BCSC090920318

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2020

OR

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

For the transition period from __________ to __________

Commission File Number: 001-38828

SEACHANGE INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	**04-3197974**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
500 Totten Pond Road, Waltham, MA	**02451**
Address of principal executive offices	**(Zip Code)**

(978) 897-0100

Registrant's telephone number, including area code

Former name, former address and former fiscal year, if changed since last report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 Par Value	SEAC	The Nasdaq Global Select Market
Series A Participating Preferred Stock Purchase Rights	SEAC	The Nasdaq Global Select Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

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 check mark if the registrant has elected not 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 Exchange Act.): YES ☐ NO ☒

The number of shares outstanding of the registrant's Common Stock on August 31, 2020 was 37,556,067.

SEACHANGE INTERNATIONAL, INC.

Table of Contents

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Consolidated Balance Sheets	2
	Consolidated Statements of Operations and Comprehensive Loss	3
	Consolidated Statements of Stockholders' Equity	4
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	28
Item 4.	Controls and Procedures	28
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	30
Item 1A.	Risk Factors	30
Item 5.	Other Information	30
Item 6.	Exhibits	30
SIGNATURES		32

PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited, amounts in thousands, except share data)

	July 31, 2020	January 31, 2020
Assets		
Current assets:		
Cash, cash equivalents and restricted cash	$ 7,655	$ 9,297
Marketable securities	2,141	3,835
Accounts receivable, net of allowance for doubtful accounts of $904 and $947 at July 31, 2020 and January 31, 2020, respectively	6,011	12,127
Unbilled receivables	11,932	14,279
Prepaid expenses and other current assets	4,928	5,112
Total current assets	32,667	44,650
Property and equipment, net	636	554
Operating lease right-of-use assets	5,505	4,860
Marketable securities, long-term	—	782
Intangible assets, net	1,868	2,300
Goodwill	10,441	9,775
Unbilled receivables, long-term	9,033	9,031
Other assets	831	938
Total assets	$ 60,981	$ 72,890
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,717	$ 4,007
Accrued expenses	5,656	7,986
Deferred revenue	4,674	5,041
Promissory note	1,072	—
Total current liabilities	14,119	17,034
Deferred revenue, long-term	423	1,140
Operating lease liabilities, long-term	4,607	4,348
Taxes payable, long-term	338	436
Promissory note, long-term	1,341	—
Deferred tax liabilities, long-term	186	—
Total liabilities	21,014	22,958
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized at July 31, 2020 and January 31, 2020; 37,727,987 shares issued and 37,556,067 shares outstanding at July 31, 2020; 37,303,952 shares issued and 37,163,462 outstanding at January 31, 2020	377	373
Additional paid-in capital	245,817	245,067
Treasury stock, at cost; 171,920 shares at July 31, 2020 and 140,490 shares at January 31, 2020	(227)	(147)
Accumulated other comprehensive loss	(500)	(2,137)
Accumulated deficit	(205,500)	(193,224)
Total stockholders' equity	39,967	49,932
Total liabilities and stockholders' equity	$ 60,981	$ 72,890

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

SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited, amounts in thousands, except per share data)

	For the Three Months Ended July 31, 2020	For the Three Months Ended July 31, 2019	For the Six Months Ended July 31, 2020	For the Six Months Ended July 31, 2019
Revenue:				
Product	$ 1,066	$ 11,968	$ 4,164	$ 13,147
Service	3,929	6,844	7,746	14,150
Total revenue	4,995	18,812	11,910	27,297
Cost of revenue:				
Product	788	3,039	2,368	3,948
Service	2,393	4,885	5,219	9,553
Total cost of revenue	3,181	7,924	7,587	13,501
Gross profit	1,814	10,888	4,323	13,796
Operating expenses:				
Research and development	3,360	3,775	7,526	8,027
Selling and marketing	1,728	2,963	3,854	5,815
General and administrative	2,367	4,150	4,421	8,399
Severance and restructuring costs	543	659	1,029	870
Total operating expenses	7,998	11,547	16,830	23,111
Loss from operations	(6,184)	(659)	(12,507)	(9,315)
Other income (expense), net	373	(78)	165	(1,869)
Loss before income taxes	(5,811)	(737)	(12,342)	(11,184)
Income tax benefit	45	563	66	161
Net loss	$ (5,766)	$ (174)	$ (12,276)	$ (11,023)
Net loss per share, basic	$ (0.15)	$ —	$ (0.33)	$ (0.30)
Net loss per share, diluted	$ (0.15)	$ —	$ (0.33)	$ (0.30)
Weighted average common shares outstanding, basic	37,527	36,602	37,376	36,532
Weighted average common shares outstanding, diluted	37,527	36,602	37,376	36,532
Comprehensive loss:				
Net loss	$ (5,766)	$ (174)	$ (12,276)	$ (11,023)
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	1,665	133	1,641	1,340
Unrealized (losses) gains on marketable securities	(13)	25	(4)	60
Total other comprehensive income	1,652	158	1,637	1,400
Comprehensive loss	$ (4,114)	$ (16)	$ (10,639)	$ (9,623)

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

SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, amounts in thousands except share data)

	Common Stock		Additional		Accumulated Other		Total
	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Comprehensive Loss	Accumulated Deficit	Stockholders' Equity
Balances at April 30, 2020	37,661,641	376	245,558	(147)	(2,152)	(199,734)	$ 43,901
Issuance of common stock pursuant to vesting of restricted stock units	66,346	1	(1)	—	—	—	—
Stock-based compensation expense	—	—	260	—	—	—	260
Repurchases of common stock	—	—	—	(80)	—	—	(80)
Unrealized losses on marketable securities	—	—	—	—	(13)	—	(13)
Foreign currency translation adjustment	—	—	—	—	1,665	—	1,665
Net loss	—	—	—	—	—	(5,766)	(5,766)
Balances at July 31, 2020	37,727,987	$ 377	$ 245,817	$ (227)	$ (500)	$ (205,500)	$ 39,967

	Common Stock		Additional		Accumulated Other		Total
	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Comprehensive Loss	Accumulated Deficit	Stockholders' Equity
Balances at April 30, 2019	36,553,025	365	242,885	(5)	(2,151)	(195,152)	$ 45,942
Issuance of common stock pursuant to vesting of restricted stock units	258,036	2	(2)	—	—	—	—
Stock-based compensation expense	—	—	631	—	—	—	631
Repurchases of common stock	—	—	—	(142)	—	—	(142)
Unrealized gains on marketable securities	—	—	—	—	25	—	25
Foreign currency translation adjustment	—	—	—	—	133	—	133
Net loss	—	—	—	—	—	(174)	(174)
Balances at July 31, 2019	36,811,061	$ 367	$ 243,514	$ (147)	$ (1,993)	$ (195,326)	$ 46,415

SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, amounts in thousands except share data)

	Common Stock		Additional		Accumulated Other		Total
	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Comprehensive Loss	Accumulated Deficit	Stockholders' Equity
Balances at January 31, 2020	37,303,952	$ 373	$ 245,067	$ (147)	$ (2,137)	$ (193,224)	$ 49,932
Issuance of common stock pursuant to vesting of restricted stock units	379,063	4	(4)	—	—	—	—
Issuance of common stock pursuant to exercise of stock options	39,270	—	119	—	—	—	119
Issuance of common stock pursuant to ESPP purchases	5,702	—	18	—	—	—	18
Stock-based compensation expense	—	—	617	—	—	—	617
Repurchases of common stock	—	—	—	(80)	—	—	(80)
Unrealized losses on marketable securities	—	—	—	—	(4)	—	(4)
Foreign currency translation adjustment	—	—	—	—	1,641	—	1,641
Net loss	—	—	—	—	—	(12,276)	(12,276)
Balances at July 31, 2020	37,727,987	$ 377	$ 245,817	$ (227)	$ (500)	$ (205,500)	$ 39,967

	Common Stock		Additional		Accumulated Other		Total
	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Comprehensive Loss	Accumulated Deficit	Stockholders' Equity
Balances at January 31, 2019	35,946,100	$ 359	$ 242,442	$ (5)	$ (3,393)	$ (184,303)	$ 55,100
Issuance of common stock pursuant to acquisition of Xstream	541,738	5	869	—	—	—	874
Issuance of common stock pursuant to vesting of restricted stock units	315,404	3	(3)	—	—	—	—
Issuance of common stock pursuant to ESPP purchases	7,819	—	9	—	—	—	9
Stock-based compensation expense	—	—	197	—	—	—	197
Repurchases of common stock	—	—	—	(142)	—	—	(142)
Unrealized gains on marketable securities	—	—	—	—	60	—	60
Foreign currency translation adjustment	—	—	—	—	1,340	—	1,340
Net loss	—	—	—	—	—	(11,023)	(11,023)
Balances at July 31, 2019	36,811,061	$ 367	$ 243,514	$ (147)	$ (1,993)	$ (195,326)	$ 46,415

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

SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in thousands)

	For the Six Months Ended July 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	$ (12,276)	$ (11,023)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	725	1,093
(Recovery of) provision for bad debts	(216)	388
Stock-based compensation expense	617	197
Deferred income taxes	186	(203)
Realized and unrealized foreign currency transaction loss	1,641	1,340
Other	(3)	67
Changes in operating assets and liabilities:		
Accounts receivable	6,332	8,482
Unbilled receivables	2,345	(6,598)
Inventory	—	726
Prepaid expenses and other current assets and other assets	291	196
Accounts payable	(1,290)	1,350
Accrued expenses and other liabilities	(2,814)	(2,463)
Deferred revenue	(1,084)	(1,590)
Net cash used in operating activities	(5,546)	(8,038)
Cash flows from investing activities:		
Purchases of property and equipment	(202)	(153)
Cash paid for acquisitions, net	—	(3,838)
Purchases of marketable securities	—	(823)
Proceeds from sales and maturities of marketable securities	2,476	1,593
Net cash provided by (used in) investing activities	2,274	(3,221)
Cash flows from financing activities:		
Proceeds from issuance of common stock	137	9
Repurchases of common stock	(80)	(142)
Proceeds from Paycheck Protection Program	2,413	—
Net cash provided by (used in) financing activities	2,470	(133)
Effect of exchange rate on cash and cash equivalents	(840)	277
Net decrease in cash, cash equivalents and restricted cash	(1,642)	(11,115)
Cash, cash equivalents and restricted cash at beginning of period	9,297	20,317
Cash, cash equivalents and restricted cash at end of period	$ 7,655	$ 9,202
Supplemental disclosure of cash flow information		
Income taxes paid	$ 92	$ 76
Non-cash activities:		
Purchases of property and equipment included in accounts payable	$ —	$ 58
Right-of-use assets obtained in exchange for lease obligations	$ 987	$ 2,048
Fair value of common stock issued in acquisition	$ —	$ 874

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

1. Nature of Business and Basis of Presentation

SeaChange International, Inc. ("we" or the "Company"), a Delaware corporation, was founded on July 9, 1993. We are an industry leader in the delivery of multiscreen, advertising and premium over-the-top ("OTT") video management solutions. Our software products and services are designed to empower video providers to create, manage and monetize the increasingly personalized, highly engaging experiences that viewers demand.

Liquidity

We continue to realize the savings related to our restructuring activities. In fiscal 2020, we continued to streamline our operations and closed our service organizations in Ireland and the Netherlands. These measures are important steps in restoring us to profitability and positive cash flow. We believe that existing cash and investments and cash expected to be provided by future operating results are adequate to satisfy our working capital, capital expenditure requirements and other contractual obligations for at least the next 12 months.

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 into 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.

Impact of COVID-19 Pandemic

In the first quarter of fiscal 2021, concerns related to the spread of COVID-19 began to create global business disruptions as well as disruptions in our operations and to create potential negative impacts on our revenues and other financial results. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020. The extent to which COVID-19 will impact our financial condition or results of operations is currently uncertain and depends on factors including the impact on our customers, partners, and vendors and on the operation of the global markets in general. Due to our business model, the effect of COVID-19 on our results of operations may also not be fully reflected for some time.

We are currently conducting business with substantial modifications to employee travel, employee work locations, virtualization or cancellation of customer and employee events, and remote sales, implementation, and support activities, among other modifications. These decisions may delay or reduce sales and harm productivity and collaboration. We have observed other companies and governments making similar alterations to their normal business operations, and in general, the markets are experiencing a significant level of uncertainty at the current time. Virtualization of our team's sales activities could foreclose future business opportunities, particularly as our customers limit spending, which could negatively impact the willingness of our customers to enter into or renew contracts with us. The pandemic has impacted our ability to complete certain implementations, negatively impacting our ability to recognize revenue, and could also negatively impact the payment of accounts receivable and collections. We may take further actions that alter our business operations as the situation evolves. As a result, the ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity, and financial results cannot be predicted at this time.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief and Economic Security Act (the "CARES) Act"). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. We continue to examine the impact that the CARES Act may have on our business, including the extent of our Paycheck Protection Program (the "PPP") loan forgiveness eligibility.

<u>The Paycheck Protection Program</u>

On May 5, 2020, the Company entered into a promissory note (the "Note") with Silicon Valley Bank (the "Lender") evidencing an unsecured loan in an aggregate principal amount of $2,412,890 pursuant to the PPP under the CARES Act administered by the U.S. Small Business Administration ("SBA"). The Note is included in our consolidated balance sheets.

Interest accrues on the Note at a fixed rate of one percent (1%) per annum, with the payment of the first six months of interest and principal deferred and is included in accrued expenses in our consolidated balance sheets. The Note has an initial term of two years, is unsecured and is guaranteed by the SBA. The Company may apply to the Lender for forgiveness of the Note, with the amount which may be forgiven equal to the sum of qualifying expenses, including payroll costs, covered rent obligations, and covered utility payments incurred by the Company during the twenty-four week period beginning on May 7, 2020, calculated in accordance with the terms of the CARES Act.

Subject to any forgiveness under the PPP, the Note will mature on May 5, 2022. Beginning on the seven-month anniversary of the date of the Note, the Company is required to make 18 monthly payments of principal and interest. The Note may be prepaid at any time prior to maturity with no prepayment penalties. The Note provides for customary events of default including, among others, those relating to breaches of the Company's obligations under the Note, including a failure to make payments, any bankruptcy or similar proceedings involving the Company, and certain material effects on the Company's ability to repay the Note. The Note may be accelerated upon the occurrence of an event of default.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). We consolidate the financial statements of our wholly-owned subsidiaries and all intercompany transactions and account balances have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to applicable rules and regulations. In the opinion of management, all adjustments of a normal recurring nature which were considered necessary for a fair presentation have been included. The year-end consolidated balance sheet data as of January 31, 2020 was derived from our audited consolidated financial statements and may not include all disclosures required by U.S. GAAP. The results of operations for the three and six months ended July 31, 2020 are not necessarily indicative of the results to be expected for the entire year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020, filed with the SEC on April 20, 2020.

2. Significant Accounting Policies

Use of Estimates

The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Significant estimates and assumptions reflected in these consolidated financial statements include, but are not limited to, those related to revenue recognition, allowance for doubtful accounts, goodwill and intangible assets, right-of-use operating leases, impairment of long-lived assets, accounting for income taxes, the valuation of stock-based awards, and ongoing legal matters. We base our estimates on historical experience, known trends and other market-specific or relevant factors that are believed to be reasonable under the circumstances. On an ongoing basis, management evaluates its estimates as there are changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results may differ from those estimates or assumptions.

Business Combinations

We account for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations. We allocate the purchase price of the acquisition to the tangible assets acquired, liabilities assumed, and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition-related expenses and restructuring costs are expensed as incurred. During the measurement period, we record adjustments to provisional amounts recorded for assets acquired and liabilities assumed with the corresponding offset to goodwill. After the measurement period, which could be up to one year after the transaction date, subsequent adjustments are recorded to the Company's consolidated statements of operations.

Cash, cash equivalents and restricted cash

Cash and cash equivalents include cash on hand and on deposit and highly liquid investments in money market mutual funds, government sponsored enterprise obligations, treasury bills, commercial paper and other money market securities with remaining maturities at the date of purchase of 90 days or less. All cash equivalents are carried at cost, which approximates fair value. Restricted cash represents cash that is restricted as to withdrawal or usage and consists primarily of cash held as collateral in relation to obligations set forth by the landlord of our Poland facility.

The following table provides a summary of cash, cash equivalents and restricted cash that constitutes the total amounts shown in the consolidated statements of cash flows as of July 31, 2020 and 2019:

	As of July 31,			
	2020		2019	
	(Amounts in thousands)			
Cash and cash equivalents	$	7,427	$	9,202
Restricted cash		228		—
Total cash, cash equivalents and restricted cash	$	7,655	$	9,202

Concentration of Credit Risk and of Significant Customers

Financial instruments which potentially expose us to concentrations of credit risk include cash, cash equivalents and restricted cash, marketable securities and accounts receivable. We have cash investment policies which, among other things, limit investments to investment-grade securities. We restrict our cash equivalents and marketable securities to repurchase agreements with major banks and U.S. government and corporate securities which are subject to minimal credit and market risk. We perform ongoing credit evaluations of our customers.

We sell our software products and services worldwide primarily to service providers consisting of operators, telecommunications companies, satellite operators and broadcasters. Two customers accounted for 22% and 11% of total revenue in the second quarter of fiscal 2021 and two customers accounted for 20% and 10% of total revenue in the second quarter of fiscal 2020. One customer accounted for 18% of total revenue in the first six months of fiscal 2021 and one customer accounted for 14% of total revenue in the first six months of fiscal 2020. Two customers accounted for 29% and 17% of the accounts receivable balance as of July 31, 2020. Two customers accounted for 16% and 10% of the accounts receivable balance as of January 31, 2020.

Marketable Securities

Our investments in debt securities are classified as available-for-sale and are carried at fair value, with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive loss in stockholders' equity. Realized gains and losses and declines in value determined to be other than temporary are based on the specific identification method and are included as a component of other expense, net in the consolidated statements of operations and comprehensive loss.

We evaluate our investments with unrealized losses for other-than-temporary impairment. When assessing investments for other-than-temporary declines in value, we consider such factors as, among other things, how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost, our ability and intent to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value and market conditions in general. If any adjustment to fair value reflects a decline in the value of the investment that we consider to be "other than temporary," we reduce the investment to fair value through a charge to the consolidated statement of operations and comprehensive loss. No such adjustments were necessary during the periods presented.

Fair Value Measurements

Certain assets and liabilities are carried at fair value under U.S. GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

Our cash equivalents and marketable securities are carried at fair value determined according to the fair value hierarchy described above. The carrying values of our accounts and other receivables, unbilled receivables, accounts payable, accrued expenses, and the Note approximate their fair values due to the short-term nature of these assets and liabilities.

Goodwill and Acquired Intangible Assets

We record goodwill when consideration paid in a business acquisition exceeds the value of the net assets acquired. Our estimates of fair value are based upon assumptions believed to be reasonable at that time but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate and unanticipated events or circumstances may occur, which may affect the accuracy or validity of such assumptions, estimates or actual results. Goodwill is not amortized, but rather is tested for impairment annually on August 1st of each year, or more frequently if facts and circumstances warrant a review, such as the ones mentioned in impairments of long-lived assets below. We have determined that there is a single reporting unit for the purpose of conducting this goodwill impairment assessment. We assess both the existence of potential impairment and the amount of impairment loss by comparing the fair value of the reporting unit with its carrying amount, including goodwill. The Company tested for goodwill impairment as of July 31, 2020 in consideration of the COVID-19 pandemic and determined there was no impairment. Through July 31, 2020, we have recorded accumulated goodwill impairment charges of $54.8 million.

Intangible assets are recorded at their estimated fair values at the date of acquisition. We amortize acquired intangible assets over their estimated useful lives based on the pattern of consumption of the economic benefits or, if that pattern cannot be readily determined, on a straight-line basis.

Impairment of Long-Lived Assets

Long-lived assets primarily consist of property, plant and equipment and intangible assets with finite lives. Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of long-lived assets or groups of assets is assessed based on a comparison of the carrying amount to the estimated future undiscounted cash flows. If estimated future undiscounted net cash flows are less than the carrying amount, the asset is considered impaired and expense is recorded at an amount required to reduce the carrying amount to fair value. Determining the fair value of long-lived assets includes significant judgment by management and different judgments could yield different results.

We assess the useful lives and possible impairment of existing recognized long-lived assets whenever events or changes in circumstances occur that indicate that it is more likely than not that an impairment has occurred. We test long-lived assets for impairment by comparing the carrying amount to the sum of the net undiscounted cash flows expected to be generated by the asset whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset exceeds its net undiscounted cash flows, then an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value. We use a discounted cash flow approach or other methods, if appropriate, to assess fair value. Factors considered important which could trigger a review include:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for our overall business;
- identification of other impaired assets within a reporting unit;
- significant negative industry or economic trends;
- a significant decline in our stock price for a sustained period; and
- a decline in our market capitalization relative to net book value.

Determining whether a triggering event has occurred involves significant judgment. (see Note 5).

Revenue Recognition

Our revenue is derived from sales of software licenses and associated hardware and support services, including professional services and maintenance fees related to our software licenses.

Our contracts, including contracts for our end-to-end software delivery platform solution (the "Framework"), often contain multiple performance obligations. For contracts with multiple performance obligations, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis when available or expected cost plus margin or residual approach. If the transaction price contains discounts or we expect to provide future price concessions, these elements are considered when determining the transaction price prior to allocation. Variable fees within the transaction price are estimated and recognized as revenue when we satisfy our performance obligations to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. If the contract grants the client the option to acquire additional products or services, we assess whether or not any discount on the products and services is in excess of levels normally available to similar clients and, if so, we account for that discount as an additional performance obligation.

Framework

We have concluded that the Framework has multiple performance obligations. The selling price of the Framework is highly variable as a result of our value-based engagement where pricing for our customers is based on the operating expense savings that we enable using the Framework engagement.

Framework Software Licenses

We have concluded that a Framework software license is a distinct performance obligation as the client can benefit from the software on its own. Software license revenue is included in product revenue in our consolidated statement of operations and comprehensive loss and is typically recognized when control is transferred to the client, which is defined as the point in time when the client can use and benefit from the license. The software license is delivered before related services are provided and is functional without services, updates, and technical support. As a result of the highly variable selling price, revenue recognition and consideration related to the Framework software license is allocated under the residual method.

Framework Hardware

We have concluded that Framework hardware, when included in a Framework contract, is a distinct performance obligation as the client can benefit from the product. Framework hardware revenue is included in product revenue in our consolidated statement of operations and comprehensive loss and is typically recognized when control is transferred to the customer, which is defined as the point in time when the client can use and benefit from the hardware. In situations where the hardware is distinct and it is delivered before services are provided and is functional without services, control is transferred upon delivery or acceptance by the customer.

Framework Support Services

We have concluded that Framework support services is a distinct performance obligation. Framework support services is included in services revenue in our consolidated statements of operations and comprehensive loss. Support services includes software upgrades on a when-and-if available basis, support, bug fixes or patches and general maintenance support. Framework support services is not sold on a standalone basis. The standalone selling price is determined using a cost-plus approach, and revenue is recognized ratably over the passage of the contractual term.

Legacy Software Licenses

We have concluded that a software license is a distinct performance obligation as the client can benefit from the software on its own. Software license revenue is included in product revenue in our consolidated statement of operations and comprehensive loss and is typically recognized when control is transferred to the client, which is defined as the point in time when the client can use and benefit from the license. The software license is delivered before related services are provided and is functional without services, updates, and technical support.

Legacy Hardware

We have concluded that hardware is a distinct performance obligation as the client can benefit from the product on its own. Hardware revenue is included in product revenue in our consolidated statement of operations and comprehensive loss and is typically recognized when control is transferred to the customer, which is defined as the point in time when the client can use and benefit from the hardware. In situations where the hardware is distinct and it is delivered before services are provided and is functional without services, control is transferred upon delivery or acceptance by the customer.

Legacy Maintenance

Historically, maintenance revenue, which is included in services revenue in our consolidated statements of operations and comprehensive loss, includes revenue from client support and related professional services. Client support includes software upgrades on a when-and-if available basis, telephone support, bug fixes or patches and general hardware maintenance support. Maintenance is priced as a percentage of the list price of the related software license and hardware. Historically, we determined the standalone selling price of maintenance based on this pricing relationship and observable data from standalone sales of maintenance.

We have identified three separate distinct performance obligations of maintenance:

- Software upgrades and updates;
- Technical support; and
- Hardware support.

These performance obligations are distinct within the contract and, although they are not sold separately, the components are not essential to the functionality of the other components. Each of the performance obligations included in maintenance revenue is a stand ready obligation that is recognized ratably over the passage of the contractual term for products sold on a standalone basis.

Legacy Services

Historically, our services revenue, excluding maintenance revenue, is comprised of software license implementation services, engineering services, training and reimbursable expenses. We have concluded that services are distinct performance obligations, with the exception of engineering services. Engineering services may be provided on a standalone basis or bundled with a license when we are providing custom development.

The standalone selling price for services in time and materials contracts is determined by observable prices in standalone services arrangements and recognized as revenue as the services are performed based on an input measure of hours incurred to total estimated hours.

We estimate the standalone selling price for fixed price services based on estimated hours adjusted for historical experience at time and material rates charged in standalone services arrangements. Revenue for fixed price services is recognized over time as the services are provided based on an input measure of hours incurred to total estimated hours.

Contract Modifications

We occasionally enter into amendments to previously executed contracts that constitute contract modifications. We assess each of these contract modifications to determine:

- If the additional products and services are distinct from the product and services in the original arrangement; and
- If the amount of consideration expected for the added products and services reflects the standalone selling price of those products and services.

A contract modification meeting both criteria is accounted for as a separate contract. A contract modification not meeting both criteria is considered a change to the original contract and is accounted for on either a prospective basis as a termination of the existing contract and the creation of a new contract or a cumulative catch-up basis.

Significant Judgments

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Once we determine the performance obligations, we determine the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. We then allocate the transaction price to each performance obligation in the contract based on a relative standalone selling price method. The corresponding revenue is recognized as the related performance obligations are satisfied as discussed in the revenue categories above.

Judgment is required to determine the standalone selling price for each distinct performance obligation. We determine standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price, taking into account available information such as market conditions, and internally approved pricing guidelines related to the performance obligations. In instances where stand-alone selling price is not directly observable, such as when we do not sell the product or service separately, we determine the stand-alone selling price based on a cost-plus model as market and other observable inputs are seldom present based on the proprietary nature of our products and services.

Our contracts do not generally include a variable component to the transaction price. With certain statements of work, we explicitly state that we are to be reimbursed for reasonable travel and entertainment expenses incurred as part of the delivery of professional services. In the cases when we are entitled to collect all travel and entertainment expenses incurred, an estimate of the fulfillment costs is made at the onset of the contract in order to determine the transaction price. The revenue associated with travel and entertainment expenses is then recognized over time along with the professional services.

Some of our contracts have payment terms that differ from the timing of revenue recognition, which requires us to assess whether the transaction price for those contracts include a significant financing component. We have elected the practical expedient that permits an entity to not adjust for the effects of a significant financing component if we expect that at the contract inception, the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service, will be one year or less. For those contracts in which the period exceeds the one-year threshold, this assessment, as well as the quantitative estimate of the financing component and its relative significance, requires judgment. We estimate the significant financing component provided to our customers with extended payment terms by determining the present value of the future payments by applying a discount rate that reflects the customer’s creditworthiness.

Contract Balances

Contract assets consist of unbilled revenue, which is recognized as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Unbilled receivables expected to be billed and collected within one year are classified as current assets or long-term assets if expected to be billed and collected after one year. Contract liabilities consist of deferred revenue and customer deposits that arise when amounts are billed to or collected from customers in advance of revenue recognition.

Costs to Obtain and Fulfill a Contract

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that commissions and special incentive payments ("Spiffs") for hardware and software maintenance and support and professional services paid under our sales incentive programs meet the requirements to be capitalized under Accounting Standards Codification ("ASC") 340-40. Costs to obtain a contract are amortized as selling and marketing expense over the expected period of benefit in a manner that is consistent with the transfer of the related goods or services to which the asset relates. The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract and the estimate of the amortization period. The commissions and Spiffs related to professional services are amortized over time as work is completed. The commissions and Spiffs for hardware and software maintenance are amortized over the life of the contract. These costs are periodically reviewed for impairment. We determined that no impairment of these assets existed as of July 31, 2020 or January 31, 2020. We have elected to apply the practical expedient and recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less. Total deferred capitalized commission costs were $862 thousand as of July 31, 2020 compared to $958 thousand as of January 31, 2020. Current deferred capitalized commission costs are included in prepaid expense and other current assets in our consolidated balance sheets and non-current deferred capitalized commission costs are included in other assets in our consolidated balance sheets. Capitalized commissions expensed during the six months ended July 31, 2020 and 2019 included in the consolidated statement of operations and comprehensive loss were $218 thousand and $59 thousand, respectively.

We capitalize incremental costs incurred to fulfill our contracts that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy our performance obligation under the contract, and (iii) are expected to be recovered through revenue generated under the contract. Contract fulfillment costs include direct labor for support services, software enhancements, reimbursable expenses and professional services for customized software development costs. The revenue associated with the support services, software enhancements and reimbursable expenses is recognized ratably over time; therefore, the associated costs are expensed as incurred. The professional services associated with the customized software are not recognized until completion. As such, the professional services costs are capitalized and recognized upon completion of the services.

Leases

We account for our leases in accordance with ASC 842, *Leases*. A contract is accounted for as a lease when we have the right to control the asset for a period of time while obtaining substantially all of the asset's economic benefits. We determine if an arrangement is a lease or contains an embedded lease at inception. For arrangements that meet the definition of a lease, we determine the initial classification and measurement of our right-of-use operating lease asset and corresponding liability at the lease commencement date. We determine the classification and measurement of a modified lease at the date it is modified. The lease term includes only renewal options that are reasonably assured to exercise. The present value of lease payments is typically determined by using the Company's estimated secured incremental borrowing rate for the associated lease term as interest rates implicit in the leases are not normally readily determinable. Management's policy is to utilize the practical expedient to not record leases with an original term of twelve months or less on our consolidated balance sheets. Lease payments are recognized in the consolidated statements of operations and comprehensive loss on a straight-line basis over the lease term.

Our existing leases are for facilities and equipment. None of our leases are with related parties. In addition to rent, office leases may require us to pay additional amounts for taxes, insurance, maintenance and other expenses, which are generally referred to as non-lease components. As a practical expedient, we account for the non-lease components together with the lease components as a single lease component for all of our leases. Only the fixed costs for leases are accounted for as a single lease component and recognized as part of a right-of-use asset and liability.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of unrestricted common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the sum of the weighted average number of unrestricted common shares outstanding during the period and the weighted average number of potential common shares from the assumed exercise of stock options and the vesting of shares of restricted and deferred common stock units using the "treasury stock" method when the effect is not anti-dilutive. In periods in which we report a net loss, diluted net loss per share is the same as basic net loss per share.

The number of common shares used in the computation of diluted net loss per share for the periods presented does not include the effect of the following potentially outstanding common shares because the effect would have been anti-dilutive:

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2020	2019	2020	2019
	(Amounts in thousands)			
Stock options	2,314	2,596	967	2,764
Restricted stock units	65	128	58	219
Deferred stock units	82	254	82	229
Performance stock units	—	120	—	111
	2,461	3,098	1,107	3,323

Recently Issued Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)* ("ASU 2016-13"), which introduces a new methodology for accounting for credit losses on financial instruments, including available-for-sale debt securities and accounts receivable. The guidance establishes a new "expected loss model" that requires entities to estimate current expected credit losses on financial instruments by using all practical and relevant information. Any expected credit losses are to be reflected as allowances rather than reductions in the amortized cost of available-for-sale debt securities. ASU 2016-13 is effective in the first quarter of our fiscal 2024. We are currently evaluating if this guidance will have a material effect to our consolidated financial statements.

3. Fair Value Measurements

The following tables set forth our financial assets that were accounted for at fair value on a recurring basis. There were no fair value measurements of our financial assets using level 3 inputs for the periods presented:

		Fair Value at July 31, 2020 Using	
	Total	Level 1	Level 2
	(Amounts in thousands)		
Assets:			
Cash equivalents	$ 1,432	$ —	$ 1,432
Marketable securities:			
U.S. Treasury Notes and bonds	1,887	1,887	—
Corporate bonds	254	—	254
Total	$ 3,573	$ 1,887	$ 1,686

		Fair Value at January 31, 2020 Using	
	Total	Level 1	Level 2
	(Amounts in thousands)		
Assets:			
Cash equivalents	$ 1,408	$ 1,408	$ —
Marketable securities:			
U.S. Treasury Notes and bonds	3,360	3,360	—
Corporate bonds	1,257	—	1,257
Total	$ 6,025	$ 4,768	$ 1,257

Cash equivalents include money market funds and U.S. treasury bills.

Marketable securities by security type consisted of the following:

	As of July 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Amounts in thousands)			
U.S. Treasury Notes and bonds	$ 1,841	$ 46	$ —	$ 1,887
Corporate bonds	251	3	—	254
	$ 2,092	$ 49	$ —	$ 2,141

	As of January 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Amounts in thousands)			
U.S. Treasury Notes and bonds	$ 3,310	$ 50	$ —	$ 3,360
Corporate Bonds	1,254	3	—	1,257
	$ 4,564	$ 53	$ —	$ 4,617

As of July 31, 2020, marketable securities consisted of investments that mature within one year.

4. Consolidated Balance Sheet Detail

Property and equipment, net

Property and equipment, net consists of the following:

	As of	
	July 31, 2020	January 31, 2020
	(Amounts in thousands)	
Computer equipment, software and demonstration equipment	$ 9,748	$ 9,695
Service and spare components	—	1,158
Office furniture and equipment	307	170
Leasehold improvements	206	154
	10,261	11,177
Less: Accumulated depreciation and amortization	(9,625)	(10,623)
Total property and equipment, net	$ 636	$ 554

Accrued expenses

Accrued expenses consist of the following:

	As of	
	July 31, 2020	January 31, 2020
	(Amounts in thousands)	
Accrued employee compensation and benefits	$ 2,634	$ 3,236
Accrued professional fees	328	928
Sales tax and VAT payable	438	317
Accrued restructuring	4	744
Current obligation - right of use operating leases	1,295	722
Accrued third party hardware costs	—	1,169
Accrued other	957	870
Total accrued expenses	$ 5,656	$ 7,986

5. Goodwill and Intangible Assets

Goodwill represents the difference between the purchase price and the estimated fair value of identifiable assets acquired and liabilities assumed. We are required to perform impairment tests related to our goodwill annually, which we perform during the third quarter of each fiscal year or if we identify certain events or circumstances that would more likely than not reduce the estimated fair value of the goodwill below its carrying amount. The following table represents the changes in goodwill since January 31, 2020:

	Goodwill (Amounts in thousands)
Balance as of January 31, 2020	$ 9,775
Translation adjustment	666
Balance as of July 31, 2020	$ 10,441

Intangible assets, net, consisted of the following at July 31, 2020:

	As of July 31, 2020			
	Gross	Accumulated Amortization	Cumulative Translation Adjustment	Net
	(Amounts in thousands)			
Finite-lived intangible assets:				
Acquired customer contracts	$ 2,205	$ 1,084	$ 32	$ 1,153
Acquired existing technology	1,364	672	23	715
Total finite-lived intangible assets	$ 3,569	$ 1,756	$ 55	$ 1,868

We recognized amortization expense of intangible assets in operating expense categories on the consolidated statement of operations and comprehensive loss as follows:

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2020	2019	2020	2019
	(Amounts in thousands)		(Amounts in thousands)	
Selling and marketing	$ 366	$ 185	$ 366	$ 370
Research and development	(67)	115	217	228
	$ 299	$ 300	$ 583	$ 598

Future estimated amortization expense of acquired intangibles as of July 31, 2020 is as follows:

For the Fiscal Years Ended January 31,	Estimated Amortization Expense (Amounts in thousands)
2021	$ 623
2022	1,245
Total	$ 1,868

6. Commitments and Contingencies

Litigation

Certain conditions may exist as of the date the consolidated financial statements are issued which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. We assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against us, or unasserted claims that may result in such proceedings, we evaluate the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in our consolidated financial statements. If our assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed.

Indemnification and Warranties

We provide indemnification, to the extent permitted by law, to our officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee or agent is, or was, serving at our request in such capacity. With respect to acquisitions, we provide indemnification to, or assume indemnification obligations for, the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies' governing documents. As a matter of practice, we have maintained directors' and officers' liability insurance including coverage for directors and officers of acquired companies.

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of our historical 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. There are no current pending legal proceedings, in the opinion of management that would have a material adverse effect on our financial position, results from operations and cash flows. There is no assurance that future legal proceedings arising from ordinary course of business or otherwise, will not have a material adverse effect on our financial position, results from operations or cash flows.

We warrant that our products, including software products, will substantially perform in accordance with our standard published specifications in effect at the time of delivery. In addition, we provide maintenance support to our customers and therefore allocate a portion of the product purchase price to the initial warranty period and recognize revenue on a straight-line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. When we receive revenue for extended warranties beyond the standard duration, it is deferred and recognized on a straight-line basis over the contract period. Related costs are expensed as incurred.

7. Operating Leases

The Company has noncancelable operating leases for facilities and equipment expiring at various dates through 2025 and thereafter.

The components of lease expense are as follows:

	Three Months Ended July 31, 2020	Six Months Ended July 31, 2020
	(Amounts in thousands)	
Operating lease cost	$ 306	$ 628
Short term lease cost	9	40
Total lease cost	$ 315	$ 668

Supplemental cash flow information related to the Company's operating leases was as follows:

	Three Months Ended July 31, 2020	Six Months Ended July 31, 2020
	(Amounts in thousands)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 244	$ 566

Supplemental balance sheet information related to the Company's operating leases was as follows:

	July 31, 2020	January 31, 2020
	(Amounts in thousands)	
Operating lease right-of-use assets	$ 5,505	$ 4,860
Current portion, operating lease liabilities	1,295	722
Operating lease liabilities, long term	4,607	4,348
Total operating lease liabilities	$ 5,902	$ 5,070
Weighted average remaining lease term (years)	4.5	
Weighted average incremental borrowing rate	5.0%	

The current portion, operating lease liabilities is included in the balance of accrued expenses at July 31, 2020. Rent payments for continuing operations were approximately $0.3 million for the three months ended July 31, 2020 and $0.7 million for the six months ended July 31, 2020. Future minimum lease payments for operating leases, with initial or remaining terms in excess of one year at July 31, 2020, are as follows:

For the fiscal years ended January 31,	Payments for Operating Leases
	(Amounts in thousands)
2021	$ 552
2022	1,213
2023	1,337
2024	1,373
2025	1,413
Thereafter	59
Total lease payments	5,947
Less interest	45
Total operating lease liabilities	$ 5,902

8. Severance and Restructuring Costs

During the three and six months ended July 31, 2020, we incurred severance and restructuring costs of $0.5 million and $1 million, respectively, primarily for employee-related termination benefits driven by the COVID-19 pandemic and the transfer of our technical support operations to our Poland location. In fiscal 2020, we continued to streamline our operations and closed our service organizations in Ireland and the Netherlands.

The following table shows the change in accrued restructuring balances since January 31, 2020 primarily related to our fiscal 2020 restructuring efforts, reported as a component of accrued expenses on the consolidated balance sheets:

	Employee-Related Benefits
	(Amounts in thousands)
Accrued balance as of January 31, 2020	$ 744
Restructuring charges incurred	6
Cash payments	(737)
Other charges	(9)
Accrued balance as of July 31, 2020	4

9. Stock-Based Compensation Expense

Equity Plans

2011 Compensation and Incentive Plan

Our 2011 Compensation and Incentive Plan (the "2011 Plan") provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units ("RSUs"), deferred stock units ("DSUs"), performance stock units ("PSUs") and other equity based non-stock option awards as determined by the plan administrator to our officers, employees, consultants and directors. We may satisfy awards upon the exercise of stock options or the vesting of stock units with newly issued shares or treasury shares. The Board of Directors is responsible for the administration of the 2011 Plan and determining the terms of each award, award exercise price, the number of shares for which each award is granted and the rate at which each award vests. In certain instances, the Board of Directors may elect to modify the terms of an award. The number of shares authorized for issuance under the 2011 Plan is 9,300,000. Additionally, outstanding awards under the 2005 Equity Compensation and Incentive Plan that, since adoption of the 2011 Plan, expire, terminate, or are surrendered or canceled without having been fully exercised are available for issuance under the 2011 Plan. As of July 31, 2020, there were 2,188,287 shares available for future grant.

Nonemployee members of the Board of Directors may elect to receive DSUs or stock options in lieu of RSUs. The number of units subject to the DSUs is determined as of the grant date and shall fully vest one year from the grant date. The shares underlying the DSUs are not vested and issued until the earlier of the director ceasing to be a member of the Board of Directors (provided such time is subsequent to the first day of the succeeding fiscal year) or immediately prior to a change in control.

Option awards may be granted to employees at an exercise price per share of not less than 100% of the fair market value per common share on the date of the grant. Option awards granted under the 2011 Plan generally vest over a period of one to three years and expire ten years from the date of the grant.

We have a Long-Term Incentive Program, adopted in fiscal 2016, under which the named executive officers and other of our key employees may receive long-term equity-based incentive awards, which are intended to align the interests of our named executive officers and other key employees with the long-term interests of our stockholders and to emphasize and reinforce our focus on team success. Long-term equity-based incentive compensation awards are made in the form of stock options, RSUs and PSUs subject to vesting based in part on the extent to which employment continues.

2015 Employee Stock Purchase Plan

Under our 2015 Employee Stock Purchase Plan (the "ESPP), six-month offering periods begin on October 1 and April 1 of each year during which eligible employees may elect to purchase shares of our common stock according to the terms of the offering. On each purchase date, eligible employees can purchase our stock at a price per share equal to 85% of the closing price of our common stock on the exercise date, but no less than par value. The maximum number of shares of our common stock authorized for sale under the ESPP is 1,150,000 shares, of which 1,075,024 remain available under the ESPP as of July 31, 2020. Under the ESPP, 5,702 and 7,819 shares were purchased during the first three months of fiscal 2021 and fiscal 2020, respectively. The Company has suspended the ESPP as of April 1, 2020 and is still evaluating when suspension will be lifted, if at all.

Award Activity

There were no awards in the first quarter of fiscal 2021. In the second quarter of fiscal 2021, we granted 300,998 option awards, which include PSU options, and 607,807 RSU awards, which include DSUs and PSUs, with a combined fair value totaling $1.5 million. In the first quarter of fiscal 2021, we canceled 114,260 option awards and 98,841 RSU awards. In the second quarter of fiscal 2021, we canceled 184,999 option awards and 49,998 RSU awards.

Stock-Based Compensation

We recognized stock-based compensation expense within the accompanying consolidated statements of operations and comprehensive loss as follows:

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2020	2019	2020	2019
	(Amounts in thousands)		(Amounts in thousands)	
Cost of revenue	$ —	$ 22	$ (8)	$ 19
Research and development	68	82	135	150
Sales and marketing	55	77	95	(9)
General and administrative	137	450	395	37
	$ 260	$ 631	$ 617	$ 197

As of July 31, 2020, unrecognized stock-based compensation expense related to unvested stock options was approximately $1.4 million, which is expected to be recognized over a weighted average period of 1.8 years. As of July 31, 2020, unrecognized stock-based compensation expense related to unvested RSUs and DSUs was $1.2 million, which is expected to be recognized over a weighted average amortization period of 1.5 years. Additionally, as of July 31, 2020, unrecognized stock-based compensation expenses related to unvested PSUs was approximately $0.2 million, which is expected to be recognized over a weighted average amortization period of 1.6 years.

10. Revenues from Contracts with Customers

Disaggregated Revenue

The following table shows our revenue disaggregated by revenue stream for the three months ended July 30, 2020 and 2019:

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2020	2019	2020	2019
	(Amounts in thousands)		(Amounts in thousands)	
Product	$ 1,066	$ 11,968	$ 4,164	$ 13,147
Professional services	360	1,845	624	3,926
Maintenance	3,569	4,999	7,122	10,224
Total revenue	$ 4,995	$ 18,812	$ 11,910	$ 27,297

Transaction Price Allocated to Future Performance Obligations

The aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied or are partially satisfied as of July 31, 2020 is $26.7 million. This amount includes amounts billed for undelivered services that are included in deferred revenue.

11. Segment Information and Geographic Information

We have determined that we operate in one segment.

Geographic Information

The following summarizes revenue by customers' geographic locations:

	For the Three Months Ended July 31,				For the Six Months Ended July 31,			
	2020	%	2019	%	2020	%	2019	%
	(Amounts in thousands, except percentages)				(Amounts in thousands, except percentages)			
Revenue by customers' geographic locations:								
North America (1)	$ 2,318	46%	$ 11,567	62%	$ 5,896	50%	$ 15,656	57%
Europe and Middle East	2,150	43%	2,724	14%	4,132	35%	5,694	21%
Latin America	343	7%	4,132	22%	1,476	12%	5,179	19%
Asia Pacific	184	4%	389	2%	406	3%	768	3%
Total revenue	$ 4,995		$ 18,812		$ 11,910		$ 27,297	

(1) Includes total revenue for the United States for the periods shown as follows:

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2020	2019	2020	2019
	(Amounts in thousands, except percentages)		(Amounts in thousands, except percentages)	
US Revenue	$ 1,662	$ 9,666	$ 4,005	$ 13,064
% of total revenue	33%	51%	34%	48%

The following summarizes long-lived assets by geographic locations:

		As of July 31, 2020	%		As of January 31, 2020	%
		(Amounts in thousands, except percentages)				
Long-lived assets by geographic locations (1):						
North America	$	12,549	70%	$	13,293	75%
Europe and Middle East		5,293	30%		4,359	25%
Asia Pacific		31	0%		31	0%
Total long-lived assets by geographic location	$	17,873		$	17,683	

(1) Excludes long-term marketable securities and goodwill.

12. Income Taxes

Each interim period is considered an integral part of the annual period and, accordingly, we measure our income tax expense using an estimated annual effective tax rate. A company is required, at the end of each interim reporting period, to make its best estimate of the annual effective tax rate for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis, as adjusted for discrete taxable events that occur during the interim period.

We recorded an income tax benefit of less than $0.1 million and $0.6 million for the three months ended July 31, 2020 and July 31, 2019, respectively. We recorded an income tax benefit of $0.1 million and $0.2 million for the six months ended July 31, 2020 and July 31, 2019, respectively. The tax provision for the six months ended July 31, 2020 includes a $0.2 million tax benefit related to the reversal of tax reserves for uncertain tax positions due to the expiration of the Polish statute of limitations. Our effective tax rate in fiscal 2021 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.

We review 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 July 31, 2020, due to the uncertainty related to the ultimate use of certain deferred income tax assets, we have recorded a valuation allowance on certain 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 through fiscal 2013; 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 March 4, 2019, our Board of Directors approved and adopted a Tax Benefits Preservation Plan to potentially limit our ability to use net operating loss carryforwards and certain other tax attributes ("NOLs") to reduce our potential future federal income tax obligations. In connection with the Tax Benefits Preservation Plan, we declared a dividend of one preferred share purchase right for each share of our common stock issued and outstanding as of March 15, 2019 to our stockholders of record on that date. The Tax Benefits Preservation Plan expires no later than March 4, 2022, and was approved by our stockholders at our 2019 annual meeting of stockholders on July 11, 2019.

In response to the COVID-19 pandemic, the CARES Act was signed into law in March 2020. The CARES Act includes several provisions that provide economic relief for individuals and businesses. The Company does not expect the CARES Act to result in a material impact on our income taxes.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q contains or incorporates forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and such statements involve risks and uncertainties. The following information should be read in conjunction with the unaudited consolidated financial information and the notes thereto included in this Form 10-Q. You should not place undue reliance on these forward-looking statements. Actual events or results may differ materially due to competitive factors and other factors referred to in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K (the "Form 10-K") for our fiscal year ended January 31, 2020 and elsewhere in this Form 10-Q. These factors may cause our actual results to differ materially from any forward-looking statement. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate, and management's beliefs and assumptions. We undertake no obligation to publicly update or revise the statements in light of future developments. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on our behalf. Words such as "expect," "seek," "anticipate," "intend," "plan," "believe," "could," "estimate," "may," "target," "project," or variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict.

Business Overview

SeaChange International, Inc., a Delaware corporation ("SeaChange," the "Company," "us," or "we") 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 Waltham, Massachusetts. Our software products and services facilitate the aggregation, licensing, management and distribution of video and advertising content for service providers, telecommunications companies, satellite operators and broadcasters. We sell our software products and services worldwide, primarily to service providers including: operators, such as Liberty Global, plc., Altice NV, 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 broadcasters.

Our software 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 revenue by offering services such as video-on-demand ("VOD") programming on a variety of consumer devices, including televisions, 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 serve adjacent markets. Our core technologies provide a foundation for software products and services that can be deployed in next generation video delivery systems capable of increased levels of subscriber activity across multiple devices.

We have historically sold and licensed our products and services on a standalone basis. Commencing February 2019, we adopted a value-based selling approach as part of which we offer our customers the ability to license all of our product and services, including specified upgrades, for a fixed period of time for a fixed price which we refer to as Framework deals.

We initiated restructuring efforts in fiscal 2020 to improve operations and optimize our cost structure. In October 2019, we continued to streamline our operations and closed our service organizations in Ireland and the Netherlands resulting in annualized cost savings of approximately $6.0 million. We will also realize cost savings in fiscal 2021 related to the reduction in headcount driven by COVID-19.

On February 28, 2019, we entered into a Cooperation Agreement with TAR Holdings LLC and Karen Singer (collectively, "TAR Holdings"). As of the date of the Cooperation Agreement, TAR Holdings beneficially owned approximately 20.6% of our outstanding common stock. Pursuant to the Cooperation Agreement, we agreed to set the size of the Board of Directors of the Company (the "Board") at eight members, appoint Robert Pons to the Board as a Class II Director, and appoint Jeffrey Tuder to the Board as a Class III Director. Mr. Pons and Mr. Tuder were accordingly appointed to our Board upon execution of the Cooperation Agreement on February 28, 2019. On August 8, 2019, we amended the Cooperation Agreement to permit TAR Holdings, together with its affiliates, to own up to 25% of our securities.

On March 4, 2019, our Board approved and adopted a Tax Benefits Preservation Plan to deter acquisitions of our common stock that would potentially limit our ability to use net operating loss carryforwards and certain other tax attributes ("NOLs") to reduce our potential future federal income tax obligations, which was subsequently approved by our stockholders at our 2019 annual meeting of stockholders. In connection with the Tax Benefits Preservation Plan, we declared a dividend of one preferred share purchase right for each share of our common stock issued and outstanding as of March 15, 2019 to our stockholders of record on that date. The Tax Benefits Preservation Plan expires no later than March 4, 2022. On August 8, 2019, we amended the Tax Benefits Preservation Plan to permit TAR Holdings, together with its affiliates, to own up to 25% of our securities.

In the first quarter of fiscal 2021, we experienced a ransomware attack on our information technology system. While such attack did not have a material adverse effect on our business operation, it caused a temporary disruption. A forensic investigation is being conducted to determine if any data was compromised.

Results of Operations

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

Revenue and Gross Profit

The components of our total revenue and gross profit are described in the following table:

	For the Three Months Ended July 31,		Change		For the Six Months Ended July 31,		Change	
	2020	2019	$	%	2020	2019	$	%
	(Amounts in thousands, except for percentage data)				(Amounts in thousands, except for percentage data)			
Revenue:								
Product	$ 1,066	$ 11,968	$ (10,902)	(91.1%)	$ 4,164	$ 13,147	$ (8,983)	(68.3%)
Service	3,929	6,844	(2,915)	(42.6%)	7,746	14,150	(6,404)	(45.3%)
Total revenue	4,995	18,812	(13,817)	(73.4%)	11,910	27,297	(15,387)	(56.4%)
Cost of product revenue	788	3,039	(2,251)	(74.1%)	2,368	3,948	(1,580)	(40.0%)
Cost of service revenue	2,393	4,885	(2,492)	(51.0%)	5,219	9,553	(4,334)	(45.4%)
Total cost of revenue	3,181	7,924	(4,743)	(59.9%)	7,587	13,501	(5,914)	(43.8%)
Gross profit	$ 1,814	$ 10,888	$ (9,074)	(83.3%)	$ 4,323	$ 13,796	$ (9,473)	(68.7%)
Gross product profit margin	26.1%	74.6%		(48.5%)	43.1%	70.0%		(26.9%)
Gross service profit margin	39.1%	28.6%		10.5%	32.6%	32.5%		0.1%
Gross profit margin	36.3%	57.9%		(21.6%)	36.3%	50.5%		(14.2%)

Two customers accounted for 22% and 11% of total revenue for the three months ended July 31, 2020 and one customer accounted for 18% of total revenue for the six months ended July 31, 2020. Two customers accounted for 20% and 10% of total revenue for the three months ended July 2019 and one customer accounted for 14% of total revenue for the six months ended July 31, 2019. See Part I Item I, Note 2, *"Significant Accounting Policies,"* to this Form 10-Q for more information.

International revenue accounted for 67% and 49% of total revenue in the three months ended July 31, 2020 and 2019, respectively. International revenue accounted for 66% and 52% for the six months ended July 31, 2020 and 2019, respectively. The increase in international sales as a percentage of total revenue in the three and six months ended July 31, 2020 as compared to the three and six months ended July 31, 2019 is primarily due to a decrease in U.S. revenue generated.

Product Revenue

Product revenue decreased by $10.9 million and $9.0 million for the three and six months ended July 31, 2020, respectively, as compared to the three and six months ended July 31, 2019. The decrease for the three and six months ended July 31, 2020 was primarily due to the COVID-19 pandemic, resulting in lower sales.

Service Revenue

Service revenue decreased by $2.9 million and $6.4 million for the three and six months ended July 31, 2020, respectively, as compared to the three and six months ended July 31, 2019. The decrease for the three and six months ended July 31, 2020 was primarily due to a decrease in our legacy professional service revenue related to our individual product sales and upgrades and a reduction to maintenance and support revenue provided on post warranty contracts as customers continue to provide their own solutions and legacy products are decommissioned.

Gross Profit and Margin

Cost of revenue consists primarily of the cost of resold third-party products and services, purchased components and subassemblies, labor and overhead relating to the assembly, testing and implementation and ongoing maintenance of complete systems.

Our gross profit margin decreased by 22% and 14% for the three and six months ended July 31, 2020, respectively, as compared to the three and six months ended July 31, 2019 primarily due to lower revenue generated as a result of the COVID-19 pandemic. Product profit margin decreased by 49% and 27% for the three and six months ended July 31, 2020, respectively, as compared to the three and six months ended July 31, 2019 primarily due to lower revenue generated as a result of the COVID-19 pandemic. Service profit margins increased by 11% and 0.1% for the three and six months ended July 31, 2020, respectively, as compared to the three and six months ended July 31, 2019 primarily due to a reduction in headcount driven by the COVID-19 pandemic while still recognizing legacy revenue.

Operating Expenses

Research and Development

Research and development expenses consist of salaries and related costs, including stock-based compensation, for personnel in software development and engineering functions as well as contract labor costs, depreciation of development and test equipment and an allocation of related facility expenses. The following table provides information regarding the change in research and development expenses during the periods presented:

	For the Three Months Ended July 31,		Change		For the Six Months Ended July 31,		Change	
	2020	2019	$	%	2020	2019	$	%
	(Amounts in thousands, except for percentage data)				(Amounts in thousands, except for percentage data)			
Research and development expenses	$ 3,360	$ 3,775	$ (415)	(11.0%)	$ 7,526	$ 8,027	$ (501)	(6.2%)
% of total revenue	67.3%	20.1%			63.2%	29.4%		

Research and development expenses decreased by $0.4 million and $0.5 million for the three and six months ended July 31, 2020, respectively, as compared to the three and six months ended July 31, 2019 primarily due to a decrease in labor costs associated with the lower headcount resulting from the cost-savings efforts implemented as part of our restructuring program in the second half of fiscal 2020 as well as a reduction in headcount in the first and second quarters of fiscal 2021 driven by the COVID-19 pandemic.

Selling and Marketing

Selling and marketing expenses consist of salaries and related costs, including stock-based compensation, for personnel engaged in selling and marketing functions, as well as commissions, travel expenses, certain promotional expenses and an allocation of related facility expenses. The following table provides information regarding the change in selling and marketing expenses during the periods presented:

	For the Three Months Ended July 31,		Change		For the Six Months Ended July 31,		Change	
	2020	2019	$	%	2020	2019	$	%
	(Amounts in thousands, except for percentage data)				(Amounts in thousands, except for percentage data)			
Selling and marketing expenses	$ 1,728	$ 2,963	$ (1,235)	(41.7%)	$ 3,854	$ 5,815	$ (1,961)	(33.7%)
% of total revenue	34.6%	15.8%			32.4%	21.3%		

Selling and marketing expenses decreased by $1.2 and $2.0 million for the three and six months ended July 31, 2020, respectively, as compared to the three and six month ended July 31, 2019 primarily due to a decrease in labor costs associated with lower headcount from the cost-saving efforts implemented as part of our restructuring program in the second half of fiscal 2020 as well as a reduction in headcount, salaries and compensation, and a decrease in travel related expenses due to the COVID-19 pandemic.

General and Administrative

General and administrative expenses consist of salaries and related costs, including stock-based compensation, for personnel in executive, finance, legal, human resources, information technology and administrative functions, as well as legal and accounting services, insurance premiums and an allocation of related facilities expenses. The following table provides information regarding the change in general and administrative expenses during the periods presented:

	For the Three Months Ended July 31,		Change		For the Six Months Ended July 31,		Change	
	2020	2019	$	%	2020	2019	$	%
	(Amounts in thousands, except for percentage data)				(Amounts in thousands, except for percentage data)			
General and administrative expenses	$ 2,367	$ 4,150	$ (1,783)	(43.0%)	$ 4,421	$ 8,399	$ (3,978)	(47.4%)
% of total revenue	47.4%	22.1%			37.1%	30.8%		

General and administrative expenses decreased by $1.8 million for the three months ended July 31, 2020 as compared to the three months ended July 31, 2019 primarily due to a $1.2 million reduction in salaries and compensation driven by the COVID-19 pandemic, a $0.2 million decrease in bad debt expense, and reduction in other general expenditures. General and administrative expenses decreased by $4.0 million for the six months ended July 31, 2020 as compared to the six months ended July 31, 2019 primarily due to a $0.9 million reduction in salaries and compensation driven by the COVID-19 pandemic, a $1.8 million reduction in the use of outside services, a $0.6 million reduction to bad debt expense, and a reduction in other general expenditures.

Severance and Restructuring Costs

Severance costs consist of employee-related severance charges not related to a restructuring plan. Restructuring costs consist of charges related to restructuring including employee-related severance charges, remaining lease obligations and termination costs, and the disposal of equipment.

	For the Three Months Ended July 31,		Change		For the Six Months Ended July 31,		Change	
	2020	2019	$	%	2020	2019	$	%
	(Amounts in thousands, except for percentage data)				(Amounts in thousands, except for percentage data)			
Severance and restructuring costs	$ 543	$ 659	$ (116)	(17.6%)	$ 1,029	$ 870	$ 159	18.3%
% of total revenue	10.9%	3.5%			8.6%	3.2%		

Severance and restructuring costs decreased by $0.1 million for the three months ended July 31, 2020 as compared to the three months ended July 31, 2019 primarily due to the cost-saving efforts implemented as part of our restructuring program in fiscal 2020. Severance and restructuring costs increased by $0.2 million for the six months ended July 31, 2020 as compared to the six months ended July 31, 2019 primarily due to the termination costs related to a reduction in headcount driven by the COVID-19 pandemic.

Other Income (Expense), Net

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

	For the Three Months Ended July 31,		Change		For the Six Months Ended July 31,		Change	
	2020	2019	$	%	2020	2019	$	%
	(Amounts in thousands, except for percentage data)				(Amounts in thousands, except for percentage data)			
Interest income, net	$ 113	$ 90	$ 23	25.6%	232	173	59	34.1%
Foreign exchange gain (loss), net	240	(186)	426	(229.0%)	(91)	(2,081)	1,990	(95.6%)
Miscellaneous income (expense), net	20	18	2	11.1%	24	39	(15)	(38.5%)
	$ 373	$ (78)	$ 451		$ 165	$ (1,869)	$ 2,034	

The principal components of other income (expense), net were interest income, net of \$0.1 million and foreign exchange gain, net of \$0.2 million for the three months ended July 31, 2020 and interest income, net of \$0.1 million and foreign exchange loss, net of \$0.2 million for the three months ended July 31, 2019. The principal components of other income (expense), net were interest income, net of \$0.2 million and foreign exchange loss, net of \$0.1 million for the six months ended July 31, 2020 and interest income, net of $0.2 million and foreign exchange loss, net of $2.1 million for the six months ended July 31, 2019. Our foreign exchange gain (loss), net is primarily due to the revaluation of intercompany notes.

Income Tax Benefit

We recorded an income tax benefit of less than $0.1 million and $0.6 million for the three months ended July 31, 2020 and July 31, 2019, respectively. We recorded an income tax benefit of $0.1 million and $0.2 million for the six months ended July 31, 2020 and July 31, 2019, respectively. The tax provision for the six months ended July 31, 2020 includes a $0.2 million tax benefit related to the reversal of tax reserves for uncertain tax positions due to the expiration of the Polish statute of limitations. Our effective tax rate in fiscal 2021 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.

We review 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 July 31, 2020, due to the uncertainty related to the ultimate use of certain deferred income tax assets, we have recorded a valuation allowance on certain 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 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.

Liquidity and Capital Resources

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

	For the Six Months Ended July 31,	
	2020	2019
	(Amounts in thousands)	
Net cash used in operating activities	$ (5,546)	$ (8,038)
Net cash provided by (used in) investing activities	2,274	(3,221)
Net cash provided by (used in) financing activities	2,470	(133)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(840)	277
Net decrease in cash, cash equivalents and restricted cash	$ (1,642)	$ (11,115)

Historically, we have financed our operations and capital expenditures primarily with our cash and investments. Our cash, cash equivalents, and restricted cash and marketable securities totaled $9.8 million at July 31, 2020.

In fiscal 2020, we closed our Ireland and Netherlands service organizations in the continued streamlining of our operations resulting in annualized cost savings of approximately $6.0 million. In the first and second quarters of fiscal 2021, we reduced our headcount across all departments in response to the COVID-19 pandemic, which will result in approximately $7.6 million of annualized cost savings. Additionally, in the second quarter of fiscal 2021 we transferred our technical support services to our Poland location.

We believe that existing cash and investments and cash expected to be provided by future operating activities, augmented by the plans highlighted above, are adequate to satisfy our working capital, capital expenditure requirements and other contractual obligations for at least the next 12 months.

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 into 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.

On June 4, 2019, the Board authorized a share repurchase program, which expired on June 4, 2020, of up to $5.0 million of then outstanding shares of the Company. Under the share repurchase program, the Company is authorized to repurchase outstanding shares of common stock in accordance with applicable laws both on the open market, including under trading plans established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and in privately negotiated transactions. There was no stock repurchase activity in the first quarter of fiscal 2021.

Net cash used in operating activities

Net cash used in operating activities was $5.5 million for the six months ended July 31, 2020. Net cash used in operating activities was primarily the result of our net loss of $12.3 million, a $1.6 million non-cash foreign currency transaction loss, and changes in working capital, which includes a $6.3 million decrease in accounts receivable and a $2.3 million decrease in unbilled receivables, a $1.3 million decrease in accounts payable, a $2.8 million decrease in accrued expenses and other liabilities, and a $1.1 million decrease in deferred revenue.

Net cash used in operating activities was $8.0 million for the six months ended July 31, 2019. Net cash used in operating activities was primarily the result of our net loss of $11.0 million, a $1.3 million non-cash foreign currency transaction loss, and changes in working capital, which includes a $8.5 million decrease in accounts receivable, $2.5 million decrease in accrued expenses and other liabilities, and a $1.6 million decrease in deferred revenue partially offset by a $6.6 million increase in unbilled receivables and a $1.4 million increase in accounts payable.

Net cash provided by (used in) investing activities

Net cash provided by investing activities was $2.3 million for the six months ended July 31, 2020 and was primarily due to the proceeds from the sales and maturities of marketable securities partially offset by purchases of property and equipment. Net cash used in investing activities was $3.2 million for the six months ended July 31, 2019 and was primarily due to cash paid for the acquisition of Xstream A/S in February 2019 partially offset by the net proceeds from the sales and maturities of marketable securities.

Net cash provided by (used in) financing activities

Net cash provided by financing activities was $2.5 million for the six months ended July 31, 2020 due to the $2.4 million in proceeds from the Paycheck Protection Program ("PPP") and $0.1 million from the issuance of common stock related to option exercises and purchases through the Employee Stock Purchase Plan partially offset by $0.1 million in payments to the taxing authorities in connection with shares directly withheld from employees. Net cash used in financing activities was $0.1 million for the six months ended July 31, 2019 due to the $9 thousand in proceeds from the issuance of common stock offset by $0.1 million for the repurchases of common stock.

Impact of COVID-19 Pandemic

In the first quarter of fiscal 2021, concerns related to the spread of COVID-19 began to create global business disruptions as well as disruptions in our operations and to create potential negative impacts on our revenues and other financial results. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020. The extent to which COVID-19 will impact our financial condition or results of operations is currently uncertain and depends on factors including the impact on our customers, partners, and vendors and on the operation of the global markets in general. Due to our business model, the effect of COVID-19 on our results of operations may also not be fully reflected for some time.

We are currently conducting business with substantial modifications to employee travel, employee work locations, virtualization or cancellation of customer and employee events, and remote sales, implementation, and support activities, among other modifications. These decisions may delay or reduce sales and harm productivity and collaboration. We have observed other companies and governments making similar alterations to their normal business operations, and in general, the markets are experiencing a significant level of uncertainty at the current time. Virtualization of our team's sales activities could foreclose future business opportunities, particularly as our customers limit spending, which could negatively impact the willingness of our customers to enter into or renew contracts with us. The pandemic has impacted our ability to complete certain implementations, negatively impacting our ability to recognize revenue, and could also negatively impact the payment of accounts receivable and collections. We may take further actions that alter our business operations as the situation evolves. As a result, the ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity, and financial results cannot be predicted at this time.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (the "CARES) Act"). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified

improvement property. We continue to examine the impact that the CARES Act may have on our business, including the extent of our PPP loan forgiveness eligibility.

The Paycheck Protection Program

On May 5, 2020, the Company entered into a promissory note (the "Note") with Silicon Valley Bank (the "Lender") evidencing an unsecured loan in an aggregate principal amount of $2,412,890 pursuant to the PPP under the CARES Act administered by the U.S. Small Business Administration ("SBA").

Interest accrues on the Note at a fixed rate of one percent (1%) per annum, with the payment of the first six months of interest and principal deferred. The Note has an initial term of two years, is unsecured and is guaranteed by the SBA. The Company may apply to the Lender for forgiveness of the Note, with the amount which may be forgiven equal to the sum of qualifying expenses, including payroll costs, covered rent obligations, and covered utility payments incurred by the Company during the twenty-four week period beginning on May 7, 2020, calculated in accordance with the terms of the CARES Act.

Subject to any forgiveness under the PPP, the Note will mature on May 5, 2022. Beginning on the seven-month anniversary of the date of the Note, the Company is required to make 18 monthly payments of principal and interest. The Note may be prepaid at any time prior to maturity with no prepayment penalties. The Note provides for customary events of default including, among others, those relating to breaches of the Company's obligations under the Note, including a failure to make payments, any bankruptcy or similar proceedings involving the Company, and certain material effects on the Company's ability to repay the Note. The Note may be accelerated upon the occurrence of an event of default.

Critical Accounting Policies and Significant Judgments and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management.

There have been no material changes to our critical accounting policies and estimates from those disclosed in our financial statements and the related notes and other financial information included in our Form 10-K on file with the Securities and Exchange Commission (the "SEC").

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 2 to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company, as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, for this reporting period and are not required to provide the information required under this item.

ITEM 4. Controls and Procedures

Evaluation of disclosure controls and procedures. We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and chief financial officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of July 31, 2020, our chief executive officer and chief financial officer concluded that, as of that date, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting. There were no changes in our internal controls over financial reporting during the three months ended July 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact of their design and operating effectiveness.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of our historical 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. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us (see Note 6).

ITEM 1A. Risk Factors

In addition to other information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Form 10-K for the fiscal year ended January 31, 2020, which could materially affect our business, financial conditions, and results of operations. The risks described in our Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. There have been no material changes in our risk factors from those disclosed in the Form 10-K.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

(a) Exhibits

The following list of exhibits includes exhibits submitted with this Form 10-Q as filed with the SEC and those incorporated by reference to other filings.

Index to Exhibits

No.	Description
10.1*	Offer letter, dated as of December 10, 2018, by and between SeaChange International, Inc. and Marek Kielczewski.
10.2*	Offer letter, dated as of August 28, 2019, by and between SeaChange International, Inc. and Chad Hassler.
10.3*	Change-in-Control Severance Agreement, dated as of August 29, 2019, by and between SeaChange International, Inc. and Chad Hassler.
10.4	Note, dated May 5, 2020, between SeaChange International, Inc. and Silicon Valley Bank (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 11, 2020 with the Commission and incorporated herein by reference).
10.5	Letter of Intent, dated July 2, 2020, between SeaChange International, Inc. and CCUR Holdings, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 8, 2020 with the Commission and incorporated herein by reference).
31.1*	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101 filed herewith).

*Filed herewith

SIGNATURES

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

Dated: September 9, 2020

SEACHANGE INTERNATIONAL, INC.

by: /s/ YOSSI ALONI

Yossi Aloni
Chief Executive Officer

by: /s/ MICHAEL PRINN

Michael Prinn
Chief Financial Officer, Senior Vice President and Treasurer