to create, manage and monetize the increasingly personalized, highly engaging experiences that viewers demand. Using our products and services, we believe customers can increase revenues by offering services such as video-on-demand ("VOD") programming on a variety of consumer devices, including televisions ("TVs"), mobile telephones ("smart phones"), personal computers ("PCs"), tablets and OTT streaming players. Our solutions enable service providers to offer other interactive television services that allow subscribers to receive personalized services and interact with their video devices, thereby enhancing their viewing experience. Our products also allow our customers to insert advertising into broadcast and VOD content.

SeaChange serves an exciting global marketplace where multiscreen viewing is increasing, consumer device options are evolving rapidly, and viewing habits are shifting. The primary driver of our business is enabling the delivery of video assets in the changing multiscreen television environment. Through strategic collaborations, we have expanded our capabilities, products and services to address the delivery of content to devices other than television set-top boxes, namely PCs, tablets, smart phones and OTT streaming players. We believe that our strategy of expanding into adjacent product lines will also position us to further support and maintain our existing service provider customer base. Providing our customers with more scalable software platforms enables them to further reduce their infrastructure costs, improve reliability and expand service offerings to their customers. Additionally, we believe we are well positioned to capitalize on new customers entering the multiscreen marketplace and increasingly serving adjacent markets, such as mobile and OTT. Our core technologies provide a foundation for products and services that can be deployed in next generation video delivery systems capable of increased levels of subscriber activity across multiple devices.

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

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

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

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

PRODUCTS AND SERVICES

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

Video Platform

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

SeaChange AssetFlow Content Management Solution. In today's multiscreen viewing environment, programming or advertisements are reproduced with numerous variants to serve the unique requirements of multiple network types, consumer devices and geographies. Metadata, such as poster, description and pricing, associated with the programming, is also managed by the platform. At the point of content ingest, our AssetFlow software is used to receive, manage and publish video content for viewing on televisions, tablets, PCs and other consumer devices. AssetFlow simplifies the increasingly complex tasks of movie and television program asset tracking, metadata management, and overall content workflow processing.

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

Advertising

SeaChange Infusion Advanced Advertising Platform. As more video content is served to multiple consumer devices, the ability to generate additional revenue by inserting advertising across multiple platforms becomes crucial to service providers seeking to offset content rights costs and reduce subscriber fees for viewing the content. Infusion enables service providers to maximize advertising revenue across multiscreen, broadcast, on-demand and OTT viewing and reach their audiences while viewers watch content across multiple devices.

User Experience

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

applications. Further, Nucleus leverages the industry Reference Design Kit, a technology standard that enables the video service provider community to use open technologies to more rapidly introduce and support service innovations.

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

Services

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

including remote monitoring and proactive system maintenance, to help our customers quickly and confidently establish new on-demand and multiscreen capabilities.

STRATEGY

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

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

RESEARCH AND DEVELOPMENT

We have focused and streamlined our research and development efforts in recent years. Our research and development costs were $23.2 million in fiscal 2018, $30.1 million in fiscal 2017 and $33.7 million in fiscal 2016. We believe that our success will depend on our ability to develop and timely introduce new integrated solutions and enhancements to our existing products that meet changing customer requirements in our current and future customer base as well as new markets. We have made substantial investments in developing and bringing to market our next generation products. Our current research and development activities are focused on developing multiscreen television platforms, content management solutions, additional user experience applications, advertising solutions and integrating the solutions we currently offer. Our direct sales and marketing groups closely monitor changes in customer needs, changes in the marketplace and emerging industry standards to help us focus our research and development efforts to address our customers' needs, such as increasing average revenue per subscriber, lowering operating and capital costs and reducing customer churn. Our significant research and development efforts are performed at our Acton, Massachusetts headquarters, in Warsaw, Poland and in Eindhoven, Netherlands.

During fiscal 2018, we continued the focus of our research and development efforts on the next generation software platforms, which are vital to our customers' success. We achieved this by further increasing our investment in our software products for multiscreen video platforms. As of January 31, 2018, we had a research and development staff of 104 full-time employees and 67 contract employees.

SELLING AND MARKETING

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

worldwide through a combination of a direct sales organization and sales representatives and partners. Working closely with customers to understand and define their needs enables us to obtain better information regarding market requirements, enhance our expertise in our customers' industries, and more effectively and precisely convey to customers how our solutions address their specific needs.

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

MANUFACTURING AND QUALITY CONTROL

Our manufacturing operation consists primarily of component and subassembly procurement, systems integration and final assembly, testing and quality control of the complete systems. As of January 31, 2018 we had a manufacturing staff of 4 employees, reflecting our transition to being a company that primarily provides software solutions.

OUR CUSTOMERS

We currently sell our products primarily to video service providers, such as cable system operators and telecommunications companies, as well as content providers. Our customer base is highly concentrated among a limited number of large service provider customers. A significant portion of our revenues in any given fiscal period have been derived from substantial orders placed by these large organizations. For the fiscal year ended January 31, 2018, LGI was the only customer that accounted for more than 10% of our total revenues.

We expect that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues in the near future, even as we intend to penetrate new markets and customers. As a result of this customer concentration, our business, financial condition and results of operations could be materially adversely affected by the failure of anticipated orders to materialize and by deferrals or cancellations of orders because of changes in customer requirements or new product announcements or introductions. In addition, the concentration of customers may cause variations in revenue, expenses and operating results on a quarterly basis due to seasonality of orders, the timing and relative size of orders received and accepted during a fiscal quarter, or the timing and size of orders for which revenue recognition criteria have been satisfied during a fiscal quarter.

We do not believe that our backlog at any time is meaningful as an indicator of our future level of revenue for any specific future period. Because of the requirements of some customers, orders may require substantive acceptance criteria prior to revenue being recognized, resulting in the related revenues not being recognized in the ensuing quarter. Therefore, there is no direct correlation between the backlog at the end of any quarter and our total revenue for the following quarter or other periods. If our sales growth increases or we experience business model changes, our backlog may become a meaningful indicator of revenue in the future.

COMPETITION

The markets in which we compete are characterized by intense competition, with many suppliers providing different types of products to different segments of the markets. In new markets for our products, we compete based on price, functionality and delivery capabilities. In markets in which we have an established presence, we compete principally based on 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 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 multiscreen video, we compete with various larger companies offering video platforms and applications such as Cisco Systems, Inc., Arris Group Inc., TiVo Corporation and Ericsson Inc., as well as in-house solutions built by the service provider. Increasingly, we are also seeing competition from integrated end-to-end solutions such as Comcast's X-1 platform and many OTT providers. We expect the competition in each of the markets in which we operate to intensify in the future with existing and new competitors with significant market presence and financial resources.

Many of our current and prospective competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources than we do. 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 strategic relationships to offer complete solutions. Therefore, our products may not be able to compete effectively with these products from these companies in the future.

PROPRIETARY RIGHTS

Our success and our ability to compete are dependent, in part, upon the proprietary rights of our intellectual property. We have currently been granted 24 patents worldwide. 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 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. Currently, we are not party to intellectual property litigation, but we may be a party to litigation in the future to enforce our intellectual property rights or because of an allegation that we infringe others' intellectual property.

EMPLOYEES

The table below represents the number of full-time employees that we employ in different geographic areas across the world for the periods shown. We also use part-time and many other temporary employees in the ordinary course of our business. We believe that our relations with our employees are good. None of our employees are represented by a collective bargaining agreement. Employees in certain foreign jurisdictions are represented by local works council as may be customary or required in those jurisdictions.

	January 31,		
Country	2018	2017	2016
United States	150	199	307
Philippines	—	132	171
Netherlands	49	83	116
Poland	57	31	—
Other international	30	51	66
Total employees by country	286	496	660

During fiscal 2017, we implemented costs-savings efforts related to the TLL, LLC ("Timeline Labs") business and the DCC Labs acquisition. We implemented an additional company-wide cost savings program beginning in the third quarter of fiscal 2017, which included a worldwide reduction in workforce, to help improve operations and optimize our cost structure with the goal of restoring SeaChange to profitability and positive cash flow. In total, these actions affected more than 180 employees in fiscal 2018 and approximately 170 employees in fiscal 2017. Reductions in workforce relating to this latest cost-savings efforts are completed.

ACQUISITIONS AND LOSS ON IMPAIRMENT OF TLL, LLC

DCC Labs

On May 5, 2016, we acquired a 100% share of DCC Labs in exchange for an aggregate of $2.7 million in newly issued shares of SeaChange common stock and $5.2 million in cash, net of cash acquired, resulting in a total net purchase price of $7.9 million. The acquisition of DCC Labs enables us to optimize the operations of our In-Home business, which develops home video gateway software including SeaChange's Nucleus and NitroX products. In addition, the acquisition brings market-ready products, including an optimized television software stack for Europe's

Digital Video Broadcasting community and an HTML5 framework for building additional user experience client applications across a variety of CPE devices, including Android TV STBs, tablets, mobile and computer devices.

We accounted for the acquisition of DCC Labs as a business combination, which requires us to record the assets acquired and liabilities assumed at fair value. The amount by which the purchase price exceeds the fair value of the net assets acquired was recorded as goodwill. We engaged an independent appraiser to assist management in assessing the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized as of the acquisition date. Assets acquired in the acquisition include receivables, prepaid expenses and property and equipment while liabilities assumed include accounts payable, other accrued expenses, deferred taxes and income taxes payable. The amounts recorded for these assets and liabilities are final based on information obtained about the facts and circumstances that existed as of the acquisition date.

Loss on Impairment of TLL, LLC

In January 2016, our Board of Directors authorized a restructuring plan to wind down the Timeline Labs operations, as previously reported in a Current Report on Form 8-K filed with the SEC on February 17, 2016. Based on the decision to enter into the restructuring plan and the plan’s impact on the projected future cash flows of the Timeline Labs operations, we determined that the

carrying amount of all long-term assets that resulted from the February 2015 acquisition had exceeded their fair value as of January 31, 2016. As a result, these long-term assets were deemed fully impaired and we recorded the $21.9 million net book value of these long-term assets as a component of loss on impairment of long-lived assets in our consolidated statements of operations and comprehensive income (loss) for the fiscal year ended January 31, 2016. Additionally, we reduced the contingent consideration liability associated with the Timeline Labs acquisition to zero, as we determined that the defined performance criteria would not be achieved, and credited the reversal of the liability of $0.4 million to loss on impairment of long-lived assets in our consolidated statements of operations and comprehensive income (loss) for the fiscal year ended January 31, 2016. In addition, we incurred $0.7 million in severance and other restructuring charges during fiscal 2017 related to cost-saving actions taken with respect to the Timeline Labs business.

EXECUTIVE OFFICERS

The following is a list of our executive officers, their ages as of April 12, 2018 and their positions held with us:

Name	Age	Title
Edward Terino	64	Chief Executive Officer and Director
Jonathan Rider	54	Chief Operating Officer, Senior Vice President
Peter Faubert	47	Chief Financial Officer, Senior Vice President, Finance and Administration and Treasurer
David McEvoy	60	Senior Vice President and General Counsel and Secretary

Mr. Terino became SeaChange’s Chief Executive Officer (“CEO”) effective April 6, 2016 having previously served as Chief Operating Officer (“COO”) since June 2015. He has served on the Company’s board of directors since 2010. Mr. Terino’s professional experience spans 30 years in senior management and operational roles for public companies including service as Senior Vice President (“SVP”) and Chief Financial Officer (“CFO”) of Art Technology Group, Inc. from September 2001 to June 2005, CEO and CFO of Arlington Tankers Ltd. from July 2005 to December 2008, and Vice President (“VP”) of Finance and Operations at Houghton Mifflin Harcourt from 1985 to 1996. He has served on the board of directors for software and technology companies including Extreme Networks, Inc. from October 2012 to November 2013, S1 Corporation from April 2007 to February 2012, Phoenix Technologies Ltd. from November 2009 to November 2010, and EBT International, Inc. from October 1999 to March 2006. He also served on the board of directors of Baltic Shipping Ltd. from March 2010 to July 2015.

Mr. Rider joined the Company on April 19, 2016 as Chief Information Officer (“CIO”). He became COO and Senior Vice President on January 31, 2017. He brings over 30 years of senior management experience in the high technology sector. Prior to joining SeaChange, Mr. Rider was CIO of Dynatrace from August 2014 to February 2016; Senior Vice President, Technology and Engineering of Arcadia Solutions from September 2013 to August 2014; and Principal and CIO of JetStream Consulting LLC from June 2006 to January 2014. Mr. Rider held various senior positions with PTC, Gilbane Building Company, Monster Worldwide, Netscout Systems and Helidesigns. Mr. Rider served as a U.S. Army Officer and helicopter instructor. He has a bachelor of science degree in aeronautics, engineering/aviation and a master’s degree in e-business from the University of Phoenix.

Mr. Faubert joined the Company on July 7, 2016 as CFO, SVP and Treasurer. He brings over 15 years of extensive finance leadership for public and private software companies that focused on video service providers, mobility and enterprise computing. Prior to joining the Company, Mr. Faubert served as CFO of This Technology, Inc. since December 2013. Prior to that, Mr. Faubert served as CFO and Treasurer of Vision Government Solutions, Inc. from October 2012 to December 2013. He has also served as CFO of JNJ Mobile (MocoSpace) from February 2009 to July

2012 and CFO and Treasurer at Turbine, Inc. from August 2005 to January 2009. Prior to that Mr. Faubert held various senior finance positions with Viisage Technology Inc., Burntsand Inc. and Ariba Inc. Mr. Faubert is also a Certified Public Accountant.

Mr. McEvoy joined the Company on July 1, 2012 as VP and General Counsel. He became SVP and General Counsel on February 1, 2013. Prior to joining SeaChange, Mr. McEvoy was the SVP and General Counsel of Peoplefluent Inc. Mr. McEvoy was the SVP and General Counsel of Art Technology Group, Inc. ("ATG") from September 2005 to March 2010. ATG was acquired by Oracle on January 5, 2011. Prior to joining ATG, Mr. McEvoy was the Group General Counsel of Gores Technology Group, a private equity firm. Mr. McEvoy has held various General Counsel and other executive level legal positions with several companies including Aprisma Inc., Anker Systems Ltd., VeriFone Inc., Mattel Interactive, Broderbund and The Learning Company.

GEOGRAPHIC INFORMATION

Geographic information is included in Part II, Item 7 of this Form 10-K under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations" and in Note 11, "Segment Information, Significant Customers and Geographic Information," to the consolidated financial statements located in Part II, Item 8, of this Form 10-K.

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 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 our Code of Ethics and Business Conduct and charters for our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, is available on the Investor Relations section of our website at www.schange.com. We make available free of charge on our website our Form 10-K, Quarterly Reports on Form 10-Q ("Form 10-Q"), Current Reports on Form 8-K ("Form 8-K") and amendments to those reports 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 Form 10-K. Our website 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 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 solutions and services. A reduction in spending by customers would adversely affect our business.

Our performance is dependent on customers' continued spending for video solutions 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 solutions and services;
- acceptance 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 efforts to introduce SaaS-based multiscreen service offerings may either not succeed or impair the sale of our on-site licensed offerings, the occurrence of either of which may adversely affect our financial condition and operating results.

We have been, and will continue to, devote considerable resources and allocate capital expenditures to growing our SaaS service offering revenue over the next several years. There can be no assurance that we will meet our revenue targets for this service and if we fail to achieve our revenue goals, our growth and operating results will be materially adversely affected. Additionally, new or existing customers may choose to purchase our SaaS services rather than our on-premise solutions. If our customers' purchases trend away from perpetual licenses toward our SaaS, or to the extent customers defer orders due to evaluation of SaaS, our product revenues, and our timing of revenue generally, may be adversely affected, which could adversely affect our results of operations and financial condition.

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 acceptance, or require design modifications that could adversely affect our competitive position. Our inability to complete the development of 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 in future periods.

Our future success is dependent on the manner in which the multiscreen video and OTT markets develop, and if these markets develop in a manner that does not facilitate inclusion of our products and services, our business may not continue to grow.

A large portion of our anticipated revenue growth is expected to come from sales and services related to our multiscreen video and OTT products. These markets continue to develop as commercial markets, both within and outside North America. In addition to the potential size of these markets and the timing of their development being uncertain, so too is the technological manner in which they will develop. The success of these markets will require that video service providers continue to upgrade their cable networks to service and successfully market multiscreen video, OTT and similar services to their cable television subscribers in a manner that permits inclusion of our products and 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 multiscreen video and OTT services is not viable as a business proposition or if our products cannot support a substantial number of subscribers while maintaining a high level of performance, our revenues will not grow as we have planned.

We may be unsuccessful in our efforts to become a company that primarily provides software solutions.

Our efforts to become a company that primarily provides software solutions may result in a reduction in both 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.

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

We currently compete against companies offering video software solutions and have increasingly seen competition from integrated end-to-end solutions such as Comcast's X-1 platform and a large number of OTT players. To the extent the products developed are competitive with and not complementary to our products, they may be more cost-effective than our solutions, which could result in cable television 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, such as in-house solutions and online video platforms, 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. They may be in better position to withstand any significant reduction in capital spending by customers in our markets and may not be as susceptible to downturns in a particular market. Moreover, our competitors may also foresee the course of market developments more accurately than we do. 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 multiscreen 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 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 such as the OTT market. In the future, we may not be successful in enhancing our video products or developing 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.

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, including due to the impact of worldwide economic cycles, 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 by outsourcing and off-shoring, implementing cost reduction programs and reducing and rationalizing planned capital expenditures and expense budgets. We cannot ensure that the measures we have taken will not impair our ability to effectively develop and market products and services, to remain competitive in the industries in which we compete, to operate effectively, to operate profitably during slowdowns or to effectively meet a rapid increase in customer demand. These measures may have long-term negative effects on our business by reducing our pool of technical talent, decreasing or slowing improvements in our products and services, making it more difficult to hire and retain talented individuals and to quickly respond to customers or competitors in an upward cycle.

Because our customer base is highly concentrated among a limited number of large customers, the loss of or reduced demand by, the return of product by one or more of these customers or the failure of revenue acceptance criteria to have been satisfied in a given fiscal quarter, 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, return of a product previously purchased by any of our major customers or the failure of revenue acceptance criteria to have been satisfied in a given fiscal quarter, could materially and adversely affect, either in a particular quarter or on a more long-term basis, our business, financial condition and results of operations.

Consolidations in the markets we serve could result in delays or reductions in purchases of products, which would have a material adverse effect on our business.

The markets we serve have historically experienced, and continue to experience, the consolidation of many industry participants. For example, AT&T acquired Direct TV, Charter Communications acquired Time Warner Cable, Altice NV acquired HOT, Suddenlink

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Communications and Cablevision Systems Corp., and Verizon Communications Inc. announced that it is selling assets to Frontier Communications Corporation. When consolidations occur, it is possible that the acquirer will not continue using the same suppliers, possibly resulting in an immediate or future elimination of sales opportunities for us or our competitors. Even if sales are not reduced, consolidation can also result in pressure from customers for lower prices or better terms, reflecting the increase in the total volume of products purchased or the elimination of a price differential between the acquiring customer and the company acquired. Consolidations also could result in delays in purchasing decisions by the affected companies prior to completion of the transaction and by the merged businesses. The purchasing decisions of the merged companies could have a material adverse effect on our business.

Cancellation or deferral of purchases of our products or final customer acceptance, 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 one million dollars in value. Therefore, any significant cancellation or deferral of purchases of our products or receiving final customer acceptance 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 guidance that we may issue or the expectations of public market analysts and investors, either of 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.

Our software products and related services are relatively complex and their purchase generally involves 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 software 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 and services, our revenues and operating results would be materially affected.

A decline in demand or average selling prices for our products or services in the foreseeable future, 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. Increasingly, we are seeing competition from integrated end-to-end solutions such as Comcast's X-1 platform and a large number of OTT players, each of which may reduce the demand for or average selling prices of our products and services and adversely affect our business, financial condition and results of operations.

We must manage product transitions successfully to remain competitive.

The introduction of a new product or product line is a complex task, involving significant expenditures in research and development, training, promotion and sales channel development. However, we cannot assure that we will be able to execute product transitions in an efficient manner or that product transitions will be executed without harming our operating results. Failure to develop products with required features and performance levels or any delay in bringing a new product to market could significantly reduce our revenues and harm our competitive position.

We may fail to achieve our financial forecasts due to inaccurate sales forecasts or other factors.

Our revenues are difficult to forecast, and as a result, our quarterly operating results can fluctuate substantially. We use a “pipeline” system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all proposals and estimate when a customer will make a purchase decision and the dollar amount of the sale. These estimates are aggregated periodically to generate a sales pipeline. Our pipeline estimates can prove to be unreliable both in a particular quarter and over a longer period of time, in part because the “conversion rate” or “closure rate” of the pipeline into contracts can be very difficult

to estimate. A reduction in the conversion rate, or in the pipeline itself, could cause us to plan or budget incorrectly and adversely affect our business or results of operations. In particular, a slowdown in capital spending or economic conditions generally can unexpectedly reduce the conversion rate in particular periods as purchasing decisions are delayed, reduced in amounts or cancelled. The conversion rate can also be affected by the tendency of some of our customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms, which can also impede our ability to negotiate, execute and deliver upon these contracts in a timely manner.

Because a significant portion of our cost structure is largely fixed in the short-term, revenue shortfalls tend to have a disproportionately negative impact on our profitability. The number of large new software licenses transactions increases the risk of fluctuations in our quarterly results because a delay in even a small number of these transactions could cause our quarterly revenues and profitability to fall significantly short of our predictions.

Restructuring programs could have a material negative impact on our business.

To increase strategic focus and operational efficiency we have implemented restructuring programs. In fiscal 2017, we undertook significant cost-saving actions related to DCC Labs and in the second half of fiscal 2017 with a reduction in workforce. We may incur additional restructuring costs or not realize the expected benefits of these new initiatives. Further, we could experience delays, business disruptions, decreased productivity, unanticipated employee turnover and increased litigation-related costs in connection with past and future restructuring and other efficiency improvement activities, and there can be no assurance that our estimates of the savings achievable by restructuring will be realized. As a result, our restructuring and our related cost reduction activities could have an adverse impact on our financial condition or results of operations.

If we are unable to manage our efforts to focus our business and grow in targeted areas, 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 focus our business and grow in targeted areas requires effective planning and management. We are also continuing to transition towards greater reliance on our software products and services for a significant portion of our total revenue. 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, integrate new personnel and the businesses we have acquired, or will acquire, and 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.

Approximately 65% of our total revenue is generated from sales outside the United States. Our international operations are expected to continue to account for a significant portion of our business in the foreseeable 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;
- difficulty in staffing and managing foreign operations;
- inability to collect accounts receivable;
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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;
- fluctuations in currency exchange rates;
- 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;

- business and operational disruptions or delays caused by political, social and economic instability and unrest, including risks related to terrorist activity;
- changes in economic policies by foreign governments, including the imposition and potential continued expansion of economic sanctions by the United States and the European Union on the Russian Federation;
- the burden of complying with a wide variety of foreign laws, treaties and technical standards;
- cultural differences in the conduct of business;
- natural disasters and pandemics; and
- growth and stability of the economy or political changes in international markets.

The impact of one or more of these international risks could have a material and adverse effect on our business, financial condition, operating results and cash flow.

We are subject to the Foreign Corrupt Practices Act ("FCPA"), and our failure to comply could result in penalties that could harm our reputation, business, and financial condition.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials to obtain or keep business. The FCPA also requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the Company. Under the FCPA, U.S. companies may be held liable for actions taken by their strategic or local partners or representatives. The FCPA and similar laws in other countries can impose civil and criminal penalties for violations.

If we do not properly implement practices and controls with respect to compliance with the FCPA and similar laws, or if we fail to enforce those practices and controls properly, we may be subject to regulatory sanctions, including administrative costs related to governmental and internal investigations, civil and criminal penalties, injunctions and restrictions on our business activities, all of which could harm our reputation, business and financial condition.

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

Because a significant 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 U.S. 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 U.S. dollar using either the spot rate or the weighted-average exchange rate. If the U.S. dollar weakens or strengthens 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 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 may be a party to litigation in the future to enforce our intellectual property rights or because 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 limit the scope of content licensed for use in the digital VOD and OTT 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 multiscreen video market is contingent on content providers 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 their subscribers. A limitation of content for the VOD and OTT market would indirectly limit the market for our products that are used in connection with that market.

If we are not able to obtain necessary licenses, services 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 or obtain services from third-parties to develop new products or product enhancements or to provide specific solutions. Third-party providers 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 products required in our current products or to obtain any new third-party licenses and services 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 inabilities could delay or prevent us from making these products or services, which could seriously harm the competitiveness of our solutions.

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 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.

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We may not fully realize the benefits of our completed acquisitions or it may take longer than we anticipate for us to achieve those benefits. 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 could create risks for us, including:

- difficulties in assimilation of acquired personnel, operations, technologies or products that 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;
- delays in realizing, or failure to realize, the anticipated benefits of an acquisition. Even if we can integrate these businesses and operations successfully, we may not realize the full benefits we expect to achieve, within the anticipated timeframe, or at all. If a company we purchase does not perform as we expected, our investment could become impaired or we could discontinue the operations and our financial results could be negatively impacted, such as the Timeline Labs acquisition on February 2, 2015, for which we subsequently impaired substantially all acquired assets and certain liabilities as of January 2016;
- adverse effects on the business relationships with pre-existing suppliers and customers of both companies. This may be important 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
- uncertainty among current and prospective employees regarding their future roles with our company, which might adversely affect our ability to retain, recruit and motivate key personnel.

Acquisitions or divestitures may adversely affect our financial condition.

We could acquire additional products, technologies or businesses, or enter joint venture arrangements, to complement or expand our business. 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 collaborations, 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;
- potential disruption of our business and the diversion of management’s attention from our core business during the acquisition process;
- inability to make planned divestitures of businesses on favorable terms in a timely manner or at all;
- acquired assets becoming impaired because of technical advancements or worse-than-expected performance by the acquired company, which was the basis for the impairment charge of $21.5 million taken in January 2016 related to the assets acquired in the February 2015 Timeline Labs acquisition; and
- entering markets in which we have no, or limited, prior experience.

Additionally, in connection with any acquisitions or investments we could:

- issue stock that would dilute our existing stockholders’ ownership percentages;
- incur debt and assume liabilities;

- record contingent liabilities estimated for potential earnouts based on achieving financial targets;
- obtain financing on unfavorable terms;
- incur amortization expenses related to acquired intangible assets or incur large and immediate write-offs;

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- 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.

We face the risk that capital needed for our business will not be available when we need it or that it would result in substantial dilution to our stockholders.

To the extent that our existing cash and cash equivalents are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financings. If unfavorable capital market conditions exist and we were to seek additional funding, we may not be able to raise sufficient capital on favorable terms and on a timely basis, if at all. Failure to obtain capital when required by our business circumstances would have a material adverse effect on our business, financial condition and results of operations. In addition, our stockholders may incur substantial dilution from any financing that we undertake given our current stock price.

We may not have access in the future to sufficient funding to finance desired growth and operations.

If we cannot secure future funds or financing on acceptable terms, we may be unable to support our future operations or growth strategy. We use cash for strategic collaborations and other investments, both of which are elements of our growth strategy, and the timing and size of our collaboration or investment efforts cannot be readily predicted. If we experience deficits in our cash flows from operating activities in the future or we are unable to obtain new financing, there could be limitations on the availability of funds resulting in limitations in our financial flexibility, thereby inhibiting our future operations or growth strategy and that may result in our need to seek capital through additional debt financing arrangements, debt offerings, or equity offerings, which either may not be available to us or may not be available to us on favorable terms, including resulting in significant dilution of our stockholders.

The performance of the companies in which we have made and may in the future make equity investments could have a material adverse effect on our financial condition and results of operations.

We have made non-controlling equity investments in complementary companies in the past and we may make additional investments in the future. 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.

If our indefinite-lived or other intangible assets become impaired, we may be required to record a significant charge to earnings.

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 materially 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 indefinite-lived assets or other intangible assets is determined, such as the $23.5 million impairment charge we recorded in fiscal 2017 to our consolidated statements of operations and comprehensive income (loss) as a result of our annual testing of our goodwill.

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, government debt securities and corporate bonds. 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, like that which has occurred in the United States, and the timing and magnitude of this growth, which is uncertain. Video service providers are subject to extensive government regulation by the Federal Communications Commission and other federal, state and international regulatory agencies. These regulations could have the effect of limiting capital expenditures by video service providers 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, which could affect our ability to compete effectively because our business is technology-based.

Our success depends to a significant degree upon the continued contributions of our key personnel, many of whom would be difficult to replace. We believe that our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, customer service, selling and marketing, finance, administrative and manufacturing personnel, as our business is technology-based. Because competition for these personnel is intense, we may not be able to attract and retain qualified personnel in the future. The loss of the services of any of the key personnel, the 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 face significant risks to our business when we engage in the outsourcing of engineering work, including outsourcing of software work overseas, which, if not properly managed, could result in the loss of valuable intellectual property and increased costs due to inefficient and poor work product, which could harm our business, including our financial results, reputation, and brand.

We may, from time-to-time, outsource engineering work related to the design and development of our products, typically to save money and gain access to additional engineering resources. We have worked, and expect to work in the future, with companies located in jurisdictions outside of the United States, including, but not limited to Poland and the Netherlands. We have limited experience in the outsourcing of engineering and other work to third-parties located internationally that operate under different laws and regulations than those in the United States. If we are unable to properly manage and oversee the outsourcing of this engineering and other work related to our products, we could suffer the loss of valuable intellectual property, or the loss of the ability to claim such intellectual property, including patents and trade names. Additionally, instead of saving money, we could in fact incur significant additional costs because of inefficient engineering services and poor work product. As a result, our business would be harmed, including our financial results, reputation, and brand.

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.

Our foreign subsidiaries generate earnings that are not subject to U.S. income taxes so long as they are permanently reinvested in our operations outside the United States. Pursuant to Accounting Standard Codification Topic No. (“ASC”) 740-30, “Income Taxes-Other Considerations or Special Areas,” undistributed earnings of foreign subsidiaries that are no longer permanently reinvested would

become subject to deferred income taxes under U.S. tax law. Prior to the second quarter of fiscal 2017, we asserted that the undistributed earnings of all our foreign subsidiaries were permanently reinvested.

In the second quarter of fiscal 2017, following a review of our operations, liquidity and funding, and investment in our product roadmap, we determined that the ability to access certain amounts of foreign earnings would provide greater flexibility to meet the Company's working capital needs. Accordingly, in the second quarter of fiscal 2017, we recognized a deferred tax liability of $14.7 million on $58.6 million of undistributed earnings generated by our Irish operations through July 2016. In the fourth quarter of fiscal 2018, we completed a restructuring of our foreign operations, wherein we centralized our European operations for greater efficiency and cost savings in the Netherlands. As part of that process the residence of SEAC Ireland was moved to the Netherlands. In connection with the restructuring and change in tax status, we also obtained a step-up in tax basis of certain of our foreign subsidiaries. As a result, we re-measured the deferred tax liability in connection with the outside basis differences of our foreign subsidiaries and recorded a $14.7 million deferred tax benefit in connection to the reduction of the previously recorded deferred tax liability.

We may need to adjust estimates resulting from the U.S. Tax Cuts and Jobs Act of 2017.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act ("Tax Reform Act") was signed into law. The Tax Reform Act has resulted in significant changes to the U.S. corporate income tax system that affected our fiscal year ended January 31, 2018. These changes include, but are not limited to, a federal statutory rate reduction from 35% to 21%, the elimination or reduction of certain domestic deductions and credits and limitations on the deductibility of interest expense and executive compensation. The Tax Reform Act also transitions international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which has the effect of subjecting certain earnings of our foreign subsidiaries to U.S. taxation as global intangible low-taxed income ("GILTI"). These changes were effective January 1, 2018.

The Tax Reform Act also includes a one-time mandatory deemed repatriation tax on accumulated foreign subsidiaries' previously untaxed foreign earnings ("Transition Tax"). The Transition Tax may be paid over an eight-year period and will not accrue interest.

We have made a preliminary estimate of the Transition Tax and the re-measurement of our deferred tax assets and liabilities as of January 31, 2018. See Part II. Item 8, Note 12. "Income Taxes," of this Form 10-K for additional information. The preliminary estimate is subject to change as we finalize our analysis and as interpretations of the provisions of the Tax Reform Act continue to develop. The final determination of the Transition Tax and the re-measurement of our deferred tax assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the Tax Reform Act. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the Tax Reform Act may require further adjustments and changes in our estimates, which could have a material adverse effect on our business, results of operations or financial conditions.

If our security measures are breached and unauthorized access is obtained to a customer's data or our data on our systems, our service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the transmission of customers' proprietary information and security breaches could expose us to a risk of loss of this information or a network disruption, which may result in litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in 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. Additionally, third-parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information to gain access to our customers' data or our data or IT systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third-party technology providers to access their customer data. Because we do not control our customers and third-party technology providers, or the processing of such data by third-party technology providers, we cannot ensure the integrity or security of such transmissions or processing. Malicious third-parties may also conduct attacks designed to temporarily deny customers access to our services. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, negatively impact our future sales, disrupt our business and lead to legal liability. While we believe that we have taken appropriate security measures to minimize these risks to our data and information systems, there can be no assurance that our efforts will prevent breakdowns or breaches in our systems that could adversely affect our business.

Recently reported hacking attacks on government and commercial computer systems raise the risks that such an attack may compromise, in a material respect, one or more of our computer systems and permit hackers access to our proprietary information and data. If such an attack does, in fact, allow access to or theft of our proprietary information or data, our business, operating results and reputation could be materially and adversely affected.

Interruptions or delays in service from our third-party data center hosting facilities could impair the delivery of our service and harm our business.

For our customers buying our SaaS product offering, we use third-party data center hosting facilities located in the United States and the United Kingdom. Any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our attrition rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable. We do not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

A disruption to our information technology systems could significantly impact our operations and impact our revenue and profitability.

Our data processing and financial reporting systems are cloud-based and hosted by a third-party. An interruption to the third-party systems or in the infrastructure that allows us to connect to the third-party systems for an extended period may impact our ability to operate the business and process transactions which could result in a decline in sales and affect our ability to achieve or maintain profitability. It may also result in our inability to comply with SEC regulations in a timely manner.

Uncertainties of regulation of the Internet and data traveling over the Internet could have a material and adverse impact on our financial condition and results of operations.

Currently, few laws or regulations apply directly to access to or commerce on the Internet. With more business being conducted over the Internet, there have been calls for more stringent copyright protection, tax, consumer protection, cybersecurity, data localization and content restriction laws, both in the United States and abroad. We could be materially, adversely affected by regulation of the Internet and Internet commerce in any country where we operate. Such regulations could include matters such as net neutrality. Further, governments may regulate or restrict the sales, licensing, distribution, and export or import of certain technologies to certain countries. The adoption of regulation of Internet and Internet commerce could decrease demand for our products and, at the same time, increase the cost of selling our products and services, which could have a material and adverse effect on our financial condition and results of operations. In addition, the enactment of new federal, state, or foreign data privacy laws and regulations could cause customers not to be able to take advantage of all the features or capabilities of our products and services, which in turn could reduce demand for certain of our products and services.

Our stock price may be volatile and an investment in our stock may decline.

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. The stock market in general, and The NASDAQ

Global Select Market ("NASDAQ") and technology companies 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 these circumstances, investors may be unable to sell their shares of our common stock at or above their purchase price over the short-term, or at all. 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.

Actions that may be taken by significant stockholders may divert the time and attention of our Board of Directors and management from our business operations.

Campaigns by significant investors to effect changes at publicly-traded companies continue to be prevalent. There can be no assurance that one or more current or future stockholders will not pursue actions to effect changes in our management and strategic direction, including through the solicitation of proxies from our stockholders. If a proxy contest were to be pursued by a stockholder, it could result in substantial expense to us, consume significant attention of our management and Board of Directors, and disrupt our business.

Securities analysts may not publish favorable research or reports about our business or may publish no information, which could cause our stock price or trading volume to decline.

The trading market for our common stock is influenced by the research and reports that industry or financial analysts publish about us and our business. We do not control these analysts. If any of the analysts who cover us issue an adverse opinion regarding our stock price, our business or stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports covering us, we could lose visibility in the market, which in turn could cause our stock price or trade volume to decline.

We utilize non-GAAP reporting in our quarterly earnings press releases.

We publish non-GAAP financial measures in our quarterly earnings press releases, along with a reconciliation of non-GAAP financial measures to those measures determined in accordance with U.S. GAAP. The reconciling items have adjusted U.S. GAAP net income (loss) and U.S. GAAP earnings (loss) per share for certain non-cash, non-operating or non-recurring items and are described in detail in each such quarterly earnings press release. We believe that this presentation may be more meaningful to investors in analyzing the results of operations and income generation as this is how our business is managed. The market price of our stock may fluctuate based on future non-GAAP results if investors base their investment decisions upon such non-GAAP financial measures. If we decide to curtail use of non-GAAP financial measures in our quarterly earnings press releases, the market price of our stock could be affected if investors analyze our performance in a different manner.

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

We prepare our consolidated financial statements in accordance with U.S. GAAP. These principles are subject to interpretations by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. The adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls.

For example, in May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance for revenue recognition which we have elected to adopt on February 1, 2018 using the modified retrospective method of adoption. The Company has substantially completed the implementation of this guidance and has identified the necessary changes to its policies, processes, systems, and controls. Based upon the work performed to date, the Company expects to record a cumulative-effect adjustment as of February 1, 2018 to increase retained earnings by an estimated range of approximately $1.7 million to $4.0 million. Such adjustment includes an increase in retained earnings of approximately $1 million to $3 million due to higher revenue that would have been recognized under the new guidance if it had been adopted for the fiscal year ended January 31, 2018 and an increase in retained earnings of $0.7 million to $1.0 million due to reduced commission expense that would have been recognized under ASC 606 if the standard had been adopted for the fiscal year ended January 31, 2018. The resulting tax effect of this cumulative-effect adjustment is not expected to be significant to retained earnings. We expect to fully disclose the impacts of the new standard in connection with our Form 10-Q for the first quarter of fiscal 2019.

Any weakness 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 express an opinion on the Company's internal controls over financial reporting based on their audit. As disclosed in this Form 10-K, we have remediated the material weaknesses in the design of certain of our internal controls reported in our Form 10-K for the fiscal year ended January 31, 2017, previously filed with the SEC on April 17, 2017. In future periods, we may identify additional deficiencies in our system of internal controls over financial reporting that may require remediation. The existence and identification of any such material weaknesses may have an adverse effect on our business.

We use estimates in accounting for our contracts. Changes in our estimates could adversely affect our future financial results.

Contract accounting requires judgment relative to assessing risks, estimating revenues and costs and making assumptions including, in the case of our professional services contracts, the total amount of labor required to complete a project and the complexity of the development and other technical work to be completed. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions must be made regarding the length of time to complete the contract because costs also include estimated third-party vendor and contract labor costs. Penalties related to

performance on contracts are considered in estimating sales and profit, and are recorded when there is sufficient information for us to assess anticipated performance. Third-party vendors' assertions are also assessed and considered in estimating costs and margin.

Because of the significance of the judgments and estimation processes described above, it is likely that materially different sales and profit amounts could be recorded if we used different assumptions or if the underlying circumstances were to change, such as occurred in fiscal 2016 when we recorded a $9.2 million provision for loss contract as a result of delays of customer acceptance relating to a fixed-price customer contract on a multi-year arrangement which included multiple vendors. Between fiscal 2017 and fiscal 2018, we recorded a $4.7 million reduction in that provision after amending our contract with the fixed-price customer, thus eliminating the second phase of the project and calculating a better estimate of the remaining costs to complete the project. Changes in underlying assumptions, circumstances or estimates may adversely affect future period financial performance.

Our ability to deliver products and services that satisfy customer requirements is heavily dependent on the performance of our third-party vendors.

We rely on other companies to provide products and to perform some of the services that we provide to our customers. If one or more of our third-party vendors experience delivery delays or other performance problems, we may be unable to meet commitments to our customers. In addition, if one or more of the products which we depend on becomes unavailable or is available only at very high prices, we may be unable to deliver one or more of our products in a timely fashion or at budgeted costs. In some instances, we depend upon a single source of supply. Any service disruption from one of these third-party vendors, either due to circumstances beyond the supplier's control or because of performance problems or financial difficulties, could have a material adverse effect on our ability to meet commitments to our customers or increase our operating costs.

We enter fixed-price contracts, which could subject us to losses if we have cost overruns.

While firm fixed-price contracts enable us to benefit from performance improvements, cost reductions and efficiencies, they also subject us to the risk of reduced margins or incurring losses if we are unable to achieve estimated costs and revenues. If our estimated costs exceed our estimated price, we will recognize a loss, which can significantly affect our reported results. The long-term nature of many of our contracts makes the process of estimating costs and revenues on fixed-price contracts inherently risky. Fixed-price development contracts are generally subject to more uncertainty than fixed-price production contracts. Many of these development programs have highly complex designs. If we fail to meet the terms specified in those contracts, our margin could be reduced. In addition, technical or quality issues that arise during development could lead to schedule delays and higher costs to complete, which could result in a material charge or otherwise adversely affect our financial condition.

Because we purchase certain components used in assembling some of our products from sole suppliers, our business, financial condition and results of operations could be materially adversely affected by a failure of these suppliers to provide these components.

We rely on a limited number of third-parties who provide certain components used in our products. We may experience quality control problems, where products did not meet specifications or were damaged in shipping, and delays in the receipt of these components. These risks could be heightened during a substantial economic slowdown or if a sole supplier were adversely affected by a natural disaster because our suppliers are more likely to experience adverse changes in their financial condition and operations during such a period. 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 a significant amount of time. In addition, these alternative components may not be functionally equivalent or may not be available 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. While to date there has been suitable component capacity readily available at acceptable quality levels, in the future there may not be suppliers that can 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 suppliers 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.

Terrorist acts, conflicts, wars and geopolitical uncertainties may seriously harm our business and revenue, costs and expenses and financial condition and stock price.

Terrorist acts, conflicts, wars (wherever located around the world) or geopolitical uncertainties may cause damage or disruption to our business, our employees, facilities, partners, suppliers, distributors, resellers or customers, or adversely affect our ability to manage logistics, operate our transportation and communication systems or conduct certain other critical business operations. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential conflicts or wars, have created many economic and political uncertainties. In addition, as a multinational company with headquarters

and significant operations located in the United States, actions against or by the United States may impact our business or employees. Although it is impossible to predict the occurrences or consequences of any such events, if they occur, they could result in a decrease in demand for our products, make it difficult or impossible to provide services or deliver products to our customers or to receive components from our suppliers, create delays and inefficiencies in our supply chain and result in the need to impose employee travel restrictions. We are predominately uninsured for losses and interruptions caused by terrorist acts, conflicts and wars.

As a Delaware corporation, we are subject to certain Delaware anti-takeover provisions.

As a Delaware corporation, we are subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which may, unless certain criteria are met, prohibit large stockholders, those owning 15% or more of the voting rights of our common stock, from merging or combining with us for a practical period of time. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of SeaChange could limit the opportunity of our stockholders to receive a premium for their shares of SeaChange common stock and could affect the price that some investors are willing to pay for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES

Location	Principal Use	Square Feet
Owned Facilities		
Acton, Massachusetts (1)	Corporate Headquarters, Engineering,	124,128
	Customer Services, Sales and Marketing	
Leased Facilities		
Eindhoven, The Netherlands	Engineering, Sales and Customer Services	20,553
Warsaw, Poland	Engineering and Customer Services	14,242
Manila, Philippines (2)	Vacant	14,175

(1) In August 2017, we placed our corporate headquarters and the adjacent land (the “Corporate Headquarters”), located in Acton Massachusetts, on the market for sale. We assessed whether the Corporate Headquarters would qualify as an asset held for sale and determined that it did not since it didn’t meet all six of the criteria of an asset held for sale under current accounting guidance.

(2) The “cease-use” date of our facility in the Philippines was November 30, 2017. The facility is currently vacant. However, as of January 31, 2018, we were still under contract with the lessor until September 30, 2019. In February 2018, we negotiated with the lessor to terminate the lease on March 31, 2018 in exchange for a termination fee equal to six month’s rent which obligation was accrued in January 2018 to severance and other restructuring costs in our consolidated statement of operations and comprehensive income (loss).

In addition, we lease or sublease offices in Santa Monica and San Francisco, California, Ireland and Turkey. We believe that existing facilities are adequate to meet our foreseeable requirements.

In fiscal 2018, we incurred restructuring charges of $0.7 million to exit our facility in the Philippines as part of our cost reduction initiative implemented in the second half of fiscal 2017.

In fiscal 2017, we incurred restructuring charges of $0.4 million to exit our facilities in California and Oregon as part of our cost savings actions related to the impairment of the Timeline Labs business and to the acquisition of DCC Labs. Currently, we are subleasing the facilities in Santa Monica and San Francisco, California until the end of their respective lease terms in fiscal 2019.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Registrant's Common Equity

Our common stock is traded on NASDAQ 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, 2018 and 2017:

	Fiscal Year 2018		Fiscal Year 2017	
	High	Low	High	Low
Three Month Period Ended:				
First Quarter	$2.57	$2.25	$6.25	$3.73
Second Quarter	2.93	2.36	3.77	3.19
Third Quarter	2.89	2.51	3.32	2.62
Fourth Quarter	3.99	2.53	2.80	2.30

On April 12, 2018, there were 129 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 our future earnings for use in operations and to finance the expansion of our business.

Issuer Purchases of Equity Securities

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, 2013 through January 31, 2018, with the cumulative total return on the Center for Research in Securities Prices ("CRSP") Index for NASDAQ (U.S. Companies) and a Standard Industrial Classification ("SIC") Code Index based on SeaChange's SIC Code. The comparison assumes $100 was invested on January 31, 2013 in SeaChange's common stock at the $11.15 closing price on January 31, 2013 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:

(1) The lines represent monthly index levels derived from compounded daily returns that include all dividends.
(2) If the monthly interval, based on the fiscal year end, is not a trading day, the preceding trading day is used.
(3) The index level for all series was set to 100 on January 31, 2013.

ITEM 6. SELECTED FINANCIAL DATA

Our selected financial data below should be read in conjunction with our audited, consolidated financial statements and related notes contained in Part II, Item 8., "Financial Statements and Supplementary Data," of this Form 10-K. For all periods presented, these selected financial data have been adjusted to reflect the businesses divested as discontinued operations.

CONSOLIDATED STATEMENTS OF OPERATIONS DATA

	For the Fiscal Years Ended January 31,				
	2018	2017	2016	2015	2014
	(Amounts in thousands, except per share data)				
Product revenue	$28,791	$18,205	$21,896	$31,507	$54,749
Service revenue	51,476	65,590	85,096	83,928	91,570
Total revenues	80,267	83,795	106,992	115,435	146,319
Total operating costs and expenses	(85,677)	(137,941)	(155,191)	(141,888)	(147,948)
Other income (expenses), net	4,081	(1,972)	(523)	(2,161)	(224)
Gain (loss) on investment in affiliates	2,555	(500)	(31)	—	(363)
Income (loss) from continuing operations before income taxes and equity income in earnings of affiliates	1,226	(56,618)	(48,753)	(28,614)	(2,216)
Income tax (benefit) provision	(12,272)	14,631	(1,029)	(1,106)	55
Equity income in earnings of affiliates, net of tax	—	—	27	19	44
Income (loss) from continuing operations	13,498	(71,249)	(47,697)	(27,489)	(2,227)
Income (loss) from discontinued operations, net	—	—	—	5	(803)
Net income (loss)	$13,498	$(71,249)	$(47,697)	$(27,484)	$(3,030)
Income (loss) per share:					
Basic	$0.38	$(2.04)	$(1.42)	$(0.84)	$(0.09)
Diluted	$0.38	$(2.04)	$(1.42)	$(0.84)	$(0.09)
Income (loss) per share from continuing operations:					
Basic	$0.38	$(2.04)	$(1.42)	$(0.84)	$(0.07)
Diluted	$0.38	$(2.04)	$(1.42)	$(0.84)	$(0.07)
Income (loss) per share from discontinued operations:					
Basic	$—	$—	$—	$0.00	$(0.02)
Diluted	$—	$—	$—	$0.00	$(0.02)

CONSOLIDATED BALANCE SHEET DATA

	As of January 31,				
	2018	2017	2016	2015	2014
	(Amounts in thousands)				
Working capital	$48,105	$41,942	$59,887	$101,014	$125,875
Total assets	119,330	116,067	177,669	212,351	254,113
Deferred revenue	14,433	14,936	17,410	19,088	25,628
Long-term liabilities	4,202	19,108	3,699	6,266	6,670

Total liabilities	33,610	46,531	46,651	41,300	49,672
Total stockholders' equity	85,720	69,536	131,018	171,051	204,441

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included in this Form 10-K. When reviewing the discussion, you should keep in mind the substantial risks and uncertainties that characterize our business. In particular, we encourage you to review the risk and uncertainties described under Item 1A., "Risk Factors," of this Form 10-K. These risks and uncertainties could cause actual results to differ materially from those forecasted in forward-looking statements or implied by past results and trends. Forward-looking statements are statements that attempt to project or anticipate future developments in our business; we encourage you to review the discussion of forward-looking statements under "Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995," at the beginning of this report. These statements, like all statements in this report, speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise the statements considering future developments. Unless otherwise specified, any reference to a "year" is to a fiscal year ended January 31st.

Business Overview

We are an industry leader in the delivery of multiscreen, advertising and premium over-the-top ("OTT") video management solutions headquartered in Acton, Massachusetts. Our products and services facilitate the aggregation, licensing, management and distribution of video and advertising content for cable television system operators, telecommunications companies, satellite operators and media companies. We currently operate under one reporting segment.

We address what we see as the continuing rise of Internet Protocol television ("IPTV") and OTT services by such companies as Netflix, Hulu, Amazon, mlbam, Kaltura, Ooyala and Brightcove and by media companies such as HBO, CBS and BBC. This rise of IPTV and OTT video services globally has increased the demand for multiscreen capabilities on a range of consumer devices operating on cloud-based platforms. We have been increasing our strategic investments in research and development related to our cloud-based offerings, as well as in sales and marketing as we focus on our go-to-market efforts in these areas.

We continue to invest in developing next generation capabilities in our four main product offerings: video back office, advertising, content management and user experience. Our suite of products allows us to provide customers with end-to-end video delivery capabilities across multiple platforms, thus reducing cost and increasing speed and ease of use for end users. We believe that by delivering innovative solutions to both our existing customer base and to content owners that are looking to provide end-to-end solutions, we can meet their growing needs and help them get to market faster, which will help them drive new revenue growth. We have virtualized our solutions and products to make integrating with existing networks simple and this ease-of-use is a core competency of our platform. We have optimized our software solutions to serve a wide range of consumer devices.

We expect to increase software sales in North America and Europe, the Middle East and Africa ("EMEA") through targeted sales efforts in those regions. In addition, we believe that we have the opportunity for revenue growth by expanding our selling efforts in Asia Pacific and Latin America. We also believe that our existing service operator customers will continue upgrading to new features that can increase average revenue per subscriber, reduce operating and capital expenses, and lower customer churn.

We continue to experience fluctuations in our revenues from period to period due to the following factors:

- Changes to estimated times to complete long-term projects;
- The time required to deliver and install the product and for the customer to accept the product and services;
- Timing of customers in selecting programs to launch our services to their end users;

- The ability of our customers to process the purchase order within their organizations in a timely manner;
- The transition from perpetual license to subscription, cloud-based revenue and the associated deviation from our traditional professional services model;
- Budgetary approvals by our customers for capital purchases;
- Uncertainty caused by potential consolidation in the industry; and
- Changes in foreign exchange rates.

These, together with other factors, could result in reductions in sales of our products, longer sales cycles, difficulties in collection of accounts receivable, a longer period of time before we may recognize revenue attributable to a sale, changes in cost estimates on long-term contracts which could result in a loss provision, gross margin deterioration, slower adoption of new technologies, the transition to SaaS, and increased price competition.

Our foreign subsidiaries generate earnings that are not subject to U.S. income taxes so long as they are permanently reinvested in our operations outside the United States. Pursuant to Accounting Standard Codification Topic No. ("ASC") 740-30, "Income Taxes-Other Considerations or Special Areas," undistributed earnings of foreign subsidiaries that are no longer permanently reinvested would become subject to deferred income taxes under U.S. tax law. Prior to the second quarter of fiscal 2017, we asserted that the undistributed earnings of all our foreign subsidiaries were permanently reinvested.

In the second quarter of fiscal 2017, following a review of our operations, liquidity and funding, and investment in our product roadmap, we determined that the ability to access certain amounts of foreign earnings would provide greater flexibility to meet the Company's working capital needs. Accordingly, in the second quarter of fiscal 2017, we recognized a deferred tax liability of $14.7 million on $58.6 million of undistributed earnings generated by our Irish operations through July 2016. In the fourth quarter of fiscal 2018, we completed a restructuring of our foreign operations, wherein we centralized our European operations for greater efficiency and cost savings in the Netherlands. As part of that process the residence of SEAC Ireland was moved to the Netherlands. In connection with the restructuring and change in tax status, we also obtained a step-up in tax basis of certain of our foreign subsidiaries. As a result, we remeasured the deferred tax liability in connection with the outside basis differences of our foreign subsidiaries and recorded a $14.7 million deferred tax benefit in connection to the reduction of the previously recorded deferred tax liability. This change was not related to the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act") enacted on December 22, 2017.

On May 5, 2016, we acquired a 100% share of DCC Labs in exchange for an aggregate of $2.7 million in newly issued shares of SeaChange common stock and $5.2 million in cash, net of cash acquired, resulting in a total net purchase price of $7.9 million. The stock consideration was determined by dividing the total value of $2.7 million by the volume weighted average closing price of our common stock for the twenty trading days preceding the closing. DCC Labs is a developer of set-top and multiscreen device software. Of the total consideration, $0.5 million in cash and all the stock (681,278 shares) were initially held in escrow as security for the indemnification obligations of the former DCC Labs owners to SeaChange under the purchase agreement, with one-third of the stock in escrow to be released to the former DCC Labs owners annually on the anniversary date of the acquisition beginning on May 5, 2017 and ending May 5, 2019, and one-half of the cash in escrow to be released to the former DCC Labs owners on May 5, 2017 and May 5, 2018. On May 5, 2017, $0.3 million in cash and 227,090 shares of our common stock initially deposited with an Escrow Agent were disbursed to the sellers.

The acquisition of DCC Labs in fiscal 2017 enabled us to optimize the operations of our In-Home business, which developed home video gateway software including SeaChange's Nucleus and NitroX products. In addition, the acquisition brought market-ready products, including an optimized television software stack for Europe's Digital Video Broadcasting community, and an HTML5 framework for building additional user experience client applications across a variety of CPE devices, including Android TV STBs, tablets, mobile and computer devices. During fiscal 2018, the In-Home business became the center of engineering and expanded to include product development for backoffice, advertising and legacy products. The Poland operation became the prime engineering location and as of the end of fiscal 2018, was the largest location by number of engineers. In addition, the engineering efforts were combined and the teams were re-organized into a single global team in fiscal 2018, which spans a reduced number of locations globally compared to fiscal 2017. As part of the engineering transition, organizational improvements were implemented in order to focus on software quality, reliability and pre-integration, in order to de-risk deployments and improve go-to-market time for new solutions and existing upgrades. The global engineering team introduced DevOps practices with a customer-centric view of technology improvements across all products within the SeaChange solution. Along with operational improvements, engineering introduced changes to process and workflow which enabled more accurate effort estimations and velocity tracking. With the introduction of common agile project

methodology across all teams and products, the efficiency of software engineering increased, which allowed more engineering resources to focus on innovation and development of industry leading features and enhancements to existing products as well as new product releases that expand the SeaChange technology franchise. At the same time, improved efficiency and better allocation of software developers enabled a more lean and targeted approach to supporting existing deployments and delivering upon support commitments for legacy products using a cost-optimized workforce.

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

Results of Operations

The following discussion summarizes the key factors our management believes are necessary for an understanding of our consolidated financial statements.

Revenues

The components of our total revenues are described in the following table:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Revenues:							
Products	$28,791	$18,205	$21,896	$10,586	58.1 %	$(3,691)	(16.9 %)
Services	51,476	65,590	85,096	(14,114)	(21.5 %)	(19,506)	(22.9 %)
Total revenues	80,267	83,795	106,992	(3,528)	(4.2 %)	(23,197)	(21.7 %)
Cost of product revenues	4,048	6,779	6,752	(2,731)	(40.3 %)	27	0.4 %
Cost of service revenues	22,868	36,829	44,239	(13,961)	(37.9 %)	(7,410)	(16.7 %)
(Recovery on) provision for loss contract	(593)	(4,118)	9,162	3,525	100.0 %	(13,280)	N/A
Total cost of revenues	26,323	39,490	60,153	(13,167)	(33.3 %)	(20,663)	(34.4 %)
Gross profit	$53,944	$44,305	$46,839	$9,639	21.8 %	$(2,534)	(5.4 %)
Gross product profit margin	85.9 %	62.8 %	69.2 %		23.2 %		(6.4 %)
Gross service profit margin	56.7 %	50.1 %	37.2 %		6.6 %		12.9 %
Gross profit margin	67.2 %	52.9 %	43.8 %		14.3 %		9.1 %

Fiscal 2018 As Compared to Fiscal 2017

Product Revenue. The increase in product revenue for fiscal 2018 of $10.6 million, as compared to fiscal 2017, was primarily due to a $12.3 million increase in video platform, user experience and advertising revenues. This increase is primarily due to the purchase of software licenses by our largest customer in the third and fourth quarters of fiscal 2018 as they continue to build out their back-office solution. This increase was partially offset by a $1.8 million decrease in hardware and third-party product revenues in fiscal 2018 compared to fiscal 2017.

Service Revenue. Service revenue decreased $14.1 million in fiscal 2018, as compared to fiscal 2017. The decline was primarily due to a decrease of $10.9 million recognized for professional services provided on our video platform during fiscal 2018. Additionally, there was a $3.2 million decrease in maintenance and support revenue provided on post-warranty contracts as customers continue to provide their own solutions.

In fiscal 2018 and fiscal 2017, one customer accounted for more than 10% of our total revenue. See Part II. Item 8, Note 11, “Segment Information, Significant Customers and Geographic Information,” to this Form 10-K for more information.

International revenue accounted for 65% and 64% of total revenues in fiscal 2018 and fiscal 2017, respectively. The increase in the international revenue as a percentage of total revenue for fiscal 2018, as compared to fiscal 2017 is

primarily due to a decrease in revenue outside the United States at a lower rate than the decrease in domestic revenue. Specifically, in the third and fourth quarter of fiscal 2018, we sold a total of approximately $14 million of software licenses to our largest customer in Europe.

Gross Profit and Margin. Cost of revenues consists primarily of the cost of resold third-party products and services, purchased components and subassemblies, labor and overhead relating to the assembly and testing of complete systems and costs related to customized software development contracts.

Our gross profit margin increased 14 percentage points in fiscal 2018, as compared to fiscal 2017. Product gross margin increased 23 percentage points in fiscal 2018 compared to fiscal 2017. This increase is primarily due to an increase in software license revenues, which carry higher gross margins, and a decrease in costs, specifically employee-related costs resulting from the cost-savings initiatives implemented beginning in the third quarter of fiscal 2017. Service profit margins increased seven percentage points in fiscal 2018, as compared to fiscal 2017. This is primarily due to lower employee-related costs described above.

(Recovery on) provision for loss contract

Contract accounting requires judgment relative to assessing risks, estimating the revenue and costs and making assumptions for the length of time to complete the contract. Since the financial reporting of these contracts depends on estimates, which are assessed continually during the term of the contract, recognized revenues and costs are subject to revisions as the contract progresses towards completion. Any changes to these assumptions and estimates could result in gains or losses in the future. During fiscal 2016, delays of customer acceptance relating to fixed-price customer contracts on a multi-year arrangement that included multiple vendors occurred. As a result, we recorded approximately $9.2 million as a provision for loss contract in our consolidated statements of operations and comprehensive income (loss). We agreed with the customer on the replacement of certain third-party vendors and a change in the timeline of this project, which was estimated to be completed in June 2017. As the system integrator on the project, we are subject to any costs overruns or increases with these vendors resulting in delays of acceptance by our customer. Any further delays of acceptance by the customer will result in incremental expenditures and increase the loss.

Due to the elimination of the second phase of this project, as well as other changes in the scope of the project since the end of the third quarter of fiscal 2017, we recorded a recovery on loss contract in fiscal 2018 and 2017 of $0.6 million and $4.1 million, respectively, in our consolidated statement of operations and comprehensive income (loss). As of January 31, 2018, this project is complete.

Fiscal 2017 As Compared to Fiscal 2016

Product Revenue. The decrease in product revenue for fiscal 2017 of $3.7 million, as compared to fiscal 2016, was primarily due to a $6.3 million decrease in hardware and advertising revenue offset by a $2.6 million increase in our video platform, user experience and third-party product revenues.

Service Revenue. Service revenue decreased $19.5 million in fiscal 2017, as compared to fiscal 2016. The decline was primarily due to less revenue recognized for professional services provided on our video platform during the period. Additionally, there was a decrease in maintenance and support revenue provided on post-warranty contracts as customers continue to provide their own solutions.

In fiscal 2017, one customer accounted for more than 10% of our total revenue. Two customers accounted for more than 10% of our total revenue in fiscal 2016. See Part II. Item 8, Note 11, “Segment Information, Significant Customers and Geographic Information,” to this Form 10-K for more information.

International revenue accounted for 64% and 56% of total revenues in fiscal 2017 and fiscal 2016, respectively. The increase in the international revenue as a percentage of total revenue for fiscal 2017, as compared to the same prior period is primarily due to the decrease in domestic revenue at a higher rate than the decrease in international revenue. Domestic maintenance and support revenue provided on post-warranty contracts continues to decrease year over year as customers continue to provide their own maintenance solutions.

Gross Profit and Margin. Our gross profit margin increased nine percentage points in fiscal 2017, as compared to fiscal 2016. However, excluding the (recovery on) provision for loss contract recorded in the third quarter of fiscal 2016 and adjusted in the fourth quarter of fiscal 2017, our gross profit margin decreased four percentage points in fiscal 2017, as compared to fiscal 2016. Product gross margin decreased six percentage points in fiscal 2017, as compared to fiscal 2016 due to lower software and license revenue. Service profit margins increased 13 percentage points in fiscal 2017, as compared to fiscal 2016. However, excluding the (recovery on) provision for loss contract, service profit margin decreased four percentage points in fiscal 2017, as compared to fiscal 2016. This is due to the lower service revenue to absorb our fixed costs of the professional services organization.

Operating Expenses

Research and Development

The following table provides information regarding the change in research and development expenses during the periods presented:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Research and development expenses	$23,162	$30,093	$33,696	$(6,931)	(23.0 %)	$(3,603)	(10.7 %)
% of total revenue	28.9 %	35.9 %	31.5 %				

Fiscal 2018 As Compared to Fiscal 2017. Research and development expenses consist primarily of employee costs, which include salaries, benefits and related payroll taxes, contract labor costs, depreciation of development and test equipment and an allocation of

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related facility expenses. Research and development costs decreased $6.9 million in fiscal 2018 as compared to fiscal 2017, primarily due to the restructuring of the research and development group after our acquisition of DCC Labs in May 2016 and to cost-savings efforts implemented in the second half of fiscal 2017.

Fiscal 2017 As Compared to Fiscal 2016. Research and development costs decreased $3.6 million in fiscal 2017 as compared to fiscal 2016, primarily due to lower labor costs associated with the decreased headcount from the Timeline Labs restructuring in February 2016, to the restructuring of the research and development group after our acquisition of DCC Labs in May 2016 and to cost-savings efforts implemented in the second half of fiscal 2017. These restructuring efforts would have resulted in a larger decrease in our research and development costs period over period than would have been achieved if we did not capitalize $3.0 million of costs related to the development of our internal-use software in fiscal 2016. This software was placed in service at the beginning of fiscal 2017 and no further costs were capitalized.

Selling and Marketing

The following table provides information regarding the change in selling and marketing expenses during the periods presented:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Selling and marketing expenses	$12,614	$16,158	$15,197	$(3,544)	(21.9%)	$961	6.3%
% of total revenue	15.7%	19.3%	14.2%				

Fiscal 2018 As Compared to Fiscal 2017. 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 $3.5 million in fiscal 2018 primarily due to lower employee-related costs. These lower costs were a result of the cost-savings initiatives implemented during the second half of fiscal 2017. This decrease was partially offset by the transfer of 12 employees from research and development to our selling and marketing group. The year over year decrease was also offset by an increase in internal commissions in fiscal 2018 as compared to fiscal 2017 due to increased bookings during fiscal 2018.

Fiscal 2017 As Compared to Fiscal 2016. Selling and marketing expenses increased $1.0 million in fiscal 2017 primarily due to an increase in marketing payroll costs resulting from the addition of DCC Labs in May 2016 and to the hiring of a new senior vice president of marketing in February 2016.

General and Administrative

The following table provides information regarding the change in general and administrative expenses during the periods presented:

For the Fiscal Years Ended January 31,	FY18 vs. FY17	FY17 vs. FY16

	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
General and administrative expenses	$14,671	$16,173	$15,470	$(1,502)	(9.3 %)	$703	4.5 %
% of total revenue	18.3 %	19.3 %	14.5 %				

Fiscal 2018 As Compared to Fiscal 2017. 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. General and administrative expenses decreased $1.5 million in fiscal 2018 as compared to fiscal 2017 primarily due to a decrease in labor costs resulting from the reduction of our headcount as part of our cost-savings initiatives implemented in the second half of fiscal 2017. The change does not reflect the full benefit that we anticipated to realize from our restructuring efforts because we had a $0.9 million increase in professional fees in fiscal 2018 from higher accounting and internal controls consulting services.

Fiscal 2017 As Compared to Fiscal 2016. General and administrative expenses increased $0.7 million in fiscal 2017 as compared to fiscal 2016. The change did not reflect the full benefit that we anticipated to realize from our restructuring efforts because we had a $0.4 million increase in professional fees in fiscal 2017, including audit, tax and legal fees and an increase in bad debt expense.

Amortization of Intangible Assets

The following table provides information regarding the change in amortization of intangible assets during the periods presented:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Amortization of intangible assets	$2,423	$3,302	$4,780	$(879)	(26.6%)	$(1,478)	(30.9%)
% of total revenue	3.0%	3.9%	4.5%				

Amortization expense is primarily related to the costs of acquired intangible assets. Amortization expense on certain intangible assets is based on the future economic value of the related intangible assets which is generally higher in the earlier years of the assets' lives. The decrease in amortization expense in fiscal 2018, as compared to fiscal 2017, is primarily due to fully amortized intangible assets from prior acquisitions and to the change in foreign exchange rates. The decreases were partially offset by a full year of amortization of intangible assets recorded in fiscal 2018 related to our acquisition of DCC Labs in May 2016.

Amortization expense decreased $1.5 million in fiscal 2017, as compared to fiscal 2016 primarily due to the impairment of intangible assets, related to our acquisition of TLL, LLC, recorded in fiscal 2016 as well as fully amortized intangible assets from prior acquisitions. These decreases were partially offset by the addition of amortization of intangible assets related to our acquisition of DCC Labs in May 2016.

Stock-based Compensation Expense

The following table provides information regarding the change in stock-based compensation expense during the periods presented:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Stock-based compensation expenses	$2,696	$2,621	$3,552	$75	2.9%	$(931)	(26.2%)
% of total revenue	3.4%	3.1%	3.3%				

Fiscal 2018 As Compared to Fiscal 2017. Stock-based compensation expense is related to the issuance of stock awards to our employees, executives and members of our Board of Directors. Stock-based compensation expense increased $0.1 million in fiscal 2018, as compared to fiscal 2017. The increase is primarily due to an $0.8 million reversal of previously recognized stock-based compensation expense in fiscal 2017 for our former CEO's market-based stock options, as well as a $0.2 million increase due to modifications of certain stock awards for terminated employees

recorded in fiscal 2017. Offsetting these increases is a $0.7 million decrease in stock option expense primarily due to fully-amortized tranches of market-based options awarded to our current CEO and a $0.3 million decrease in expense related to non-performance based restricted-stock units due to lower grant day stock prices.

Fiscal 2017 As Compared to Fiscal 2016. Stock-based compensation expense decreased $0.9 million in fiscal 2017, as compared to fiscal 2016 primarily due to stock modifications in connection with separation agreements with certain terminated employees, as well as a decrease in stock compensation recorded on non-performance-based equity after the departure of our former CEO in the first quarter of fiscal 2017. Also, because of the departure of our former CEO, we reversed $0.8 million of previously recognized stock-based compensation expense on his market-based stock options. Finally, certain employees elected to receive a discounted cash payment, in lieu of restricted stock units, for their fiscal 2016 incentive compensation, resulting in a $0.4 million decrease in stock-based compensation expense in fiscal 2017. Partially offsetting these decreases is an increase in stock options granted during fiscal 2017 and expense recognized on performance stock units which were granted at the end of fiscal 2016.

Professional Fees - Other

The following table provides information regarding the change in professional fees expenses associated with acquisitions, divestitures, litigation and strategic alternatives during the periods presented:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Professional fees - other	$21	$347	$637	$(326)	(93.9%)	$(290)	(45.5%)
% of total revenue	0.0%	0.4%	0.6%				

Professional fees decreased in fiscal 2018 compared to fiscal 2017 due to a decrease in costs related to strategic alternatives, specifically costs from our purchase of DCC Labs in May 2016. Professional fees in fiscal 2017 decreased $0.3 million, as compared to fiscal 2016 due to costs related to strategic alternatives incurred in fiscal 2016 partially offset by costs in fiscal 2017 for the acquisition of DCC Labs.

Severance and Other Restructuring Expenses

The following table provides information regarding the change in severance and other restructuring expenses during the periods presented:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Severance and other restructuring expenses	$4,740	$7,151	$1,061	$(2,411)	(33.7 %)	$6,090	>100%
% of total revenue	5.9 %	8.5 %	1.0 %				

Fiscal 2018 As Compared to Fiscal 2017. Severance and other restructuring costs decreased $2.4 million in fiscal 2018, as compared to fiscal 2017. Charges in fiscal 2018 include $4.1 million related to a cost reduction initiative that began in the second half of fiscal 2017 and has been completed as of January 31, 2018, $0.1 million of charges related to the reduction in force in our engineering and services organization as a result of our acquisition of DCC Labs in May 2016 and to severance charges not related to a restructuring plan of $0.5 million. Charges in fiscal 2017 included $3.1 million related to the cost reduction initiative mentioned above, $0.7 million related to the restructuring activities of our Timeline Labs operations, $1.9 million related to the reduction in force in our In-Home engineering and services organization in conjunction with our acquisition of DCC Labs in May 2016 and to severance charges not related to a restructuring plan of $1.5 million, including severance related to our former CEO and CFO.

Fiscal 2017 As Compared to Fiscal 2016. Severance and other restructuring costs increased $6.1 million in fiscal 2017, as compared to fiscal 2016 due to cost savings initiatives implemented during the second half of fiscal 2017, which resulted in charges of $3.1 million. Restructuring charges related to our Timeline Labs operation and DCC Labs acquisition resulted in charges totaling $2.6 million recorded during fiscal 2017. In addition, severance charges of $1.5 million not related to a restructuring plan included $1.0 million of severance to our former CEO and $0.2 million of severance to our former CFO along with severance paid to 13 other former employees. Severance and other restructuring costs in fiscal 2016 included severance for a former General Manager of our EMEA operations and 17 other former employees.

Change in Fair Value of Earn-outs

The following table provides information regarding the change in fair value of earn-outs during the periods presented:

FY18 vs. FY17	FY17 vs. FY16

	For the Fiscal Years Ended January 31,						
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Change in fair value of earn-outs	$—	$249	$—	$(249)	(100.0 %)	$249	N/A
% of total revenue	0.0%	0.3 %	0.0 %				

The $0.2 million in earn-outs costs for fiscal 2017 is due to a charge recorded that represents the fair value (at the issuance date) of additional shares issued to the former holders of Timeline Labs pursuant to the terms of the Timeline Labs purchase agreement based on our stock price at the time of deferred stock consideration issuances.

Loss on Impairment of Long-lived Assets

The following table provides information regarding the change in loss on impairment of long-lived assets during the periods presented:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Loss on impairment of long-lived assets	$—	$23,772	$21,464	$(23,772)	(100.0 %)	$2,308	10.8 %
% of total revenue	0.0%	28.4 %	20.1 %				

In fiscal 2017, we recorded a loss on impairment of long-lived assets of $23.8 million which included a charge related to the impairment of our goodwill resulting from our annual goodwill impairment test which concluded in the fourth quarter of fiscal 2017. We finalized “Step 1” of this impairment test in the third quarter and determined that the fair value of our reporting unit was less than its carrying value and needed to perform “Step 2” which we performed in the fourth quarter of fiscal 2017. We compared the implied fair value of our goodwill to its carrying value as required by “Step 2” and determined that the implied fair value of our goodwill was less than its carrying value and that it was not recoverable, resulting in an impairment charge of $23.5 million being recorded in our consolidated statements of operations and comprehensive income (loss) in the quarter ended January 31, 2017. In addition, we recorded an impairment charge on our Greenville, New Hampshire building in the fourth quarter of fiscal 2017 to write off its remaining book value. We had been actively trying to sell this building since fiscal 2012, writing down its carrying value several times. However, due to the location of the property and the overall market conditions in the area, we were not able to find a buyer. Therefore, we recorded a $0.3 million impairment charge in our consolidated statements of operations and comprehensive income (loss) in the quarter ended January 31, 2017 to write down the carrying value to zero.

In January 2016, our Board of Directors authorized a restructuring plan, as previously reported in a Form 8-K filed with the SEC on February 17, 2016. Based on the decision to enter into the restructuring plan and the plan’s impact on the projected future cash flows of the Timeline Labs operations, we determined that the carrying amount of all long-term assets that resulted from the February 2015 acquisition had exceeded the fair value as of January 31, 2016. As a result, these long-term assets were deemed fully impaired and we recorded the $21.9 million net book value of these long-term assets as a component of loss on impairment of TLL, LLC net assets in our consolidated statements of operations and comprehensive income (loss) for the fiscal year ended January 31, 2016. Additionally, we reduced the contingent consideration liability associated with the Timeline Labs acquisition to zero, as we determined that the defined performance criteria would not be achieved, and recorded the reversal of the liability of $0.4 million to loss on impairment of TLL, LLC net assets in our consolidated statements of operations and comprehensive income (loss) for the fiscal year ended January 31, 2016. In February 2016, we implemented cost-saving actions related to the restructuring plan. See Part II. Item 8, Note 4, “Acquisitions and Loss on Impairment of TLL, LLC,” to this Form 10-K for more information.

Other Income (Expenses), Net

The table below provides detail regarding our other income (expenses), net:

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Gain (loss) on investment in affiliates	$2,555	$(500)	$(31)	$3,055	>(100%)	$(469)	>100%
Interest income, net	147	129	165	18	14.0%	(36)	(21.8%)
Foreign exchange gain (loss)	3,828	(2,093)	(723)	5,921	>(100%)	(1,370)	>100%
Miscellaneous income (expense)	106	(8)	35	114	>(100%)	(43)	>(100%)
	$6,636	$(2,472)	$(554)	$9,108		$(1,918)	

Gain (loss) on investment in affiliates

In connection with the acquisition in January 2018 by T-Mobile of Layer3 TV, Inc. (“Layer 3”), a next generation cable provider in which we previously had made an equity investment, we received $4.6 million upon closing of the

transaction, with an additional payment of up to $2.1 million being held in escrow, subject to satisfaction of the escrow provisions. As a result of the sale of our investment in Layer 3, we realized a gain of $2.6 million in gain (loss) on investment in affiliates in our consolidated statements of operations and comprehensive income (loss) for fiscal 2018.

In the fourth quarter of fiscal 2017, we determined that the fair value of a certain cost-method investment was less than its carrying value. Accordingly, we recorded a $0.5 million impairment charge in January 2017 which is included in gain (loss) on investment in affiliates in our consolidated statements of operations and comprehensive income (loss).

Foreign exchange gain (loss)

In January 2018, a note receivable between our Netherlands and British Virgin Islands ("BVI") entities was settled. The loan was established in Euros, our Netherland subsidiary's functional currency, and therefore generated a realized foreign exchange gain of $2.0 million. In January 2018, we also re-measured the deferred tax liability related to the outside basis differences of our foreign subsidiaries and recorded a $14.7 million deferred tax benefit in connection with the reduction of the previously recorded deferred tax liability. Due to the weakening of the U.S. dollar against the Euro in fiscal 2018, we recorded a foreign exchange gain of $2.4 million when this deferred tax benefit was recorded in January 2018. We also established an intercompany loan between our U.S. and Netherlands entities in fiscal 2010, which was settled in the fourth quarter of fiscal 2017. The loan was established in Euros and

generated a realized foreign exchange loss of $1.8 million upon settlement of the loan. The realized foreign exchange gains recorded in fiscal 2018 and the realized foreign exchange loss recorded in fiscal 2017, were recorded in other income (expenses), net, on the consolidated statements of operations and comprehensive income (loss). In addition, there was a $0.3 million increase in foreign exchange loss in fiscal 2018, as compared to fiscal 2017, due to the weakening of the U.S. dollar compared to other foreign currencies, primarily the Euro, during the period.

Income Tax (Benefit) Provision

	For the Fiscal Years Ended January 31,			FY18 vs. FY17		FY17 vs. FY16	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
	(Amounts in thousands, except for percentage data)						
Income tax (benefit) provision	$(12,272)	$14,631	$(1,029)	$(26,903)	>(100%)	$15,660	>(100%)
% of total revenue	(15.3 %)	17.5 %	(1.0 %)				

Fiscal 2018 As Compared to Fiscal 2017

We recorded an income tax benefit of $12.3 million in fiscal 2018 and a tax provision of $14.6 million in fiscal 2017. In the fourth quarter of fiscal 2018, we completed a restructuring of our foreign operations, wherein we centralized our European operations for greater efficiency and cost savings in the Netherlands. As part of that process the residence of SEAC Ireland was moved to the Netherlands. In connection with the restructuring and change in tax status, we also obtained a step-up in tax basis of certain of our foreign subsidiaries. As a result, we re-measured the deferred tax liability related to the outside basis differences of our foreign subsidiaries and recorded a $14.7 million deferred tax benefit in connection to the reduction of the previously recorded deferred tax liability. Our effective tax rate in fiscal 2018 and in future periods may fluctuate on a quarterly basis, as a result of changes in our jurisdictional forecasts where losses cannot be benefitted due to the existence of valuation allowances on our deferred tax assets, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof.

The Company reviews all available evidence to evaluate the recovery of deferred tax assets, including the recent history of losses in all tax jurisdictions, as well as its ability to generate income in future periods. As of January 31, 2018, due to the uncertainty related to the ultimate use of certain deferred income tax assets, the Company has recorded a valuation allowance on certain of its deferred assets.

We file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. We have closed out an audit with the Internal Revenue Service (“IRS”) through fiscal 2013. We are no longer subject to U.S. federal examinations before fiscal 2015. However, the taxing authorities will 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.

On December 22, 2017, the Tax Reform Act was signed into law. The Tax Reform Act has resulted in significant changes to the U.S. corporate income tax system that affected our fiscal year ended January 31, 2018. These changes include, but are not limited to, a federal statutory rate reduction from 35% to 21% for years after 2017, additional limitations on executive compensation, acceleration of business asset expensing and a repeal of the corporate

alternative minimum tax ("AMT") and allowing for a refund of prior year AMT paid. These changes were effective January 1, 2018.

The Tax Reform Act also includes a one-time mandatory deemed repatriation tax on accumulated foreign subsidiaries' previously untaxed foreign earnings ("Transition Tax"). The Transition Tax may be paid over an eight-year period and will not accrue interest.

On December 22, 2017, the SEC issued guidance under SAB 118, which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The measurement period is deemed to have ended earlier when the registrant has obtained, prepared, and analyzed the information necessary to finalize its accounting.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the Tax Reform Act.

The Company is still evaluating the provisions of the Tax Reform Act and amounts reflected in the financial statements for the year ended January 31, 2018 are provisional. The ultimate impact may differ from these provisional amounts, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Reform Act. The accounting is expected to be completed in fiscal 2019.

The Tax Reform Act reduces the U.S. statutory tax rate from 35% to 21% for years after 2017. Accordingly, we have re-measured our U.S. deferred tax assets and liabilities as of January 31, 2018 to reflect the reduced rate that will apply in future periods when these deferred tax assets will reverse, resulting in a provisional reduction of our net deferred tax assets, by $17.1 million, which is offset by a corresponding reduction to our valuation allowance in the fourth quarter of fiscal 2018. As a result, there was no impact to the Company's consolidated statements of operations and comprehensive income (loss) due to the reduction in the U.S. corporate tax rate.

The Transition Tax is a tax on previously untaxed accumulated and current earnings and profits of our foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 earnings and profit of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We estimated a Transition Tax impact of approximately $3.9 million, which is offset by tax losses, resulting in no material impact to our consolidated financial statements. Our estimate represents a reasonable estimate of the Transition Tax; however, we are continuing to gather additional information to more precisely compute the amount of the Transition Tax.

Other significant provisions that are not yet effective but may impact income taxes in future years include: an exemption from U.S. tax on dividends of future foreign earnings, limitations on the deductibility of certain executive compensation, deductions related to foreign derived intangible income, and a minimum tax on certain foreign earnings in excess of 10 percent of the foreign subsidiaries tangible assets (i.e., global intangible low-taxed income or "GILTI"). We are still evaluating whether to make a policy election to treat the GILTI tax as a period expense or to provide U.S. deferred taxes on foreign temporary differences that are expected to generate GILTI income when they reverse in future years.

Fiscal 2017 As Compared to Fiscal 2016

We recorded an income tax provision of $14.6 million in fiscal 2017 which was due to deferred income tax expense of $14.7 million related to the change in assertion regarding the undistributed foreign earnings of certain of our foreign subsidiaries.

Our foreign subsidiaries generate earnings that are not subject to U.S. income taxes so long as they are permanently reinvested in our operations outside of the U.S. Pursuant to Accounting Standard Codification Topic No. 740-30, "Income Taxes – Other Considerations or Special Areas," undistributed earnings of foreign subsidiaries that are no longer permanently reinvested would become subject to deferred income taxes under U.S. tax law. Prior to the second quarter of fiscal 2017, we asserted that the undistributed earnings of all our foreign subsidiaries were permanently reinvested.

In the second quarter of fiscal 2017, following a review of our operations, liquidity and funding, and investment in our product roadmap, we determined that the ability to access certain amounts of foreign earnings would provide greater flexibility to meet the Company's working capital needs. Accordingly, in the second quarter of fiscal 2017, we withdrew the permanent reinvestment assertion on $58.6 million of earnings generated by our Irish operations through July 2016. We recorded a deferred tax liability of $14.7 million related to the foreign income taxes on $58.6 million of undistributed earnings.

We have not provided for U.S. federal or foreign income taxes on $6.0 million of our non-U.S. subsidiaries' undistributed earnings as of January 31, 2017. The $6.0 million of undistributed foreign earnings have been reinvested in our foreign operations, as we have determined that these earnings are necessary to support our planned ongoing investments in our foreign operations, and as a result, these earnings remain indefinitely reinvested in those operations. In making this decision, we considered cash needs for investing in our existing businesses, potential acquisitions and capital transactions.

The Company reviews all available evidence to evaluate the recovery of deferred tax assets, including the recent history of losses in all tax jurisdictions, as well as its ability to generate income in future periods. As of January 31, 2017, due to the uncertainty related to the ultimate use of certain deferred income tax assets, the Company has recorded a valuation allowance on substantially all of its deferred assets.

Non-GAAP Measures

We define non-GAAP income (loss) from operations as U.S. GAAP operating loss plus stock-based compensation expenses, amortization of intangible assets, (recovery on) provision for loss contract, change in fair value of earn-outs, non-operating professional fees, severance and other restructuring costs and loss on impairment of long-lived assets. We discuss non-GAAP income (loss) from operations in our quarterly earnings releases and certain other communications as we believe non-GAAP operating income (loss) from operations is an important measure that is not calculated according to U.S. GAAP. We use non-GAAP income (loss) from operations in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our Board of Directors, determining a component of bonus compensation for executive officers and other key

employees based on operating performance and evaluating short-term and long-term operating trends in our operations. We believe that the non-GAAP income (loss) from operations financial measure assists in providing an enhanced understanding of our underlying operational measures to manage the business, to evaluate performance compared to prior periods and the marketplace, and to establish operational goals. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making.

Non-GAAP income (loss) from operations is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with U.S. GAAP. These non-GAAP financial measures may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenses like the financial adjustments described above in arriving at non-GAAP income (loss) from operations and investors should not infer from our presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring.

The following table includes the reconciliations of our U.S. GAAP loss from operations, the most directly comparable U.S. GAAP financial measure, to our non-GAAP income (loss) from operations for fiscal 2018, 2017 and 2016 (amounts in thousands, except per share and percentage data):

	For the Fiscal Year Ended January 31, 2018			For the Fiscal Year Ended January 31, 2017			For the Fiscal Year Ended January 31, 20		
	GAAP As Reported	Adjustments	Non-GAAP	GAAP As Reported	Adjustments	Non-GAAP	GAAP As Reported	Adjustments	Non-GAAP
Revenues:									
Products	$28,791	$—	$28,791	$18,205	$—	$18,205	$21,896	$—	$21,896
Services	51,476	—	51,476	65,590	—	65,590	85,096	—	85,096
Total revenues	80,267	—	80,267	83,795	—	83,795	106,992	—	106,992
Cost of revenues:									
Products	3,942	—	3,942	6,453	—	6,453	6,013	—	6,013
Services	22,001	—	22,001	35,740	—	35,740	44,159	—	44,159
(Recovery on) provision for loss contract	(593)	593	—	(4,118)	4,118	—	9,162	(9,162)	—
Amortization of intangible assets	970	(970)	—	1,283	(1,283)	—	739	(739)	—
Stock-based compensation	3	(3)	—	132	(132)	—	80	(80)	—
Total cost of revenues	26,323	(380)	25,943	39,490	2,703	42,193	60,153	(9,981)	50,172
Gross profit	53,944	380	54,324	44,305	(2,703)	41,602	46,839	9,981	56,820
Gross profit percentage	67.2%	0.5%	67.7%	52.9%	(3.2%)	49.7%	43.8%	9.3%	53.1%
Operating expenses:									
Research and development	23,162	—	23,162	30,093	—	30,093	33,696	—	33,696
Selling and marketing	12,614	—	12,614	16,158	—	16,158	15,197	—	15,197
General and administrative	14,671	—	14,671	16,173	—	16,173	15,470	—	15,470
Amortization of intangible assets	1,453	(1,453)	—	2,019	(2,019)	—	4,041	(4,041)	—
Stock-based compensation expense	2,693	(2,693)	—	2,489	(2,489)	—	3,472	(3,472)	—
Change in fair value of earn-outs	—	—	—	249	(249)	—	—	—	—
Professional fees - other	21	(21)	—	347	(347)	—	637	(637)	—

Severance and other restructuring costs	4,740	(4,740)	—	7,151	(7,151)	—	1,061	(1,061)	—
Loss on impairment of long-lived assets	—	—	—	23,772	(23,772)	—	21,464	(21,464)	—
Total operating expenses	59,354	(8,907)	50,447	98,451	(36,027)	62,424	95,038	(30,675)	64,363
(Loss) income from operations	$(5,410)	$9,287	$3,877	$(54,146)	$33,324	$(20,822)	$(48,199)	$40,656	$(7,543)
(Loss) income from operations percentage	(6.8 %)	11.6 %	4.8 %	(64.6 %)	39.8 %	(24.8 %)	(45.0 %)	38.0 %	(7.0 %)
Weighted average common shares outstanding:									
Basic	35,412	35,412	35,412	34,970	34,970	34,970	33,506	33,506	33,506
Diluted	35,412	35,685	35,685	34,970	35,057	34,970	33,506	33,663	33,506
Non-GAAP operating (loss) income per share:									
Basic	$(0.15)	$0.26	$0.11	$(1.55)	$0.95	$(0.60)	$(1.44)	$1.21	$(0.23)
Diluted	$(0.15)	$0.26	$0.11	$(1.55)	$0.95	$(0.60)	$(1.44)	$1.21	$(0.23)

The changes in the table above during fiscal 2018, compared to fiscal 2017 and during fiscal 2017 compared to fiscal 2016, were a result of the factors described in connection with revenues and operating expenses under Item 7. "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Results of Operations," of this Form 10-K.

In managing and reviewing our business performance, we exclude several items required by U.S. GAAP. Management believes that excluding these items is useful in understanding the trends and managing our operations. We provide these supplemental non-GAAP measures to assist the investment community to see SeaChange through the "eyes of management," and therefore enhance the understanding of our operating performance. Non-GAAP financial measures should be viewed in addition to, not as an alternative to, our reported results prepared in accordance with U.S. GAAP. Our non-GAAP financial measures reflect adjustments based on the following items:

(Recovery on) Provision for Loss Contract. We entered a fixed-price customer contract on a multi-year arrangement, which included multiple vendors. As the system integrator on the project, we are subject to any cost overruns or increases with these vendors resulting in delays of acceptance by our customer. Delays of customer acceptance on this project result in incremental expenditures and require us to recognize a loss on this project in the period the determination is made. As a result, we recorded an estimated charge of $9.2 million in fiscal 2016. Subsequently, because of changes in the scope of the project and negotiations with the fixed-price customer, we recorded adjustments since fiscal 2016 totaling $4.7 million to reduce this estimated loss. We believe that the exclusion of this line item amount allows a comparison of operating results that would otherwise impair comparability between periods.

Amortization of Intangible Assets. We incur amortization expense of intangible assets related to various acquisitions that have been made in recent years. These intangible assets are valued at the time of acquisition, are then amortized over a period of several years after the acquisition and generally cannot be changed or influenced by management after the acquisition. We believe that exclusion of these expenses allows comparisons of operating results that are consistent over time for the Company's newly-acquired and long-held businesses.

Stock-based Compensation Expense. We incur expenses related to stock-based compensation included in our U.S. GAAP presentation of cost of revenues, selling and marketing expense, general and administrative expense and research and development expense. Although stock-based compensation is an expense we incur and is viewed as a form of compensation, the expense varies in amount from period to period, and is affected by market forces that are difficult to predict and are not within the control of management, such as the market price and volatility of our shares, risk-free interest rates and the expected term and forfeiture rates of the awards.

Change in Fair Value of Earn-outs. The change in the fair value of the earn-outs payable to the former shareholders of the businesses we acquire is considered by management to be non-recurring and therefore, impairs comparability among periods.

Professional Fees - Other. We have excluded the effect of legal and other professional costs associated with our acquisitions, divestitures, litigation and strategic alternatives because the amounts are considered significant non-recurring expenses.

Severance and Other Restructuring Costs. We incur charges due to the restructuring of our business, including severance charges and facility reductions resulting from our restructuring and streamlining efforts and any changes due to revised estimates, which we generally would not have otherwise incurred in the periods presented as part of our continuing operations.

Loss on Impairment of Long-lived Assets. We incur losses on impairment of long-lived assets when it is determined that an 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. These charges are considered non-recurring.

Liquidity and Capital Resources

The following table includes key line items of our consolidated statements of cash flows:

	For the Fiscal Years Ended January 31,			FY18 vs FY17	FY17 vs FY16
	2018	2017	2016	$ Change	$ Change
	(Amounts in thousands)				
Total cash provided by (used in) operating activities	$12,947	$(28,338)	$(18,662)	$ 41,285	$ (9,676)
Total cash provided by (used in) investing activities	6,011	(3,872)	(13,046)	9,883	9,174
Total cash (used in) provided by financing activities	(87)	(123)	192	36	(315)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3,621)	1,929	312	(5,550)	1,617
Net increase (decrease) in cash, cash equivalents and restricted cash	$15,250	$(30,404)	$(31,204)	$ 45,654	$ 800

Historically, we have financed our operations and capital expenditures primarily with cash on-hand. Cash, cash equivalents, restricted cash and marketable securities increased from $38.7 million at January 31, 2017 to $52.1 million at January 31, 2018.

During fiscal 2018, we made significant reductions to our headcount as part of our ongoing restructuring effort from which we expect to generate annualized savings of approximately $18 million. These measures are important steps in restoring SeaChange to profitability and positive cash flow. The Company believes that existing funds and cash expected to be provided by future operating activities, augmented by the plans highlighted above, are adequate to satisfy our working capital, potential acquisitions and capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months.

However, if our expectations are incorrect, we may need to raise additional funds to fund our operations, to take advantage of unanticipated strategic opportunities or to strengthen our financial position. In the future, we may enter other arrangements for potential investments in, or acquisitions of, complementary businesses, services or technologies, which could require us to seek additional equity or debt financing. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of market opportunities, to develop new products or to otherwise respond to competitive pressures.

Operating Activities

Below are key line items affecting cash from operating activities:

	For the Fiscal Years Ended January 31,			FY18 vs FY17	FY17 vs FY16
	2018	2017	2016	$ Change	$ Change

	(Amounts in thousands)				
Net income (loss)	$13,498	$(71,249)	$(47,697)	$ 84,747	$ (23,552)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities	(9,411)	44,924	41,550	(54,335)	3,374
Net income (loss) including adjustments	4,087	(26,325)	(6,147)	30,412	(20,178)
Decrease (increase) in accounts receivable and unbilled receivables	9,100	4,736	(6,080)	4,364	10,816
(Increase) decrease in prepaid expenses and other current assets	(588)	1,378	(1,097)	(1,966)	2,475
(Decrease) increase in accounts payable	(2,499)	(1,674)	874	(825)	(2,548)
Increase (decrease) in accrued expenses	3,505	(4,872)	(2,712)	8,377	(2,160)
Decrease in deferred revenues	(1,078)	(2,417)	(1,431)	1,339	(986)
All other - net	420	836	(2,069)	(416)	2,905
Net cash provided by (used in) operating activities	$12,947	$(28,338)	$(18,662)	$ 41,285	$ (9,676)

For fiscal 2018, cash provided by operating activities was $12.9 million. This cash provided by operating activities was primarily the result of our net income, including adjustments, of $4.1 million and to the changes in working capital, which include a decrease in receivables of $9.1 million due to collections from customers during the fiscal year and to an increase in accrued expenses of $3.5 million, specifically income taxes payable from foreign locations and accrued bonus based on improved operating results of the Company in fiscal 2018. Offsetting these sources of cash was a $1.1 million decrease in deferred revenue and a $2.5 million decrease in accounts payable due to the timing of payments to vendors.

For fiscal 2017, we used net cash in operating activities of $28.3 million. This cash used in operating activities was primarily the result of our net loss including adjustments of $26.3 million offset by changes in working capital, which include a decrease in receivables of $4.7 million due to the timing of customer payments, offset by a decrease in accrued expenses of $4.9 million related to the payment of severance and bonuses, a $2.4 million decrease in deferred revenue and a $1.7 million decrease in accounts payable due to the timing of payments to vendors.

Investing Activities

Cash flows from investing activities are as follows:

	For the Fiscal Years Ended January 31,			FY18 vs FY17	FY17 vs FY16
	2018	2017	2016	$ Change	$ Change
	(Amounts in thousands)				
Purchases of property and equipment	$(526)	$(683)	$(1,397)	$ 157	$ 714
Investment in capitalized software	—	—	(2,440)	—	2,440
Purchases of marketable securities	(7,246)	(2,008)	(9,033)	(5,238)	