SEACHANGE INTERNATIONAL INC
Form 10-Q
June 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2014

OR

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

For the transition period from __________ to__________

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3197974**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

50 Nagog Park, Acton, MA 01720

(Address of principal executive offices, including zip code)

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

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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): YES ¨ NO x

The number of shares outstanding of the registrant s Common Stock on June 2, 2014 was 32,825,633.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	April 30, 2014 (Unaudited)	January 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 103,257	$ 115,734
Marketable securities	7,066	5,555
Accounts and other receivables, net of allowance for doubtful accounts of $337 and $327 at April 30, 2014 and January 31, 2014, respectively	25,568	30,203
Unbilled receivables	5,530	5,511
Inventories	6,322	6,632
Prepaid expenses and other current assets	7,381	5,449
Total current assets	155,124	169,084
Property and equipment, net	17,337	18,530
Marketable securities, long-term	6,284	6,814
Investments in affiliates	3,051	1,051
Intangible assets, net	11,929	12,855
Goodwill	45,628	45,150
Other assets	840	836
Total assets	$ 240,193	$ 254,320
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 6,059	$ 6,640
Other accrued expenses	10,366	12,539
Deferred revenues	24,812	24,030
Total current liabilities	41,237	43,209
Deferred revenue, long-term	1,225	1,598
Other liabilities, long-term	949	936
Taxes payable, long-term	1,664	2,503
Deferred tax liabilities, long-term	2,526	1,633

Total liabilities		47,601		49,879
Commitments and contingencies (Note 6)				
Stockholders equity:				
Common stock, $0.01 par value; 100,000,000 shares authorized; 32,875,165 shares issued and 32,835,381 outstanding at April 30, 2014, and 33,037,671 shares issued and 32,997,887 outstanding at January 31, 2014		329		330
Additional paid-in capital		219,026		221,932
Treasury stock, at cost; 39,784 common shares		(1)		(1)
Accumulated loss		(25,155)		(15,688)
Accumulated other comprehensive loss		(1,607)		(2,132)
Total stockholders equity		192,592		204,441
Total liabilities and stockholders equity	$	240,193	$	254,320

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

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SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited, amounts in thousands, except per share data)

	Three Months Ended April 30,	
	2014	**2013**
Revenues:		
Products	$ 5,058	$ 14,808
Services	19,279	20,744
Total revenues	24,337	35,552
Cost of revenues:		
Products	1,544	2,658
Services	11,595	13,443
Amortization of intangible assets	270	313
Stock-based compensation expense	37	54
Total cost of revenues	13,446	16,468
Gross profit	10,891	19,084
Operating expenses:		
Research and development	10,928	9,692
Selling and marketing	3,438	3,602
General and administrative	4,016	4,967
Amortization of intangible assets	1,509	836
Stock-based compensation expense	559	1,059
Earn-outs and change in fair value of earn-outs		20
Professional fees: acquisitions, divestitures, litigation, and strategic alternatives	102	495
Severance and other restructuring costs	474	229
Total operating expenses	21,026	20,900
Loss from operations	(10,135)	(1,816)
Other income (expense), net	415	(465)
Loss before income taxes and equity income in earnings of affiliates	(9,720)	(2,281)
Income tax benefit	(234)	(241)
Equity income in earnings of affiliates, net of tax	19	20
Loss from continuing operations	(9,467)	(2,020)
Income from discontinued operations, net of tax		35

Net loss	$ (9,467)	$ (1,985)
Net loss	$ (9,467)	$ (1,985)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	520	(1,040)
Unrealized gain on marketable securities	5	3
Comprehensive loss	$ (8,942)	$ (3,022)
Net loss per share:		
Basic loss per share	$ (0.29)	$ (0.06)
Diluted loss per share	$ (0.29)	$ (0.06)
Net loss per share from continuing operations:		
Basic loss per share	$ (0.29)	$ (0.06)
Diluted loss per share	$ (0.29)	$ (0.06)
Net loss per share from discontinued operations:		
Basic loss per share	$	$ 0.00
Diluted loss per share	$	$ 0.00
Weighted average common shares outstanding:		
Basic	32,985	32,513
Diluted	32,985	32,513

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

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SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Three Months Ended April 30, 2014	Three Months Ended April 30, 2013
Cash flows from operating activities:		
Net loss	$ (9,467)	$ (1,985)
Net income from discontinued operations		(35)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities from continuing operations:		
Depreciation of property and equipment	995	1,180
Amortization of intangible assets	1,779	1,149
Stock-based compensation expense	596	1,113
Other	11	101
Changes in operating assets and liabilities:		
Accounts receivable	4,855	4,943
Unbilled receivables	40	(2,850)
Inventories	244	(583)
Prepaid expenses and other assets	(1,793)	4,081
Accounts payable	771	(831)
Accrued expenses	(3,731)	(1,652)
Deferred revenues	277	(1,349)
Other	141	(214)
Net cash (used in) provided by operating activities from continuing operations	(5,282)	3,068
Net cash provided by operating activities from discontinued operations		35
Total cash (used in) provided by operating activities	(5,282)	3,103
Cash flows from investing activities:		
Purchases of property and equipment	(371)	(507)
Purchases of marketable securities	(1,543)	(2,062)
Proceeds from sale and maturity of marketable securities	538	3,116
Investment in affiliate	(2,000)	
Acquisition of businesses and payment of contingent consideration, net of cash acquired		(3,206)
Other investing activities, net		19
Net cash used in investing activities from continuing operations	(3,376)	(2,640)
Net cash provided by investing activities from discontinued operations		2,000
Total cash used in investing activities	(3,376)	(640)

Cash flows from financing activities:		
Repurchases of common stock	(3,504)	
Proceeds from issuance of common stock relating to stock option exercises		84
Total cash (used in) provided by financing activities	(3,504)	84
Effect of exchange rate changes on cash	(315)	(79)
Net (decrease) increase in cash and cash equivalents	(12,477)	2,468
Cash and cash equivalents, beginning of period	115,734	106,721
Cash and cash equivalents, end of period	$ 103,257	$ 109,189
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 248	$ 17
Interest paid	$ 2	$
Supplemental disclosure of non-cash activities:		
Transfer of items originally classified as inventories to equipment	$ 123	$ 46

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

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Business and Basis of Presentation

The Company

SeaChange International, Inc. and its subsidiaries (SeaChange , we , or the Company) is an industry leader in the delivery of multi-screen video. Our products and services facilitate the aggregation, licensing, management and distribution of video (primarily movies and television programming) and television advertising content to cable television system operators and telecommunications companies.

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of SeaChange International, Inc. and its subsidiaries (SeaChange or the Company) in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reports and the instructions for the Quarterly Report on Form 10-Q (Form 10-Q) and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. GAAP have been condensed or omitted pursuant to such regulations. However, we believe that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our most recently audited financial statements and the notes thereto included in our Annual Report on Form 10-K (Form 10-K) as filed with the SEC. In the opinion of management, the accompanying financial statements include all adjustments necessary to present a fair presentation of the consolidated financial statements for the periods shown. Interim results are not necessarily indicative of the operating results for the full fiscal year or any future periods. The balance sheet data as of January 31, 2014 that is included in this Form 10-Q was derived from our audited financial statements but does not include all disclosures required by U.S. GAAP. The preparation of these financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Actual results may differ from our estimates. All intercompany transactions and balances have been eliminated. We have reclassified certain fiscal 2014 data to conform to our fiscal 2015 presentation.

We also hold minority investments in the capital stock of certain private companies having product offerings or customer relationships that have strategic importance. We evaluate our equity and debt investments and other contractual relationships with affiliate companies in order to determine whether the guidelines regarding the consolidation of variable interest entities (VIEs) should be applied in the financial statements. We have concluded that we are not the primary beneficiary for any VIEs. As such, no VIEs have been consolidated as of April 30, 2014.

2. Significant Accounting Policies

Revenue Recognition

Our transactions frequently involve the sales of hardware, software, systems and services in multiple-element arrangements. Revenues from sales of hardware, software and systems that do not require significant modification or customization of the underlying software are recognized when:

- title and risk of loss have passed to the customer;
- there is evidence of an arrangement;
- fees are fixed or determinable; and
- collection of the related receivable is considered probable.

Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities is deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements is recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. Accounting for contract amendments and customer change orders are included in contract accounting when executed. Revenue from shipping and handling costs and other out-of-pocket expenses reimbursed by customers are included in revenues and cost of revenues. Our share of intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.

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

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

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

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

For our cloud and managed service revenues, we generate revenue from two sources: (1) subscription and support services; and (2) professional services and other. Subscription and support revenue includes subscription fees from customers accessing our cloud-based software platform and support fees. Our arrangements with customers do not provide the customer with the right to take possession of the software supporting the cloud-based software platform at any time. Professional services and other revenue include fees from implementation and customization to support customer requirements. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. For the most part, subscription and support agreements are entered into for 12 to 36 months. Generally, a majority of the professional services component of the arrangements with customers is performed within a year of entering into a contract with the customer.

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In most instances, revenue from a new customer acquisition is generated under sales agreements with multiple elements, comprised of subscription and support and other professional services. We evaluate each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within our control.

3. Fair Value Measurements

Definition and Hierarchy

The applicable accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance establishes a framework for measuring fair value and expands required disclosure about the fair value measurements of assets and liabilities. This guidance requires us to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a non-recurring basis in periods subsequent to initial measurement, in a fair value hierarchy.

The fair value hierarchy is broken down into three levels based on the reliability of inputs and requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required, as well as the assets and liabilities that we value using those levels of inputs:

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not very active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The fair value measurements of the contingent consideration obligations related to our business acquisitions are valued using Level 3 inputs.

Valuation Techniques

When developing fair value estimates for certain financial assets and liabilities, we maximize the use of observable inputs and minimize the use of unobservable inputs. When available, we use quoted market prices, market comparables and discounted cash flow projections. Financial instruments include money market funds, U.S. treasury notes or bonds and U.S. government agency bonds.

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly. In periods of market inactivity, the observability of prices and inputs may be reduced for certain instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

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The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of April 30, 2014 and January 31, 2014:

	April 30, 2014	Fair Value at April 30, 2014 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Amounts in thousands)			
Financial assets:				
Cash	$ 100,756	$ 100,756	$	$
Money market accounts (a)	2,501	2,501		
Available for sale marketable securities:				
Current marketable securities:				
U.S. treasury notes and bonds conventional	3,527	3,527		
U.S. government agency issues	3,539		3,539	
Non-current marketable securities:				
U.S. government agency issues	6,284		6,284	
Total	$ 116,607	$ 106,784	$ 9,823	$

	January 31, 2014	Fair Value at January 31, 2014 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Amounts in thousands)			
Financial assets:				
Cash	$ 112,271	$ 112,271	$	$
Money market accounts (a)	3,463	3,463		
Available for sale marketable securities:				
Current marketable securities:				
U.S. treasury notes and bonds conventional	3,545	3,545		
U.S. government agency issues	2,010		2,010	
Non-current marketable securities:				
U.S. government agency issues	6,814		6,814	
Total	$ 128,103	$ 119,279	$ 8,824	$

(a) Money market funds and U.S. treasury bills are included in cash and cash equivalents on the accompanying consolidated balance sheet and are valued at quoted market prices for identical instruments in active markets.

Available-For-Sale Securities

We determine the appropriate classification of debt investment securities at the time of purchase and re-evaluate such designation as of each balance sheet date. Our investment portfolio consists of money market funds, U.S. treasury notes and bonds, and U.S. government agency notes and bonds as of April 30, 2014 and January 31, 2014. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. All cash equivalents are carried at cost, which approximates fair value. Our marketable securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, reported in stockholders equity as a component of accumulated other comprehensive loss. The amortization of premiums and accretion of discounts to maturity are computed under the effective interest method and are included in interest income, net in our consolidated statements of operations and comprehensive loss. Interest on securities is recorded as earned and is also included in interest income, net. Any realized gains or losses would be shown in the accompanying consolidated statements of operations and comprehensive loss in other income (expenses), net. We provide fair value measurement disclosures of available-for-sale securities in accordance with one of three levels of fair value measurement mentioned above.

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The following is a summary of available-for-sale securities, including the cost basis, aggregate fair value and gross unrealized gains and losses, for cash equivalents, short- and long-term marketable securities portfolio as of April 30, 2014 and January 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Amounts in thousands)		
April 30, 2014:				
Cash	$ 100,756	$	$	$ 100,756
Cash equivalents	2,501			2,501
Cash and cash equivalents	103,257			103,257
U.S. treasury notes and bonds short-term	3,523	4		3,527
U.S. government agency issues short-term	3,530	9		3,539
U.S. government agency issues long-term	6,273	11		6,284
Total cash, cash eqivalents and marketable securities	$ 116,583	$ 24	$	$ 116,607
January 31, 2014:				
Cash	$ 112,271	$	$	$ 112,271
Cash equivalents	3,463			3,463
Cash and cash equivalents	115,734			115,734
U.S. treasury notes and bonds short-term	3,540	5		3,545
U.S. government agency issues short-term	2,005	5		2,010
U.S. government agency issues long-term	6,806	8		6,814
Total cash, cash eqivalents and marketable securities	$ 128,085	$ 18	$	$ 128,103

The following is a schedule of the contractual maturities of available-for-sale investments as of April 30, 2014 (amounts in thousands):

	Estimated Fair Value
Maturity of one year or less	$ 7,066
Maturity between one and five years	6,284
Total	$ 13,350

4. Inventories

Inventories consist primarily of hardware and related component parts and are stated at the lower of cost (on a first-in, first-out basis) or market. Inventories consist of the following:

	April 30, 2014	January 31, 2014
	(Amounts in thousands)	
Components and assemblies	$ 2,290	$ 2,201
Finished products	4,032	4,431
Total inventory	$ 6,322	$ 6,632

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5. Goodwill and Intangible Assets

Goodwill

Changes in the carrying amount of goodwill for the three months ended April 30, 2014 were as follows:

	Goodwill (Amounts in thousands)	
Balance at January 31, 2014	$	45,150
Cumulative translation adjustment		478
Balance at April 30, 2014	$	45,628

We are required to perform impairment tests related to our indefinite-lived assets annually, which we perform as of August 1st of each fiscal year, or sooner if an indicator of impairment occurs. While no impairment charges resulted from our annual test, or any analysis performed during the interim periods since August 1, 2013, impairment charges may occur in the future as a result of changes in projected growth and other factors.

Intangible Assets

Intangible assets, net, consisted of the following:

		As of April 30, 2014			As of January 31, 2014		
	Weighted average remaining life (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
		(Amounts in thousands)					
Finite-lived intangible assets:							
Customer contracts	6.0	$ 32,847	$ (23,249)	$ 9,598	$ 32,593	$ (22,344)	$ 10,249
Non-compete agreements	1.0	2,811	(2,707)	104	2,772	(2,632)	140
Completed technology	5.1	11,595	(9,568)	2,027	11,461	(9,195)	2,266
Trademarks, patents and other		7,158	(7,158)		7,151	(7,151)	
Total finite-lived intangible assets		$ 54,411	$ (42,682)	$ 11,729	$ 53,977	$ (41,322)	$ 12,655
Indefinite-lived intangible assets:							
Trade names	Indefinite	$ 200	$	$ 200	$ 200	$	$ 200

Total indefinite-lived intangible assets	200		200	200		200
Total intangible assets	$ 54,611	$ (42,682)	$ 11,929	$ 54,177	$ (41,322)	$ 12,855

As of April 30, 2014, the estimated future amortization expense for our finite-lived intangible assets for the remainder of fiscal year 2015, the four succeeding fiscal years and thereafter is as follows (amounts in thousands):

Fiscal Year Ended January 31,	**Estimated Amortization Expense**
2015 (for the remaining nine months)	$ 3,295
2016	3,572
2017	2,432
2018	1,457
2019	751
2020 and thereafter	222
Total	$ 11,729

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6. Commitments and Contingencies

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

We warrant that our products, including software products, will substantially perform in accordance with 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.

Revolving Line of Credit/Demand Note Payable

Effective November 28, 2013, we renewed our letter agreement with JP Morgan Chase Bank, N.A. (JP Morgan) for a demand discretionary line of credit and a Demand Promissory Note in the aggregate amount of $20.0 million (the Line of Credit). Borrowings under the Line of Credit will be used to finance working capital needs and for general corporate purposes. The Line of Credit expires on November 27, 2014. We currently do not have any borrowings nor do we have any financial covenants under this line.

7. Severance and Other Restructuring Costs

During the three months ended April 30, 2014, we incurred restructuring charges of $0.5 million, primarily related to severance costs for 21 employees in the three month period.

The following table shows the change in balances of our severance liability for three months ended April 30, 2014. These amounts are reported as a component of other accrued expenses on the consolidated balance sheet as of April 30, 2014 (amounts in thousands):

	Three Months Ended April 30, 2014

Accrual balance at the beginning of the period	$	229
Severance charges accrued		474
Severance costs paid		(482)
Accrual balance as of April 30, 2014	$	221

8. Stock Repurchase Program

On September 4, 2013, our Board of Directors authorized the repurchase of up to $25.0 million of our common stock through a share repurchase program which would have terminated on January 31, 2015. On May 31, 2014, this program was amended to increase the authorized repurchase amount to $40.0 million and extend the termination date to April 30, 2015. Under the program, we are authorized to repurchase shares through Rule 10b5-1 plans, open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. We executed a Rule 10b5-1 plan commencing in January 2014. This share repurchase program does not obligate us to acquire any specific number of shares and may be suspended or discontinued at any time. All repurchases are expected to be funded from our current cash and investment balances. The timing and amount of shares to be repurchased will be based on market conditions and other factors, including price, corporate and regulatory requirements, and alternative investment opportunities. Any shares repurchased by us under the share repurchase program will reduce the number of shares outstanding. As of April 30, 2014, we repurchased a total of 339,400 shares of our common stock under this plan at an average price of $10.32 per share and used a total of $3.5 million of cash, including fees.

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9. Stock Incentive Plans

2011 Compensation and Incentive Plan

In July 2011, our stockholders approved the adoption of our 2011 Compensation and Incentive Plan (the 2011 Plan). Under the 2011 Plan, as amended in July 2013, the number of authorized shares of common stock is equal to 5,300,000 shares plus the number of shares that expired, terminated, surrendered or forfeited awards subsequent to July 20, 2011 under the Amended and Restated 2005 Equity Compensation and Incentive Plan (the 2005 Plan). Following approval of the 2011 Plan, we terminated the 2005 Plan. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units (RSUs), and other equity based non-stock option awards as determined by the plan administrator by officers, employees, consultants, and directors of the Company.

We may satisfy awards upon the exercise of stock options or vesting of RSUs 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.

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. RSUs and other equity-based non-stock option awards may be granted to any officer, employee, director, or consultant at a purchase price per share as determined by the Board of Directors. Awards granted under the 2011 Plan generally vest over three years and expire seven years from the date of the grant.

10. Accumulated Other Comprehensive Loss

The following shows the changes in the components of accumulated other comprehensive loss for the three months ended April 30, 2014:

	Foreign Currency Translation Adjustment	Changes in Fair Value of Available for Sale Investments	Total
Balance at January 31, 2014	$ (2,150)	$ 18	$ (2,132)
Other comprehensive income	520	5	525
Balance at April 30, 2014	$ (1,630)	$ 23	$ (1,607)

Comprehensive loss consists of net loss and other comprehensive loss, which includes foreign currency translation adjustments and changes in unrealized gains and losses on marketable securities available for sale. For purposes of comprehensive loss disclosures, we do not record tax expense or benefits for the net changes in the foreign currency translation adjustments, as we intend to permanently reinvest all undistributed earnings of our foreign subsidiaries.

11. Segment Information, Significant Customers and Geographic Information

Segment Information

Our operations are organized into one reportable segment. Operating segments are defined as components of an enterprise evaluated regularly by the Company s chief operating decision maker in deciding how to allocate resources and assess performance. Our reportable segment was determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company s management structure.

Significant Customers

The following summarizes revenues by significant customer where such revenue exceeded 10% of total revenues for the indicated period:

	Three Months Ended April 30,	
	2014	**2013**
Customer A	20%	15%
Customer B	18%	32%

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Geographic Information

The following table summarizes revenues by customers geographic locations for the periods presented:

	Three Months Ended April 30,			
	2014		2013	
	Amount	%	Amount	%
	(Amounts in thousands, except percentages)			
Revenues by customers geographic locations:				