Express Scripts Holding Co.
Form 4
February 10, 2015

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Wimberly Gary

(Last) (First) (Middle)

C/O EXPRESS SCRIPTS HOLDING COMPANY, ONE EXPRESS WAY

(Street)

ST. LOUIS, MO 63121

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Express Scripts Holding Co. [ESRX]

3. Date of Earliest Transaction (Month/Day/Year)
02/06/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Sr. VP & Ch. Information Off.

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of Derivative	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock Unit (1)	$ 0 (2)	02/06/2015		A		174.8416		(3)	(3)	Express Scripts Holding Company Common Stock	174.8416

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Wimberly Gary C/O EXPRESS SCRIPTS HOLDING COMPANY ONE EXPRESS WAY ST. LOUIS, MO 63121			Sr. VP & Ch. Information Off.	

Signatures

/s/ Martin P. Akins, as Attorney-in-Fact for Gary M. Wimberly	02/10/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Phantom Stock Unit credited under the Company's Executive Deferred Compensation Plan.

(2) Upon distribution each Phantom Stock Unit converts to one share of the Company's Common Stock.

(3) Basic Company Credit by Express Scripts Holding Company to Participant's Account in the Executive Deferred Compensation Plan; shares vest 3 (three) years after the plan year to which such credit relates.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 1%" style="PADDING-BOTTOM: 2px; TEXT-ALIGN: left">
(in thousands, except for percentage data)

Software revenues:

Products
$13,963 $12,923 8%
Services
20,631 18,621 11%
Total Software revenues

34,594 31,544 10%
Servers and Storage revenues:

Products
3,655 9,058 (60)%
Services
4,072 3,903 4%
Total Servers and Storage revenues
7,727 12,961 (40)%
Media Services revenues:

Services
7,769 7,131 9%
Total consolidated revenue:

Products
17,618 21,981 (20)%
Services
32,472 29,655 9%
Total consolidated revenues
$50,090 $51,636 (3)%

Product Revenues. Product revenues decreased 20% to $17.6 million in the three months ended July 31, 2011 from $22.0 million in the three months ended July 31, 2010. Product revenues from the Software segment accounted for 79% and 59% of the total product revenues for the three months ended July 31, 2011 and 2010, respectively. The Servers and Storage segment accounted for 21% and 41% of total product revenues in the three months ended July 31, 2011 and 2010, respectively. The decrease in Product revenues compared to the second quarter ending July 31, 2010 was due to lower shipments of VOD servers and lower Broadcast server and software products which were partially offset by higher VOD software revenues from European customers and higher Advertising software product revenues. In addition, the decrease in Product revenues was also due to a portion of middleware revenues from Virgin Media being recorded as service revenues during the three and six months ended July 31, 2011, while recorded entirely as product revenue in prior periods. In previous years, the agreement with Virgin Media provided for licensing rights and specified enhancements to the software and therefore only the associated revenues were classified as product revenues. However, the agreement in the first quarter of fiscal 2012 provided for software licensing rights and software maintenance services, and was accordingly recorded as service revenues.

Services Revenues. Services revenues increased 9% year over year to $32.5 million in the three months ended July 31, 2011 from $29.7 million in the three months ended July 31, 2010. For the three months ended July 31, 2011 and 2010, services revenues for the Software segment accounted for 64% and 63%, respectively, of the total services revenue. Servers and Storage services revenues accounted for 13% and 13% of total services revenue and Media Services revenues accounted for 23% and 24% of total services revenues in the three months ended July 31, 2011 and 2010, respectively. The increase in Service revenues compared to the three months ended July 31, 2010 was due to the reclassification of a portion of middleware revenues from Virgin Media from product revenues to Service revenues as noted previously, and increased Media Services contract revenues from customers in France and Serbia.

For the three months ended July 31, 2011, two customers accounted for more than 33% of our total revenues, and two customers accounted for more than 31% of our total revenues for the three months ended July 31, 2010. Revenue from each of these customers was included in revenue from the Software, Servers and Storage, and Media Services segments. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers.

International sales accounted for approximately 49% and 51% of total revenues in the three months ended July 31, 2011 and 2010, respectively. With the acquisition of eventIS, headquartered in the Netherlands, and continued growth in our Media Services business at ODG, we expect that international products and services revenues will be a significant portion of our business in the future.

Software Revenues. Revenues from our Software segment for the three months ended July 31, 2011 increased $3.1 million, or a 10% increase compared to the three months ended July 31, 2010. The increase in Software revenues was due to higher VOD software revenues from our European customers and higher Advertising product revenues from North American service providers.

22

Servers and Storage Revenues. Revenues from the Servers and Storage segment for the three months ended July 31, 2011 decreased $5.3 million or 40% compared to the three months ended July 31, 2010. The decrease in Servers and Storage revenues was due to lower shipments of VOD servers to North American customers and lower Broadcast product shipments to customers in Europe and Asia Pacific.

Media Services. Revenues from Media Services increased by approximately $600,000 to $7.8 million in the three months ended July 31, 2011 compared to the three months ended July 31, 2010. The increase in revenue was due primarily to increased content processing revenues customers in France and Serbia.

Product Gross Profit. Costs of product revenues consist primarily of the cost of purchased material components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses. The gross profit percentage for products increased to 66% for the three months ended July 31, 2011 from 59% for the three months ended July 31, 2010. The seven point increase in product margin was due to a greater mix of higher margin Advertising product revenues combined with increased licensing revenues from eventIS.

Services Gross Profit. Cost of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support, software development, and project management provided by us and costs associated with providing video content services. The gross profit percentage for services of 41% were relatively flat for the three months ended July 31, 2011 and July 31, 2010.

Software Revenues Gross Profit. Software segment gross margin of 58% for the three months ended July 31, 2011 was three percentage points higher compared to the three months ended July 31, 2010. The increase in Software gross margin was primarily due to a greater mix of higher margin Advertising and eventIS software product revenues in the second quarter of fiscal 2012 compared to the second quarter of fiscal 2011.

Servers and Storage Gross Profit. Servers and Storage segment gross margin of 49% for the three months ended July 31, 2011 was four points higher than for the three months ended July 31, 2010 due to greater proportion of higher margin VOD server maintenance revenues and lower Broadcast server revenues which typically carry lower margins.

Media Services Gross Profit. Media Services segment gross margin of 14% for the three months ended July 31, 2011 was nine percentage points lower than the gross margin for the three months ended July 31, 2010 due to higher headcount-related costs and increased content costs to support new customer contracts in Latin America and Eastern Europe.

Research and Development. Research and development expenses consist primarily of the compensation of development personnel, depreciation of development and test equipment and an allocation of related facilities expenses. Research and development expenses decreased to $11.0 million, or 22% of total revenues, in the three months ended July 31, 2011, from $12.2 million or 23% of total revenues, in the three months ended July 31, 2010. The decrease year over year is primarily due to lower Servers and Storage and Software segment domestic headcount-related costs, partially offset by increased Software segment headcount-related costs in the Philippines and at eventIS.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses decreased from $6.2 million, or 12% of total revenues, in the three months ended July 31, 2010, to $5.6 million, or 11% of total revenues, in the three months ended July 31, 2011. The decrease compared to the three months ended July 31, 2010 was primarily due to lower commission expense resulting from lower product revenues.

General and Administrative. General and administrative expenses consist primarily of the compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. In the three months ended July 31, 2011, general and administrative expenses increased to $ 6.1 million, or 12% of total revenues, from $5.2 million, or 10% of total revenues, in the three months ended July 31, 2010. The increase in general and administrative expense is due to higher legal and professional fees associated with the Company's review of strategic alternatives.

Amortization of intangible assets. Amortization expense consists of the amortization of acquired intangible assets which are operating expenses and not considered costs of revenues. In the three months ended July 31, 2011 and 2010, amortization expense was $1.2 million and $838,000, respectively. Additional amortization expense of $598,000 and $459,000 for the three months ended July 31, 2011 and 2010, respectively, related to acquired technology that was charged to cost of sales.

23

Restructuring. During the second quarter of fiscal 2012, the Company continued to take actions to lower its cost structure as it strives to improve its financial performance and incurred restructuring charges totaling $227,000 related to severance costs primarily in manufacturing.

Other income (expense), net. Other income (expense), net was $144,000 of income in the three months ended July 31, 2011, compared to $139,000 of income in the three months ended July 31, 2010. The $144,000 of income for the three months ended July 31, 2011 was comprised primarily of interest income. The $139,000 of income for the three months ended July 31, 2010 was comprised of $100,000 of interest income, a $429,000 insurance settlement resulting from the purchase of the ODG building, offset by $256,000 of foreign exchange losses and $138,000 of expense due to the change of the fair value of contingent consideration.

Equity Income (Loss) in Earnings of Affiliates. Equity loss in earnings of affiliates was $74,000 and $131,000 in the three months ended July 31, 2011 and 2010, respectively. For the three months ended July 31, 2011, $221,000 of equity loss was recognized from On Demand Deutschland, offset by $147,000 in accreted gains related to customer contracts and content licensing agreements and a capital distribution related to reimbursement of previously incurred costs. For the three months ended July 31, 2010, the equity loss related to On Demand Deutschland of $266,000 was partially offset by $135,000 in accreted gains related to customer contracts and content licensing agreements and a capital distribution related to reimbursement of previously incurred costs.

Income Tax Provision. For the three months ended July 31, 2011, the Company recorded an income tax provision of $40,000 on profit before tax of $901,000. The difference between our forecasted effective tax rate and the federal statutory rate of 35% was primarily due to the differential in foreign tax rates and the utilization of U.S. tax credits. The effective income tax rate is based upon the estimated income for the year, the composition of the income in different countries and adjustments, if any, in the applicable quarterly periods for the potential tax consequences, benefits, resolution of tax audits or other tax contingencies.

Non-GAAP Measures. As part of our ongoing review of financial information related to our business, we regularly use non-GAAP measures, in particular, adjusted non-GAAP earnings per share, as we believe they provide a meaningful insight into our business and trends. We also believe that these adjusted non-GAAP measures provide readers of our financial statements with useful information and insight with respect to the results of our business. However, the presentation of adjusted non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. Below are tables for the three months ended July 31, 2011 and 2010, respectively:

	Three Months Ended July 31, 2011			Three Months Ended July 31, 2010		
	GAAP	Adjustment	Non-GAAP	GAAP	Adjustment	Non-GAAP
	(in thousands except share data)			(in thousands except share data)		
Revenues	$ 50,090	$ 7	$ 50,097	$ 51,636	$ 1,286	$ 52,922
Operating expenses	24,024		24,024	24,634		24,634
Stock-based compensation	-	902	902	-	347	347
Amortization of intangible assets	-	1,774	1,774	-	1,297	1,297
Restructuring	-	227	227	-	198	198
Strategic alternatives related costs		603	603	-	-	-
	24,024	3,506	20,518	24,634	1,842	22,792

Income from operations	757	3,513	4,270	225	3,128	3,353
Other income, net	144	52	196	139	110	249
Income tax expense (benefit) impact	40	590	630	(3,301)	3,609	308
Net income (loss)	$ 787	$ 2,975	$ 3,762	$ 3,534	$ (371)	$ 3,163
Diluted income (loss) per share	$ 0.02	$ 0.10	$ 0.12	$ 0.11	$ (0.01)	$ 0.10
Diluted weighted average common shares outstanding	32,684	32,684	32,684	32,018	32,018	32,018

24

In managing and reviewing our business performance, we exclude a number of items required by GAAP. Management believes that excluding these items, mentioned below, is useful in understanding trends and managing our operations. We believe it is useful for investors to understand the effects of these items on our total operating expenses. Our non-GAAP financial measures include adjustments based on the following items, as well as the related income tax effects and adjustments to the valuation allowance.

Revenue. Business combination accounting rules require us to account for the fair value of customer contracts assumed in connection with our acquisitions. Because customer contracts may take up to 18 months to complete, our GAAP revenues subsequent to these acquisitions do not reflect the full amount of software revenues on assumed customer contracts that would have otherwise been recorded by eventIS Group B.V. and VividLogic, Inc. We believe this adjustment is useful to investors as a measure of the ongoing performance of our business because we have historically experienced high renewal rates on similar customer contracts, although we cannot be certain that customers will renew these contracts.

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

	Three Months Ended July 31,	
	2011	2010
	(in thousands)	
Cost of revenues	$ 89	$ 53
Research and development	95	96
Selling and marketing	287	93
General and administrative	431	105
Total stock-based compensation	$ 902	$ 347

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

	Three Months Ended July 31,	
	2011	2010
Cost of revenues	$ 614	$ 459
Operating expenses	1,160	838
Total amortization of intangibles	$ 1,774	$ 1,297

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

Strategic alternatives related costs. We incurred legal and other professional fees in connection with the Company’s review of strategic alternatives.

Other income, net. Other income, net include adjustments to acquisition-related items that are required to be marked to fair value each reporting period.

Income tax expense (benefit) impact. The non-GAAP income tax adjustment reflects the effective tax rate for the year in which the non-GAAP adjustment occurs and excludes any changes in the tax valuation allowance arising from the gain on the sale of the equity investment in Casa Systems, Inc.

25

Six Months Ended July 31, 2011 Compared to the Six Months Ended July 31, 2010

The following table sets forth statement of operations data for the six months ended July 31, 2011 and 2010.

	Six Months Ended July 31,	
	2011	2010
	(in thousands)	
Revenues:		
Products	$ 36,603	$ 46,615
Services	65,547	59,610
	102,150	106,225
Costs and expenses:		
Cost of product revenues	12,981	18,783
Cost of services revenues	39,504	35,205
Research and development	22,028	25,781
Selling and marketing	12,913	12,589
General and administrative	12,607	11,977
Amortization of intangibles	1,985	1,707
Restructuring	227	4,509
(Loss) income from operations	(95)	(4,326)
Gain on sale of investment in affiliate	-	25,188
Other income (loss), net	519	(430)
Income before income taxes and equity loss in earnings of affiliates	424	20,432
Income tax provision (benefit)	41	(3,643)
Equity income (loss) in earnings of affiliates, net of tax	20	(245)
Net income	$ 403	$ 23,830

Revenues

The following table summarizes information about the Company’s reportable segment revenues for the six months ended July 31, 2011 and 2010.

26

	Six Months Ended July 31,		
	2011	2010	%
	(in thousands, except for percentage data)		
Software revenues:			
Products	$ 28,177	$ 33,048	(15)%
Services	41,948	38,577	9 %
Total Software revenues	70,125	71,625	(2)%
Servers and Storage revenues:			
Products	8,426	13,566	(38)%
Services	6,923	7,534	(8)%
Total Servers and Storage revenues	15,349	21,100	(27)%
Media Services revenues:			
Services	16,676	13,499	24 %
Total consolidated revenue:			
Products	36,603	46,614	(21)%
Services	65,547	59,610	10 %
Total consolidated revenues	$ 102,150	$ 106,224	(4)%

Product Revenues. Product revenues decreased 21% to $36.6 million in the six months ended July 31, 2011 from $46.6 million in the six months ended July 31, 2010. Product revenues from the Software segment accounted for 77% and 71% of the total product revenues for the six months ended July 31, 2011 and 2010, respectively. The Servers and Storage segment accounted for 23% and 29% of total product revenues in the six months ended July 31, 2011 and 2010, respectively. The decrease in product revenues compared to the six months ending July 31, 2010 was due to lower VOD software product shipments to a large North American customer in the previous year. In addition, the decrease in product revenues was due to a portion of middleware revenues from Virgin Media that were recorded as service revenues during the six months ended July 31, 2011, while recorded entirely as product revenue in the prior year. In the prior year, the agreement with Virgin Media provided for licensing rights and specified enhancements to the software and therefore the associated revenues were classified as product revenues. However, the agreement in the first quarter of fiscal 2012 provided for software licensing rights and software maintenance services, and was accordingly recorded as service revenue.

Services Revenues. Services revenues increased 10% year over year to $65.5 million in the six months ended July 31, 2011 from $59.6 million in the six months ended July 31, 2010. For the six months ended July 31, 2011 and 2010, services revenues for the Software segment accounted for 64% and 65% of the total services revenue, respectively. Servers and Storage services revenue accounted for 11% and 13% of total services revenue and Media Services revenue accounted for 25% and 23% of total services revenues in the six months ended July 31, 2011 and 2010, respectively. The increase in Service revenues compared to the six months ended July 31, 2010 was due to the reclassification of a portion of middleware revenues from Virgin Media from product revenues to Service revenues as noted previously, and higher Media Services contract revenues from customers in France and Dubai.

For the six months ended July 31, 2011, two customers accounted for more than 31% of our total revenues, and two customers accounted for more than 39% of our total revenues for the six months ended July 31, 2010. Revenue from each of these customers was included in revenue from the Software, Servers and Storage, and Media Services segments. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers.

International sales accounted for approximately 51% and 45% of total revenues in the six months ended July 31, 2011 and 2010, respectively. With the acquisition of eventIS, headquartered in the Netherlands, we expect that international products and services revenues will be a significant portion of our business in the future.

Software Revenues. Revenues from our Software segment for the six months ended July 31, 2011 decreased $1.5 million, or a 2% decrease compared to the six months ended July 31, 2010. The 15% decrease in the Software products revenues was due to a significant VOD software order to a large North American customer that was recognized as revenue in last year's first quarter that was partially offset in the current period by higher VOD software revenues to our European customers and higher Advertising product revenues. In addition, the decrease in software product revenues stemmed from the reclassification of a portion of middleware revenues from Virgin Media to service revenues. The $3.4 million or 9% increase in services revenue compared to the six months ended July 31, 2010 was due mainly to the reclassification of middleware revenue from Virgin Media.

27

Servers and Storage Revenues. Revenues from the Servers and Storage segment for the six months ended July 31, 2011 decreased $5.7 million or 27% compared to the six months ended July 31, 2010. The decrease in product revenues in the six months ended July 31, 2011 of $5.1 million compared to the same period in the previous year was primarily due to decreased shipments of VOD and Broadcast servers to North American customers. This decrease was partially offset by higher VOD maintenance revenues from a North American customer.

Media Services. Revenues from Media Services increased by approximately $3.2 million or 24% in the six months ended July 31, 2011 compared to the six months ended July 31, 2010. The increase in revenue was due primarily increased content processing revenues from customers in Dubai and France.

Product Gross Profit. Costs of product revenues consist primarily of the cost of purchased material components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses. The gross profit percentage increased five points from 60% for the six months ended July 31, 2010 to 65% for the six months ended July 31, 2011, due to a greater mix of higher margin Advertising product revenues and improved eventIS product margins.

Services Gross Profit. Cost of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support, software development, and project management provided by us and costs associated with providing video content services. The gross profit percentage decreased one point from 41% for the six months ended July 31, 2010 to 40% for the six months ended July 31, 2011. The one point decrease compared to last year was primarily due to lower Media Services margin due to increased content and headcount costs to support newer customer contracts in Latin America, Eastern Europe and South Africa.

Software Revenues Gross Profit. Software segment gross margin of 58% for the six months ended July 31, 2011 was three percentage points higher compared to the six months ended July 31, 2010. The increase in software gross margins was primarily due to a greater mix of higher margin Advertising and eventIS product revenues in the six months ended July 31, 2011 compared to the six months ended July 31, 2010 as well as lower than normal Software gross margin related to the large software product shipment to a North American customer in last year’s first quarter.

Servers and Storage Gross Profit. Servers and Storage segment gross margin of 45% in the six months ended July 31, 2011 was relatively flat compared with the six months ended July 31, 2010.

Media Services Gross Profit. Media Services segment gross margin of 14% for the six months ended July 31, 2011 was ten percentage points lower than the gross margin for the six months ended July 31, 2010 due to higher headcount-related costs and increased content costs to support newer contracts for customers in Latin America, South Africa, and Eastern Europe.

Research and Development. Research and development expenses consist primarily of the compensation of development personnel, depreciation of development and test equipment and an allocation of related facilities expenses. Research and development expenses decreased from $25.8 million, or 24% of total revenues, in the six months ended July 31, 2010, to $22.0 million, or 22% of total revenues, in the six months ended July 31, 2011. The year over year decrease is primarily due to lower Servers and Storage and Software segment domestic headcount-related costs, partially offset by increased Software segment headcount-related costs in the Philippines and at eventIS.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses of $12.9 million in the six months ended July 31, 2011 was relatively flat compared to the six months ended July 31, 2010.

General and Administrative. General and administrative expenses consist primarily of the compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. In the six months ended July 31, 2011, general and administrative expenses increased to $12.6 million, or 12% of total revenues, from $12.0 million, or 11% of total revenues, in the six months ended July 31, 2010. The increase was primarily due to increased legal fees associated with the patent ligation and the Company’s review of various strategic alternatives that were partially offset by the absence of transaction costs related to the VividLogic acquisition which was included in last year’s first quarter.

Amortization of intangible assets. Amortization expense consists of the amortization of acquired intangible assets which are operating expenses and not considered costs of revenues. In the six months ended July 31, 2011 and 2010, amortization expense was $2.0 million and $1.7 million, respectively. An additional $1.1 million and $938,000 of amortization expense related to acquired technology was charged to cost of sales for the six months ended July 31, 2011 and 2010, respectively.

Restructuring. During the second quarter of fiscal 2012, the Company continued to take actions to lower its cost structure as it strives to improve its financial performance and incurred restructuring charges totaling $227,000 related to severance costs primarily in manufacturing. For the six months ended July 31, 2010, restructuring charges totaled $2.0 million for severance costs related to the termination of approximately 76 employees as well as a write down of inventory of approximately $2.5 million related to the decision in the first quarter to discontinue certain products within the Servers and Storage segment.

Other (expense) income, net. Other (expense) income, net was $519,000 of income in the six months ended July 31, 2011, compared to $430,000 of expense in the six months ended July 31, 2010. The $519,000 of income for the six months ended July 31, 2011 was comprised of $237,000 of interest income and $303,000 of foreign exchange gains partially offset by $102,000 of expense due to the change of the fair value of contingent consideration and $81,000 of miscellaneous expense. The $430,000 of expense for the six months ended July 31, 2010 was comprised of $152,000 of interest income and $429,000 of an insurance settlement resulting from the purchase of the ODG building which was offset by $738,000 of foreign exchange losses and $229,000 of expense due to the change of the fair value of contingent consideration.

Equity Income (Loss) in Earnings of Affiliates. Equity income in earnings of affiliates was income of $20,000 and a loss of $245,000 for the six months ended July 31, 2011 and 2010, respectively. For the six months ended July 31, 2011, $273,000 of equity loss was recognized from On Demand Deutschland, offset by $293,000 in accreted gains related to customer contracts and content licensing agreements and a capital distribution related to reimbursement of previously incurred costs. For the six months ended July 31, 2010, On Demand Deutschland loss of $518,000 was partially offset by $273,000 in accreted gains related to customer contracts and content licensing agreements and a capital distribution related to reimbursement of previously incurred costs.

Income Tax Provision. For the six months ended July 31, 2011, we recorded an income tax expense of $41,000 on income before tax of $424,000. The difference between our forecasted effective tax rate and the federal statutory rate of 35% was primarily due to the differential in foreign tax rates and the utilization of U.S. tax credits.

For the six months ended July 31, 2010, we recorded an income tax benefit of $3.6 million on income before tax of $20.4 million. The income tax benefit recorded for the six months ended July 31, 2010 includes the second quarter benefit resulting from the change in lower forecasted fiscal 2011 profit before tax as well as the benefit in the first quarter associated with the gain on the sale of the Company’s equity investment in Casa Systems, Inc. in the first quarter and the benefit from the decrease of a portion of the valuation allowance against its deferred tax assets due to the Company having met the “more likely than not” realization criteria on its U.S. deferred tax assets as of July 31, 2010. Our income tax provision consists of federal, foreign, and state income taxes. The difference in the fiscal 2010 periods between our effective tax rate and the federal statutory rate of 35% was primarily due to the differential in foreign tax rates and the utilization of foreign tax credits.

The effective income tax rate is based upon the estimated income for the year, the composition of the income in different countries and adjustments, if any, in the applicable quarterly periods for the potential tax consequences, benefits, resolution of tax audits or other tax contingencies.

Non GAAP Measures. As part of our ongoing review of financial information related to our business, we regularly use non-GAAP measures, in particular adjusted non-GAAP earnings per share, as we believe they provide a meaningful insight into our business and trends. We also believe that these adjusted non-GAAP measures provide readers of our financial statements with useful information and insight with respect to the results of our business. However, the presentation of adjusted non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. Below are tables for the six months ended July 31, 2011 and 2010, respectively:

29

	Six Months Ended July 31, 2011			Six Months Ended July 31, 2010		
	GAAP	Adjustment	Non-GAAP	GAAP	Adjustment	Non-GAAP
	(in thousands except for share data)			(in thousands except for share data)		
Revenues	$ 102,150	$ 9	$ 102,159	$ 106,225	$ 3,103	$ 109,328
Operating expenses	49,760		49,760	56,563		56,563
Stock-based compensation	-	2,446	2,446	-	845	845
Amortization of intangible assets	-	3,118	3,118	-	2,645	2,645
Restructuring	-	227	227	-	4,509	4,509
Strategic alternatives related costs	-	660	660			
Acquisition related costs	-	-	-	-	803	803
	49,760	6,451	43,309	56,563	8,802	47,761
(Loss) income from operations	(95)	6,460	6,365	(4,326)	11,905	7,579
Other income (expense), net	519	102	621	(430)	226	(204)
Income from sale of investment in affiliate	-	-	-	25,188	(25,188)	-
Income tax expense (benefit) impact	41	1,011	1,052	3,643	(4,270)	(627)
Net income (loss)	$ 403	$ 5,551	$ 5,954	$ 23,830	$ (17,327)	$ 6,503
Diluted income (loss) per share	$ 0.01	$ 0.17	$ 0.18	$ 0.75	$ (0.54)	$ 0.21
Diluted weighted average common shares outstanding	32,549	32,549	32,549	31,864	31,864	31,864

In managing and reviewing our business performance, we exclude a number of items required by GAAP. Management believes that excluding these items, mentioned below, is useful in understanding trends and managing our operations. We believe it is useful for investors to understand the effects of these items on our total operating expenses. Our non-GAAP financial measures include adjustments based on the following items, as well as the related income tax effects and adjustments to the valuation allowance.

Revenue: Business combination accounting rules require us to account for the fair value of customer contracts assumed in connection with our acquisitions. In connection with the acquisition of eventIS Group B.V. on September 1, 2009 and VividLogic, Inc on February 1, 2010, the book value of our deferred software revenue was reduced by approximately $2.3 million in the adjustment to fair value. Because these customer contracts may take up to 18 months to complete, our GAAP revenues subsequent to this acquisition do not reflect the full amount of software revenues on assumed customer contracts that would have otherwise been recorded by eventIS Group B.V. and

VividLogic, Inc. We believe this adjustment is useful to investors as a measure of the ongoing performance of our business because we have historically experienced high renewal rates on similar customer contracts, although we cannot be certain that customers will renew these contracts.

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

	Six Months Ended July 31,	
	2011	2010
	(in thousands)	
Cost of revenues	$ 240	$ 120
Research and development	320	231
Selling and marketing	713	198
General and administrative	1,173	296
Total stock-based compensation	$ 2,446	$ 845

30

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

	Six Months Ended July 31,	
	2011	2010
	(in thousands)	
Cost of revenues	$ 1,133	$ 938
Operating expenses	1,985	1,707
Total amortization of intangibles	$ 3,118	$ 2,645

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

Acquisition related and other costs: We incurred significant expenses in connection with our acquisitions of eventIS Group B.V. and VividLogic, Inc. and also incurred certain other operating expenses, which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition related and other expenses consist of transaction costs, costs for transitional employees, other acquired employee related costs and integration related professional services.

Strategic alternatives related costs: We incurred legal and other professional fees in connection with the Company’s review of strategic alternatives.

Other income, net. Other income, net include adjustments to acquisition-related items that are required to be marked to fair value each reporting period.

Income from sale of investment in affiliate: We generated income due to the sale of our investment in Casa Systems, Inc. We excluded the income generated by this investment due to its non recurring nature.

Income tax (expense) benefit impact: The non-GAAP income tax adjustment reflects the effective tax rate in which the non-GAAP adjustment occurs and excludes any changes in the tax valuation allowance arising from the gain on the sale of the equity investment in Casa Systems, Inc.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Liquidity and Capital Resources

Historically, we have financed our operations and capital expenditures primarily with cash on-hand. Cash and marketable securities increased $11.7 million from $86.2 million at January 31, 2011 to $97.9 million at July 31, 2011. Working capital increased from $92.6 million at January 31, 2011 to $100.7 million at July 31, 2011. The increase in cash and marketable securities in the six months ended July 31, 2011 was primarily the result of an increase in cash provided by operating activities offset partially by fixed payments to the former shareholders of

VividLogic.

Net cash provided by operating activities was $14.5 million for the six months ended July 31, 2011 compared to net cash provided by operating activities of $5.7 million for the six months ended July 31, 2010. The net cash provided by operating activities for the six months ended July 31, 2011 was primarily the result of non-cash expenses providing $13.7 million and strong collection efforts resulting in a decrease of $14.8 million in accounts receivable both of which were partially offset by a decrease in accounts payable and deferred revenue.

Net cash used by investing activities was $3.9 million for the six months ended July 31, 2011 compared to net cash provided by investing activities of $17.3 million for the six months ended July 31, 2010. Investment activities for the six months ended July 31, 2011 consisted mainly of the payment of $3.3 million to the former shareholders of VividLogic, and $1.5 million in purchases of fixed assets offset by net sales of $700,000 of marketable securities.

Net cash provided by financing activities was $1.8 million for the six months ended July 31, 2011 and net cash provided by financing activities was $800,000 for the six months ended July 31, 2010 the increase in net cash provided by financing activities for the first six months of fiscal 2012 was due to no repurchases of stock in the first half of fiscal 2012.

Effect of exchange rates increased cash and cash equivalents by $300,000 for the six months ended July 31, 2011, due to the translation of ODG's and eventIS's cash balances, which use the British pound and the Euro, respectively, as their functional currencies, to U.S. dollars at July 31, 2011.

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

Under the share purchase agreement with the former shareholders of VividLogic, the Company is obligated to make fixed payments of $1.0 million in cash on February 1, 2012 and 2013. Additional earn-out payments may be earned over each of the next two years ended January 31, 2012 and 2013 if certain performance goals are met.

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

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

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

We believe that existing funds combined with available borrowings under the revolving line of credit and cash provided by future operating activities are adequate to satisfy our working capital, potential acquisitions and capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months. However, if our expectations are incorrect, we may need to raise additional funds to fund our operations, to take advantage of unanticipated strategic opportunities or to strengthen our financial position.

In addition, we actively review potential acquisitions that would complement our existing product offerings, enhance our technical capabilities or expand our marketing and sales presence. Any future transaction of this nature could require potentially significant amounts of capital or could require us to issue our stock and dilute existing stockholders. 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.

Effects of Inflation

Management believes that financial results have not been significantly impacted by inflation and price changes in materials we use in manufacturing our products.

Significant Accounting Policies

Goodwill

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

During the third quarter of fiscal 2011, we performed our annual impairment testing of goodwill. We first calculated the fair value of each reporting unit using two generally accepted approaches for valuing businesses. We then performed “Step 1” and compared the fair value of each reporting unit of accounting to its carrying value as of August 1, 2010. Reporting units that we test are equivalent to our business segments. We have three reporting segments: the Software segment, Servers and Storage segment and Media Services segment. Goodwill assigned to our reportable segments as of August 1, 2010 was as follows:

	Software	Servers & Storage	Media Services	Total
		(in thousands)		
Goodwill balance	$ 44,056	$ 2,021	$ 19,159	$ 65,236

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

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

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

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

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

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

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

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

33

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

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

Effective February 1, 2011 and completed during the first quarter of fiscal 2012, the Company realigned its segments by reclassifying the Broadcast software solutions from the Software segment to the Servers and Storage segment. The goodwill reallocation shown in the table below relates to the reclassification of the Broadcast software solutions from the Software segment to the Servers and Storage segment effective on February 1, 2011. The goodwill was allocated based on a relative fair value approach using management estimates of fair value of the Broadcast Software solutions product line. No impairment was recorded as a result of the change in segments.

	Goodwill			
	Software	Servers & Storage	Media Services	Total
	(in thousands)			
Balance at January 31, 2011	$45,097	$ 754	$ 19,422	$65,273
Reallocation of Broadcast software	(1,267)	1,267	-	-
Cumulative translation adjustment	1,442	-	702	2,144
Balance at July 31, 2011	$45,272	$ 2,021	$ 20,124	$67,417

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

assets in the future.

Recently Issued Accounting Guidance

Fair Value Measurement

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Our foreign currency exchange exposure is primarily associated with product sales arrangements or settlement of intercompany payables and receivables among subsidiaries and its parent company, and/or investment/equity contingency considerations denominated in the local currency where the functional currency of the foreign subsidiary is the U.S. dollar.

Substantially all of our international product sales are payable in United States Dollars (USD). In the case of our Media Services operations in the United Kingdom and eventIS in the Netherlands, product sales are generally payable in local currencies, providing a natural hedge for receipts and local payments. In light of the high proportion of our international businesses, we expect the risk of any adverse movements in foreign currency exchange rates could have an impact on our translated results within the Consolidated Statements of Operations and Balance Sheets. For the three months ended July 31, 2011, the Company generated a foreign currency translation loss of $1.4 million and for the six months ended July 31, 2011 the Company generated a translation gain of $3.6 million which were recorded as accumulated other comprehensive loss, increasing the Company’s equity section of the consolidated balance sheet over the prior year.

All foreign currency gains and losses are included in interest and other income, net, in the accompanying Consolidated Statements of Operations. In the three and six month periods ending July 31, 2011, the Company recorded approximately $16,000 and $303,000, respectively in gains due to international subsidiary translations and cash settlements of revenues and expenses.

Interest Rate Risk

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

ITEM 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Company evaluated the effectiveness of its disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this quarterly report on Form 10-Q. William C. Styslinger, III, our Chief Executive Officer, and Kevin M. Bisson, our Chief Financial Officer, reviewed and participated in this evaluation. Based upon that evaluation, Messrs. Styslinger and Bisson concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report and as of the date of the evaluation.

(b) Changes in internal controls over financial reporting As a result of the evaluation completed by the Company, and in which Messrs. Styslinger and Bisson participated, the Company has concluded that there were no changes during the fiscal quarter ended July 31, 2011 in its internal controls over financial reporting, which have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

35

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

On July 31, 2009, ARRIS Group, Inc. ("ARRIS") filed a contempt motion in the U.S. District Court for the District of Delaware against SeaChange International relating to U.S. Patent No 5,805,804 (the "804 patent"), a patent in which ARRIS has an ownership interest. In its motion, ARRIS is seeking further patent royalties and the enforcement of the permanent injunction entered by the Court on April 6, 2006 against certain SeaChange products. On August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court that its products do not infringe the '804 patent and asserting certain equitable defenses. On June 4, 2010, the Court entered an Order staying the declaratory judgment action pending resolution of the contempt proceeding. On September 2, 2011, the Court entered an Order in which it concluded that a contempt proceeding is the appropriate procedure for resolving the parties' dispute and that further factual and legal determinations would be necessary. The Order made no determinations as to liability. No schedule has been set by the Court for the additional proceedings.

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

ITEM 1A. Risk Factors

In addition to the 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 Annual Report on Form 10-K for the year ended January 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on 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.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchase of the Company's Equity Securities

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

36

ITEM 6. Exhibits

(a) Exhibits

10.1	SeaChange International, Inc. 2011 Compensation and Incentive Plan (filed as Appendix A to the Company's Proxy Statement on Schedule 14A previously filed on May 31, 2011 with the Commission (File No. 000-21393) and incorporated herein by reference).
10.2	Form of Restricted Stock Unit Agreement under the SeaChange International, Inc. 2011 Compensation and Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed on July 20, 2011 with the Commission (File No. 000-21393) 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 (filed herewith).
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 (filed herewith).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
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101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

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

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, 2011

SEACHANGE INTERNATIONAL, INC.

by: /s/ Kevin M. Bisson
Kevin M. Bisson
Chief Financial Officer,
Senior Vice President, Finance and
Administration, Treasurer and Secretary

Index to Exhibits

No.	Description
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38