

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
Amendment No. 1

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2000

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 Identification No.)
incorporation or organization)

124 Acton Street, Maynard, MA 01754
(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 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

YES NO

The number of shares outstanding of the registrant's Common Stock on May 10, 2000 was 21,478,945.

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SEACHANGE INTERNATIONAL, INC.

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Item 1. Financial Statements

SeaChange International, Inc.
 Consolidated Balance Sheet
 (in thousands, except share-related data)

	March 31, 2000	-----
December 31, 1999		-----
<S>	<C>	<C>
Assets		
Current assets		
Cash and cash equivalents	\$ 7,402	
\$11,318		
Accounts receivable, net of allowance for doubtful accounts of \$821 at March 31, 2000 and \$908 at December 31, 1999	20,871	
17,840		
Inventories	20,333	
17,128		
Prepaid expenses and other current assets	2,218	
1,568		
Deferred income taxes	2,243	
2,243		

Total current assets	53,067	
50,097		
Property and equipment, net	11,416	
10,538		
Other assets	864	
884		
Goodwill and intangibles, net	682	
785		

	\$66,029	
\$62,304		
=====		
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of equipment line of credit and obligations under capital lease	\$ 1,714	
\$ 1,048		
Accounts payable	14,560	
15,038		
Accrued expenses	2,229	
3,499		
Customer deposits	2,273	
2,092		
Deferred revenue	7,042	
4,380		
Income taxes payable and other current liabilities	507	
675		

Total current liabilities	28,325	
26,732		

Long-term equipment line of credit and obligations under capital lease	2,304	
1,231		

Commitments (Note 8)		
Stockholders' Equity		
Common stock, \$.01 par value; 50,000,000 shares authorized; 21,432,989 shares and 21,285,855 shares issued at March 31, 2000 and December 31, 1999, respectively	214	
213		
Additional paid-in capital	36,382	
35,634		
Accumulated deficit	(1,094)	

(1,440)	
Treasury stock, 60,750 shares	(1)
(1)	
Accumulated other comprehensive loss	(101)
(65)	
-----	-----
Total stockholders' equity	35,400
34,341	
-----	-----
	\$66,029
\$62,304	
-----	=====
=====	

</TABLE>

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

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SeaChange International, Inc.
Consolidated Statement of Operations
(in thousands, except share data)

	Three months ended March 31,	
	2000	1999
	----	----
Revenues		
Systems	\$ 16,672	\$ 16,924
Services	5,299	3,887
	-----	-----
	21,971	20,811
	-----	-----
Costs of revenues		
Systems	9,196	9,873
Services	4,162	3,444
	-----	-----
	13,358	13,317
	-----	-----
Gross profit	8,613	7,494
	-----	-----
Operating expenses		
Research and development	4,486	4,120
Selling and marketing	2,221	1,996
General and administrative	1,424	1,388
	-----	-----
	8,131	7,504
	-----	-----
Income (loss) from operations	482	(10)
Interest income, net	26	11
	-----	-----
Income before income taxes	508	1
Provision for income taxes	162	33
	-----	-----
Net income (loss)	\$ 346	\$ (32)
	=====	=====
Basic and Diluted earnings (loss) per share	\$.02	\$ --
	=====	=====
Shares used in calculating:		
Basic earnings per share	21,337,000	20,611,000
	=====	=====
Diluted earnings per share	23,017,000	20,611,000

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

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SeaChange International, Inc.
Consolidated Statement of Cash Flows
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(in thousands)

<TABLE>
<CAPTION>

	For the three months ended March 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities		
Net income (loss)	\$ 346	\$ (32)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,084	1,043
Inventory valuation allowance	--	288
Changes in assets and liabilities:		
Accounts receivable	(3,031)	(443)
Inventories	(3,082)	1,186
Prepaid expenses and other current assets	(666)	(23)
Accounts payable	(478)	121
Accrued expenses	(1,270)	51
Customer deposits	181	(93)
Deferred revenue	2,662	1,605
Income taxes payable and other current liabilities	(73)	15
	-----	-----
Net cash provided by (used in) operating activities	(4,327)	3,718
	-----	-----
Cash flows from investing activities		
Purchases of property and equipment	(1,982)	(334)
	-----	-----
Net cash used in investing activities	(1,982)	(334)
	-----	-----
Cash flows from financing activities		
Proceeds from borrowings under equipment line of credit	2,000	--
Repayments under line of credit and equipment line of credit	(215)	(2,122)
Repayment of obligation under capital lease	(46)	(16)
Proceeds from issuance of common stock	654	211
	-----	-----
Net cash provided by (used in) financing activities	2,393	(1,927)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(3,916)	1,457
Cash and cash equivalents, beginning of period	11,318	5,442
	-----	-----
Cash and cash equivalents, end of period	\$ 7,402	\$ 6,899
	=====	=====
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 236	\$ 15
Interest paid	\$ 68	\$ 17
Supplemental disclosure of noncash activity:		
Transfer of items originally classified as inventories to fixed assets	\$ 123	\$ 56
Transfer of items originally classified as fixed assets to inventories	\$ --	\$ 737

</TABLE>

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

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1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of SeaChange International, Inc. and its subsidiaries. SeaChange believes that the unaudited consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments), necessary for a fair presentation of SeaChange's financial position, results of operations and cash flows at the dates and for the periods indicated. The results of operations for the three month period ended March 31, 2000 are not necessarily indicative of results expected for the full fiscal year or any other future periods. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 1999, included in SeaChange's Annual Report on Form 10-K for such fiscal year.

2. REVENUE RECOGNITION

Revenues from sales of systems are recognized upon shipment provided title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is probable. Installation, project management and training revenue is deferred and recognized as these services are performed. Revenue from technical support and maintenance is deferred and recognized ratably over the period of the related agreements, generally twelve months. Customers are billed for installation, project management, training and maintenance at the time of the product sale. Revenue from content fees, primarily movies, is recognized based on the volume of monthly purchases that are made by hotel guests. Revenue from product development contract services is recognized based on the time and materials incurred to complete the work.

SeaChange's transactions frequently involve the sales of systems and services under multiple element arrangements. Systems sales always include one year of free technical support and maintenance services. Revenue under multiple element arrangements is allocated to all elements except systems based upon the fair value of those elements. The amounts allocated to training, project management, technical support and maintenance and content fees is based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation revenue is based upon hourly rates and the estimated time required to complete the service. The amount allocated to systems is done on a residual method basis. Under this method, the total arrangement value is allocated first to undelivered elements, based on their fair values, with the remainder being allocated to systems revenue. Installation, training and project management 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.

3. EARNINGS PER SHARE

For the three months ended March 31, 1999, common shares of 416,000, issuable upon the exercise of stock options and unvested restricted common stock of 306,000, are antidilutive because SeaChange recorded a net loss for the period, and therefore, have been excluded from the diluted earnings per share computation.

Below is a summary of the shares used in calculating basic and diluted earnings per share for the periods indicated:

<TABLE>
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	THREE MONTHS ENDED MARCH 31, -----	
	2000 ----	1999 ----
<S>	<C>	<C>
Weighted average shares used in calculating earnings per share-		
Basic.....	21,337,000	20,611,000
Dilutive stock options.....	1,680,000 -----	- -----
Weighted average shares used in calculating earnings per share-		
Diluted.....	23,017,000 =====	20,611,000 =====

</TABLE>

4. INVENTORIES

Inventories consist of the following:

	MARCH 31, 2000 ----	DECEMBER 31, 1999 ----
Components and assemblies	\$17,797	\$14,739
Finished products	2,536 -----	2,389 -----
	\$20,333 =====	\$17,128 =====

5. COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31, 2000 and 1999, SeaChange's comprehensive income (loss) was as follows:

	THREE MONTHS ENDED MARCH 31, -----	
	2000 ----	1999 ----
Net income (loss)	\$ 346	\$ (32)
Other comprehensive income (expense), net of tax:		
Foreign currency translation adjustment, net of tax of \$12 and \$6, respectively	(24) -----	11 -----
Other comprehensive income (expense)	(24) -----	11 -----
Comprehensive income (loss)	\$ 322 =====	\$ (21) =====

6. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, collectively referred to as derivatives, and for hedging activities. SeaChange will adopt SFAS 133 as required by SFAS 137, "Deferral of the Effective Date of FASB Statement No. 133", in fiscal year 2001. To date SeaChange has not utilized derivative instruments or hedging activities and, therefore, the adoption of SFAS 133 is not expected to have a material impact on SeaChange's financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes the SEC's view in applying generally accepted accounting principles to selected revenue recognition issues. The application of the guidance in SAB 101 is required in SeaChange's second quarter of its current fiscal year. The effects of applying this guidance, if any, will be reported as a cumulative effect adjustment resulting from a change in accounting principle. SeaChange's evaluation of SAB 101 is not yet complete.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation--an interpretation of APB Opinion No. 25" ("FIN 44"). FIN 44 clarifies the application of APB Opinion No. 25 and is effective July 1, 2000, but certain conclusions in FIN 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. SeaChange does not expect the application of FIN 44 to have a material impact on SeaChange's financial position or results of operations.

7. SEGMENT INFORMATION

SeaChange has four reportable segments: digital advertising insertion, broadcast systems, interactive television systems (ITV) and services. The digital

advertising insertion systems segment provides products to digitally manage, store and distribute digital video for television operators and telecommunications companies. The broadcast systems segment provides products for the storage, archival, on-air playback of advertising, near video on demand, and other video programming for the broadcast television industry. The ITV segment comprises products to provide long-form video storage and delivery for television operators and telecommunication companies for the residential market and pay-per-view markets for the hospitality and commercial property markets. The service segment provides installation, training, product maintenance and technical support for all of the above systems and content which is distributed by the ITV product segment. SeaChange does not measure the assets allocated to the segments. SeaChange has changed its reportable segments from the prior year and has reclassified prior year amounts to conform to these current segments. SeaChange measures results of the segments based on the respective gross profits. There were no intersegment sales or transfers. Long-lived assets are principally located in the United States. The following summarizes the revenues and cost of revenues by reportable segment:

	THREE MONTHS ENDED MARCH 31, -----	
	2000 ----	1999 ----
Revenues		
Digital advertising insertion	\$10,838	\$12,493
Broadcast	3,305	4,105
ITV	2,529	326
Services	5,299	3,887
	-----	-----
	\$21,971	\$20,811
	=====	=====
Costs of revenues		
Digital advertising insertion	\$ 5,993	\$ 7,305
Broadcast	1,980	2,335
ITV	1,223	233
Services	4,162	3,444
	-----	-----
	\$13,358	\$13,317
	=====	=====

The following summarizes revenues by geographic locations:

Revenues		
United States	\$18,359	\$17,498
Canada and South America	1,531	856
Europe	1,861	1,623
Rest of world	220	834
	-----	-----
	\$21,971	\$20,811
	=====	=====

Single customers accounted for 17% and 15% of revenues in the three months ended March 31, 2000 and 17%, 16% and 14% of revenues in the three months ended March 31, 1999.

8. LEGAL PROCEEDINGS

On March 17, 2000, Beam Laser Systems, Inc. and Frank L. Beam instituted a claim (Civil Action No. 2:00-CV-195) in the federal courts in the Eastern District of Virginia against one of SeaChange's customers, Cox Communications, Inc. Beam Laser is seeking both an injunction and monetary damages from the defendants in that case. The defendants have made a counterclaim against Beam Laser seeking a declaration of non-infringement, invalidity and unenforceability of the two patents held by Beam Laser that are at question. In addition, SeaChange has agreed to indemnify its customer for claims brought against the customer that are related to the customer's use of SeaChange's products.

On June 14, 1999, SeaChange filed a defamation complaint against Jeffrey Putterman, Lathrop Investment Management, Inc. and Concurrent Computer Corporation in the Circuit Court of Pulaski County, Arkansas alleging that the defendants conspired to injure the business and reputation of SeaChange in the marketplace. The complaint further alleges that Mr. Putterman and Lathrop Investment Management, Inc. defamed SeaChange through false postings on an Internet message board. The complaint seeks unspecified amounts of compensatory and punitive damages.

SeaChange cannot be certain of the outcome of the foregoing litigation, but does plan to oppose allegations against it and assert its claims against other parties vigorously. In addition, as these claims are in the early stages of discovery and certain claims for damages are as yet unspecified, SeaChange is unable to estimate the impact to its business, financial condition, and results of operations or cash flows.

9. SUBSEQUENT EVENTS

In April 2000, SeaChange's Board of Directors voted to change SeaChange's fiscal accounting year from December 31 to January 31, such that SeaChange's current fiscal year began on February 1, 2000 and will end on January 31, 2001.

On May 8, 2000, SeaChange and Microsoft Licensing, Inc. entered into a licensing and development agreement whereby Microsoft agreed to license to SeaChange certain technology to be used by SeaChange in connection with the development by SeaChange of plug-ins for the streaming media server software update currently being developed by Microsoft to its Windows NT/Windows 2000 operating system. Under the terms of the agreement, SeaChange is also entitled to use the Microsoft technology to enhance SeaChange's software to use the updated streaming media server software being developed by Microsoft. The parties intend that SeaChange will be able to promote and ship the enhanced SeaChange software as its primary streaming media system for all Microsoft Windows 2000-based SeaChange systems.

In addition to the ability to use the technology owned by Microsoft and licensed to SeaChange pursuant to the licensing and development agreement Microsoft agreed pursuant to the terms of an investment term sheet, dated as of May 8, 2000, by and between SeaChange and Microsoft Corporation to purchase 277,162 shares of SeaChange's common stock for \$10 million and to purchase approximately \$10 million of additional shares of SeaChange's common stock upon the satisfaction of certain commercial milestones. The initial share purchase for \$10 million was completed by SeaChange and Microsoft on May 23, 2000.

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

FACTORS THAT MAY AFFECT FUTURE RESULTS

Any statements contained in this Form 10-Q that do not describe historical facts, including without limitation statements concerning expected revenues, earnings, product introductions and general market conditions, may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements contained herein are based on current expectations, but are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. The factors that could cause actual future results to differ materially from current expectations include the following: SeaChange's ability to integrate the operations of acquired subsidiaries; fluctuations in demand for SeaChange's products and services; SeaChange's ability to manage its growth; SeaChange's ability to develop, market and introduce new and enhanced products and services on a timely basis; the rapid technological change which characterizes SeaChange's markets; SeaChange's significant concentration of customers; SeaChange's dependence on certain sole source suppliers and third-party manufacturers; the risks associated with international sales as SeaChange expands its markets; and the ability of SeaChange to compete successfully in the future. Further information on factors that could cause actual results to differ from those anticipated is detailed in various filings made by SeaChange from time to time with the Securities and Exchange Commission, including but not limited to, those appearing under the caption "Certain Risk Factors" in SeaChange's Annual Report on Form 10-K for the year ended December 31, 1999. Any forward-looking statements should be considered in light of those factors.

OVERVIEW

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SeaChange develops, manufactures and sells systems that automate the management and distribution of both short-form video streams, such as advertisements, and long-form video streams, such as movies or other feature presentations, each of which requires precise, accurate and continuous execution, and the related services and movie content to television operators, telecommunications companies and broadcast television companies. Revenues from sales of systems are recognized upon shipment provided title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is probable. Installation, project management and training revenue is deferred and recognized as these services are performed. Revenue from technical support and maintenance is deferred and recognized ratably over the period of the related agreements, generally twelve months. Customers are billed for installation, project management, training and maintenance at the time of the product sale. Revenue from content fees,

primarily movies, is recognized based on the volume of monthly purchases that are made by hotel guests. Revenue from product development contract services is recognized based on the time and materials incurred to complete the work.

SeaChange's transactions frequently involve the sales of systems and services under multiple element arrangements. Systems sales always include one year of free technical support and maintenance services. Revenue under multiple element arrangements is allocated to all elements except systems based upon the fair value of those elements. The amounts allocated to training, project management, technical support and maintenance content fees is based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation revenue is based upon hourly rates and the estimated time required to complete the service. The amount allocated to systems is done on a residual method basis. Under this method, the total arrangement value is allocated first to undelivered elements, based on their fair values, with the remainder being allocated to systems revenue. Installation, training and project management 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.

SeaChange has experienced fluctuations in the number of orders being placed from quarter to quarter. SeaChange believes this is principally attributable to the buying patterns and budgeting cycles of television operators and broadcast companies, the primary buyers of digital advertising insertion systems and broadcast systems, respectively. SeaChange expects that there will continue to be fluctuations in the number and value of orders received and that at least in the near future, SeaChange's revenue and results of operations will reflect these fluctuations.

SeaChange's results are significantly influenced by a number of factors, including SeaChange's pricing, the costs of materials used in SeaChange's products and the expansion of SeaChange's operations. SeaChange prices its products and services based upon its costs as well as in consideration of the prices of competitive products and services in the marketplace. The costs of SeaChange's products primarily consist of the costs of components and subassemblies that have generally declined over time. As a result of the growth of SeaChange's business, operating expenses of SeaChange have increased in the areas of research and development, selling and marketing, customer service and support and administration.

In April 2000, SeaChange's Board of Directors voted to change SeaChange's fiscal accounting year from December 31 to January 31, such that the current fiscal year began on February 1, 2000 and will end on January 31, 2001.

Revenues

Systems. SeaChange's systems revenues consist of sales within its digital advertising insertion, broadcast and interactive television segments. Systems revenues decreased 1% from \$16.9 million in the three months ended March 31, 1999 to \$16.7 million in the three months ended March 31, 2000. Revenues from the digital advertising insertion segment, which accounted for 49% and 60% of total revenues in the three months ended March 31, 2000 and 1999, respectively, decreased from \$12.5 million in 1999 to \$10.8 million in 2000. Broadcast system segment revenues were \$3.3 million in the three months ended March 31, 2000 compared to \$4.1 million in the three months ended March 31, 1999. This decrease in both the digital advertising insertion and broadcast segment revenues is primarily attributable to a shift in the timing of orders by U.S. customers between quarters this year versus the previous year. Interactive television segment revenues increased from \$326,000 in the three months ended March 31, 1999 to \$2.5 million in the three months ended March 31, 2000. The higher revenue reflects the introduction of the residential video on demand products in the third quarter of 1999. SeaChange expects future revenue growth, if any, to come principally from the broadcast and the interactive television segments.

Services. SeaChange's services revenues consist of fees for installation, training, project management, technical support and maintenance services, product development services and movie content fees. SeaChange's services revenues increased 36% to \$5.3 million in three months ended March 31, 2000 from \$3.9 million in the three months ended March 31, 1999. This increase in services revenues primarily resulted from the renewals for technical support and maintenance, price increases on certain annual maintenance and the impact of a growing installed base of systems.

For the three month periods ended March 31, 2000 and 1999, certain customers accounted for more than 10% of SeaChange's total revenues. Single customers accounted for 17% and 15% of total revenues in three months ended March 31, 2000 and 17%, 16% and 14% of total revenues in the three months ended March 31, 1999. Revenue from these customers was primarily within the digital advertising insertion segment. SeaChange believes that revenues from current and future large customers will continue to represent a significant proportion of total revenues.

International sales accounted for approximately 16% of total revenues in the

three month periods ended March 31, 2000 and 1999. SeaChange expects that international sales will remain a significant portion of SeaChange's business in the future. As of March 31, 2000, substantially all sales of SeaChange's products were made in United States dollars. SeaChange does not expect to change this practice in the foreseeable future. Therefore, SeaChange has not experienced, nor does it expect to experience in the near term, any material impact from fluctuations in foreign currency exchange rates on its results of operations or liquidity. If this practice changes in the future, SeaChange will reevaluate its foreign currency exchange rate risk.

Gross Profit

Systems. Costs of systems revenues consist primarily of the cost of purchased components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses. Costs of systems revenues decreased 7% from \$9.9 million in the three months ended March 31, 1999 to \$9.2 million in the three months ended March 31, 2000. In the three months ended March 31, 2000, the decrease in costs of systems revenues reflects lower systems revenue and a higher margin product mix. SeaChange expects cost of systems revenues for the broadcast and interactive television to be higher as a percentage of revenues as the products are first deployed and to decrease as a percentage of revenues as the revenue level increases and SeaChange improves its manufacturing and material purchasing efficiencies.

Systems gross profit as a percentage of systems revenues was 45% and 42% in the three months ended March 31, 2000 and 1999, respectively. The increase in systems gross profit in the three month ended March 31, 2000 was primarily due to lower material and labor costs as a percentage of systems revenue. Gross profit for the digital advertising insertion segment improved from 42% for the three months ended March 31, 1999 to 45% for the three months ended March 31, 2000 while gross profit for the broadcast segment decreased to 40% for the three months ended March 31, 2000 compared to 43% for the three months ended March 31, 1999. The higher revenue level for the interactive television segment resulted in the improvement in gross profit from 29% for the three months ended March 31, 1999 to 52% for the three months ended March 31, 2000. The gross profits in the three months ended March 31, 1999 were impacted by an increase of approximately \$288,000 in SeaChange's inventory valuation allowance. SeaChange evaluates inventory levels and expected usage on a periodic basis and provides a valuation allowance for estimated inactive, obsolete and surplus inventory.

Services. Costs of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support services provided by SeaChange and costs associated with providing movie content. Costs of services revenues increased 21% from \$3.4 million in the three months ended March 31, 1999 to \$4.2 million in the three months ended March 31, 2000, primarily as a result of the costs associated with SeaChange hiring and training additional service personnel to provide worldwide support for the growing installed base of digital advertising insertion, broadcast and interactive television systems and costs associated with providing movie content. Services gross profit as a percentage of services revenue was 22% in the three months ended March 31, 2000 and 11% in the three months ended March 31, 1999. Improvements in the services gross profit in the three months ended March 31, 2000 reflects the increase in the installed base of systems, the impact of price increases on certain annual maintenance and the completion of certain high margin product development contracts. SeaChange expects that it will continue to experience fluctuations in gross profit as a percentage of services revenue as a result of the timing of revenues from product and maintenance support and other services to support the growing installed base of systems and the timing of costs associated with SeaChange's ongoing investment required to build a service organization to support the installed base of systems and new products.

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Research and Development. Research and development expenses consist primarily of compensation of development personnel, depreciation of equipment and an allocation of related facilities expenses. Research and development expenses increased 9% from \$4.1 million in the three months ended March 31, 1999 to \$4.5 million in the three months ended March 31, 2000. The increase in the dollar amount in the three months ended March 31, 2000 was primarily attributable to the hiring and contracting of additional development personnel which reflects SeaChange's continuing investment in new products. All internal software development costs to date have been expensed by SeaChange. SeaChange expects that research and development expenses will continue to increase in dollar amount as SeaChange continues its development and support of new and existing products.

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 increased 11% to \$2.2 million in the three months ended March 31, 2000 from \$2.0 million in the three months ended March 31, 1999. The increase was primarily due to the hiring of additional sales personnel for SeaChange's broadcast and interactive television products.

General and Administrative. General and administrative expenses consist primarily of compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. General and administrative expenses remained relatively flat at \$1.4 million in the three months ended March 31, 2000 and 1999.

Interest Income, net. Interest income, net was approximately \$26,000 and \$11,000 in the three months ended March 31, 2000 and 1999, respectively. The increase in interest income, net in the three months ended March 31, 2000 primarily resulted from higher average invested cash balances offset by interest expense on borrowings.

Provision for Income Taxes. SeaChange's effective tax provision rate was 32% in the three months ended March 31, 2000.

SeaChange had net deferred tax assets of \$2.9 million at March 31, 2000. SeaChange has made the determination it is more likely than not that it will realize the benefits of the net deferred tax assets.

Liquidity and Capital Resources

SeaChange has financed its operations and capital expenditures primarily with the proceeds of SeaChange's common stock, borrowings and cash flows generated from operations. Cash, cash equivalents and marketable securities decreased \$3.9 million from \$11.3 million at December 31, 1999 to \$7.4 million at March 31, 2000. Working capital increased from approximately \$23.4 million at December 31, 1999 to approximately \$24.7 million at March 31, 2000.

Net cash used in operating activities was approximately \$4.3 million for the three months ended March 31, 2000. Net cash provided by operating activities was approximately \$3.7 million for the three months ended March 31, 1999. The net cash used in operating activities in the three months ended March 31, 2000 was the result of the net income adjusted for non-cash expenses including depreciation and amortization and the changes in certain assets and liabilities. The significant net changes in assets and liabilities that used cash in operations included an increase in accounts receivable of \$3.0 million and an increase in inventories of \$3.1 million. These items that used cash from operations were offset by an increase in deferred revenue of \$2.7 million.

Net cash used in investing activities was approximately \$2.0 million and \$300,000 for the three months ended March 31, 2000 and 1999, respectively. Investment activity consisted primarily of capital expenditures related to the acquisition of computer equipment, office furniture, and other capital equipment required to support the expansion and growth of the business.

Net cash provided by financing activities was approximately \$2.4 million for the three months ended March 31, 2000. Net cash used in financing activities was approximately \$1.9 million for the three months ended March 31, 1999. In the three months ended March 31, 2000, the cash provided by financing included \$2.0 million of borrowings under the equipment line of credit and \$700,000 received in connection with the issuance of common stock pursuant to the exercise of stock options. During the same period, cash used in financing activities included approximately \$300,000 in principal payments under SeaChange's equipment line of credit and capital lease obligations.

SeaChange had a \$6.0 million revolving line of credit and a \$5.0 million equipment line of credit with a bank. The revolving line of credit expired in March 2000 and the ability of SeaChange to make purchases applied to the equipment line of credit expired in March 2000. SeaChange is currently in the process of renewing both lines of credit. Borrowings under the lines of credit are secured by substantially all of SeaChange's assets. Loans made under the revolving line of credit would generally bear interest at a rate per annum equal to the bank's base rate plus .5%. Loans made under the equipment line of credit bear interest at a rate per annum equal to the bank's base rate plus 1.0% (9.5% at March 31, 2000). The loan agreement relating to the lines of credit requires that SeaChange provide the bank with certain periodic financial reports and comply with certain financial ratios including

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the maintenance of total liabilities, excluding deferred revenue, to net worth of at least .80 to 1.0. At March 31, 2000 SeaChange was in compliance with all covenants. As of March 31, 2000, there were no borrowings against the line of credit and borrowings outstanding under the equipment line of credit were \$3.5 million.

SeaChange believes that existing funds together with proceeds to be received from SeaChange's sale of its Common Stock to Microsoft Corporation pursuant to a binding letter of intent are adequate to satisfy its working capital and capital expenditure requirements for the foreseeable future.

SeaChange had no material capital expenditure commitments as of March 31, 2000.

Effects of Inflation

Management believes that financial results have not been significantly impacted by inflation and price changes.

Recent Accounting Pronouncements.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, collectively referred to as derivatives, and for hedging activities. SeaChange will adopt SFAS 133 as required by SFAS 137, "Deferral of the Effective Date of FASB Statement No. 133", in fiscal year 2001. To date SeaChange has not utilized derivative instruments or hedging activities and, therefore, the adoption of SFAS 133 is not expected to have a material impact on SeaChange's financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes the SEC's view in applying generally accepted accounting principles to selected revenue recognition issues. The application of the guidance in SAB 101 is required in SeaChange's second quarter of its current fiscal year. The effects of applying this guidance, if any, will be reported as a cumulative effect adjustment resulting in a change in accounting principle. SeaChange's evaluation of SAB 101 is not yet complete.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation--an interpretation of APB Opinion No. 25" ("FIN 44"). FIN 44 clarifies the application of APB Opinion No. 25 and is effective July 1, 2000, but certain conclusions in FIN 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. SeaChange does not expect the application of FIN 44 to have a material impact on SeaChange's financial position or results of operations.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

SeaChange faces 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 SeaChange's financial results. SeaChange's primary exposure has been related to local currency revenue and operating expenses in Europe and Asia. Historically, SeaChange has not hedged specific currency exposures as gains and losses on foreign currency transactions have not been material to date. At March 31, 2000, SeaChange had \$3,475,000 outstanding related to variable rate U.S. dollar denominated debt. The carrying value of these short-term borrowings approximates fair value due to the short maturities of these instruments. Assuming a hypothetical 10% adverse change in the interest rate, interest expense on these short-term borrowings would increase by \$33,000.

The carrying amounts reflected in the consolidated balance sheet of cash and cash equivalents, trade receivables, and trade payables approximates fair value at March 31, 2000 due to the short maturities of these instruments.

SeaChange maintains investment portfolio holdings of various issuers, types, and maturities. SeaChange's cash and marketable securities include cash equivalents, which SeaChange considers investments to be purchased with original maturities of three months or less given the short maturities and investment grade quality of the portfolio holdings at March 31, 2000, a sharp rise in interest rates should not have a material adverse impact on the fair value of SeaChange's investment portfolio. As a result, SeaChange does not currently hedge these interest rate exposures.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

On March 17, 2000, Beam Laser Systems, Inc. and Frank L. Beam instituted a claim (Civil Action No. 2:00-CV-195) in the federal courts in the Eastern District of Virginia against one of SeaChange's customers, Cox Communications, Inc. Beam Laser is seeking both an injunction and monetary damages from the defendants in that case. The defendants have made a counterclaim against Beam Laser seeking a declaration of non-infringement, invalidity and unenforceability of the two patents held by Beam Laser that are at question. In addition, SeaChange has agreed to indemnify its customer for claims brought against the customer that are related to the customer's use of SeaChange's products.

On June 14, 1999, SeaChange filed a defamation complaint against Jeffery Putterman, Lathrop Investment Management, Inc. and Concurrent Computer Corporation in the Circuit Court of Pulaski County, Arkansas alleging that the

defendants conspired to injure the business and reputation of SeaChange in the marketplace. The complaint further alleges that Mr. Putterman and Lathrop Investment Management, Inc. defamed SeaChange through false postings on an Internet message board. The complaint seeks unspecified amounts of compensatory and punitive damages.

SeaChange cannot be certain of the outcome of the foregoing litigation, but does plan to oppose allegations against it and assert its claims against other parties vigorously. In addition, as these claims are in the early stages of discovery and certain claims for damages are as yet unspecified, SeaChange is unable to estimate the impact to its business, financial condition, and results of operations or cash flows.

ITEM 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K On January 14, 2000, SeaChange filed a Form 8-K with the SEC with disclosure therein under Items 2, 5 and 7 of Form 8-K relating to SeaChange's acquisition on December 30, 1999 of all of the outstanding capital stock of Digital Video Arts, Ltd. and SeaChange's three for two stock split in the form of a dividend on December 27, 1999.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, SeaChange International, Inc. has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 28, 2001

SEACHANGE INTERNATIONAL, INC.

by: /s/ William L. Fiedler

William L. Fiedler
Vice President, Finance and Administration,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer;
Authorized Officer)

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