

SECURITIES AND EXCHANGE COMMISSION  
 Washington, DC 20549

FORM S-3  
 REGISTRATION STATEMENT  
 UNDER  
 THE SECURITIES ACT OF 1933

SeaChange International, Inc.  
 (Exact Name of Registrant as Specified in Its Charter)

<TABLE>		
<S>	<C>	
Delaware		04-3197974
(State or Other Jurisdiction of Incorporation or Organization)		(IRS Employer Identification No.)
</TABLE>		

124 Acton Street, Maynard, MA 01754, (978) 897-0100  
 (Address, Including Zip Code, and Telephone Number, Including Area Code, of  
 Registrant's Principal Executive Offices)

William C. Styslenger, III  
 Chairman, President and Chief Executive Officer  
 SeaChange International, Inc.  
 124 Acton Street  
 Maynard, MA 01754  
 (978) 897-0100

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code,  
 of Agent For Service)

Copies to:

<TABLE>		
<S>	<C>	
William B. Simmons, Jr., Esq. TESTA, HURWITZ & THIBEAULT, LLP 125 High Street Boston, Massachusetts 02110 (617) 248-7000		Keith F. Higgins, Esq. ROPES & GRAY One International Place Boston, Massachusetts 02110 (617) 951-7000
</TABLE>		

Approximate date of commencement of proposed sale to the public: As soon as  
 practicable after the effective date hereof.

If the only securities being registered on this form are being offered  
 pursuant to dividend or interest reinvestment plans, please check the  
 following box.

If any of the securities being registered on this Form are to be offered on  
 a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
 1933, other than securities offered only in connection with dividend or  
 interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering  
 pursuant to Rule 462(b) under the Securities Act, please check the following  
 box and list the Securities Act registration statement number of the earlier  
 effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c)  
 under the Securities Act, check the following box and list the Securities Act  
 registration statement number of the earlier effective registration statement  
 for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434,  
 please check the following box.

CALCULATION OF REGISTRATION FEE

<TABLE>				
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Title of Shares to be Registered	Amount to Be Registered*	Proposed Maximum Offering Price Per Share**	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
<S>	<C>	<C>	<C>	<C>
Common Stock, \$.01 par value.....	3,450,000 shares	\$28.72	\$99,084,000	\$23,681.08
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\*Includes 450,000 shares that the underwriters have an option to purchase  
 to cover over-allotments.  
 \*\* Calculated in accordance with Rule 457(c) based on the average of the

high and low prices reported on the Nasdaq National Market on November 29, 2001.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)  
Issued December 5, 2001

3,000,000 Shares

[SEACHANGE INTERNATIONAL LOGO]

COMMON STOCK

SeaChange International, Inc. is offering 2,790,000 shares and selling stockholders are offering 210,000 shares.

Our common stock is listed on the Nasdaq National Market under the symbol "SEAC." On December 4, 2001, the last reported sale price of our common stock on the Nasdaq National Market was \$30.50 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 8.

PRICE \$ A SHARE

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	Price to Public	Underwriting Discounts and Commissions	Proceeds to SeaChange	Proceeds to Selling Stockholders
<S>	<C>	<C>	<C>	<C>
Per Share.....	\$	\$	\$	\$
Total.....	\$	\$	\$	\$

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

SeaChange International has granted the underwriters the right to purchase up to an additional 450,000 shares of common stock to cover over-allotments. Morgan Stanley & Co. Incorporated expects to deliver the shares to purchasers on , 2001.

MORGAN STANLEY  
THOMAS WEISEL PARTNERS LLC  
RBC CAPITAL MARKETS  
, 2001

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholders are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock. In this prospectus, "SeaChange International," "we," "our" and "us" refer to SeaChange International, Inc.

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#### PROSPECTUS SUMMARY

The following summary is qualified by the more detailed information and the consolidated financial statements and related notes appearing elsewhere in this prospectus.

#### SEACHANGE INTERNATIONAL

We are a leading developer, manufacturer and marketer of systems, known as video storage servers, that automate the management and distribution of long-form video streams, such as movies or other feature presentations, and short-form video streams, such as advertisements. We sell our products and services to cable system operators, including Adelphia, AOL Time Warner, AT&T, Cablevision, Charter Communications, Comcast and Cox Communications; telecommunications companies, including Qwest; and broadcast television companies, including The Ackerley Group, Echostar, Group W Broadcasting and United Pan-Europe Corporation. We believe that our digital video systems enable our customers to differentiate their service offerings to reduce subscriber turnover and access new revenue generating opportunities from subscribers, advertisers and electronic commerce initiatives. Using our systems, we believe our customers can increase their revenues by offering additional services such as video-on-demand movies and subscription video-on-demand programming, both of which allow subscribers to watch content at any time with pause, rewind and fast forward features. Our systems also allow our customers to insert targeted advertising segments, known as spot advertising, into their local cable programming. In addition, our systems enable cable system operators to offer other interactive television services that allow subscribers to customize and/or dynamically interact with their television viewing experience in a manner similar to that experienced with the use of a personal computer.

Our digital video systems provide enhanced storage and retrieval capabilities, multi-channel content delivery and highly automated information and order processing. These technologies provide a foundation for products that can be deployed in next generation systems capable of increased levels of subscriber interactivity. Our technologies and systems mitigate the effects of electronic signal dispersion and offer higher image quality and greater reliability than analog tape based systems. We have received several awards for technological excellence, including an Emmy Award in 2001 for our patented MediaCluster technology.

Our broadband or high bandwidth network segment includes our ITV System which digitally manages, stores and distributes digital video, allowing cable system operators and telecommunications companies to offer video-on-demand and other interactive television services, including interactive electronic advertising and retrieval of Internet content through the television. Our ITV System can be deployed in either a residential environment or a hotel environment to deliver a wide variety of video services. The ITV System delivers video-on-demand and other guest services, Internet access and personal computer games in the hotel environment, and our movie system provides long-form video storage and delivery for the pay-per-view movie markets. Since 2000, we have been selected to supply our ITV System in 22 domestic and international commercial deployments of video-on-demand systems, including deployments by five of the top seven cable system operators in the United States. We test and integrate our ITV System with the digital set top boxes, or hardware devices used to receive and unscramble television signals, of such manufacturers as Scientific Atlanta, Motorola, Pace, Pioneer and Sony Corporation.

In addition to our ITV System, our broadband business segment includes our SPOT System, which is a system for the transmission of video content, known as a video insertion system, for digital advertisements and other short-form video. Based on currently available industry sources and our internal data, we believe our SPOT System is the leading video insertion system in the United States in the multi-channel television market for digital advertisements and other short-form video. Our system converts analog video forms such as advertisements and news updates to digital video forms, stores the digital video forms in remote or local storage devices known as digital libraries, and inserts them automatically into television network streams. The SPOT System provides high accuracy relative to the volume of video being played and high video image quality, and permits geographic and demographic specificity of advertisements. We believe our SPOT System reduces operating costs by automating

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the management and distribution process. Our Advertising Management Software product operates with our SPOT System to automate and simplify complex sales, scheduling and billing processes for the multi-channel television market. A majority of our customers for these products consist of major cable system operators and telecommunications companies in the United States. To date we have sold SPOT Systems to support over 25,000 channels throughout the world. We believe that the capabilities of our SPOT System will position us well as the opportunities to distribute advertisements into a wide variety of digital media platforms and the market for interactive advertising continues to increase.

Our broadcast network business segment includes our Broadcast MediaCluster System, which allows broadcast television companies to directly transmit content, such as commercials and other programming for broadcast television companies, to their viewers through either single, multi-channel or satellite based delivery systems. We believe that our Broadcast MediaCluster System will eliminate the need for analog tape libraries and provide broadcasters with the automated storage and playback features that they require. Since 1998, we have installed our Broadcast MediaCluster System at customer locations including network affiliates and multi-channel operations in the United States, Europe and the Far East.

We face significant challenges in our business, as the market in which we operate is intensely competitive and still emerging, meaning that the success of our business is contingent upon the widespread marketplace acceptance of our products and the technology on which they are based. Our customer base is highly concentrated among a limited number of customers and our five largest customers have accounted for approximately half of our revenues in each of the last five years. We also have single suppliers for some of our raw materials. Each of these factors, along with the challenges inherent in managing our growth, could limit our ability to grow and succeed in accordance with our business plan.

We were incorporated in Delaware in July 1993. Our principal executive offices are located at 124 Acton Street, Maynard, Massachusetts 01754, and our telephone number is (978) 897-0100. Our web site is located at [www.schange.com](http://www.schange.com). The information contained on our web site is not incorporated by reference into this document and should not be considered a part of this prospectus. Our web site address is included in this document as an inactive textual reference only.

#### THE OFFERING

<TABLE> <C>	<S>
Common stock offered by SeaChange.....	2,790,000
Common stock offered by the selling stockholders....	210,000
Common stock to be outstanding after this offering..	25,752,415
Use of proceeds.....	General corporate purposes, including potential acquisitions. See "Use of Proceeds."

Nasdaq National Market Symbol..... "SEAC"  
 </TABLE>

We calculated the number of shares of common stock to be outstanding after this offering based on the number of shares outstanding on October 31, 2001. This number excludes shares of common stock issuable upon exercise of warrants and an aggregate of 8,086,977 shares of common stock that we have reserved for issuance under our stock option plans, of which 3,503,315 were subject to outstanding options as of October 31, 2001 at a weighted average price of \$18.88 per share. Unless otherwise specified, the information in this prospectus assumes no exercise of the underwriters' over-allotment option.

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SUMMARY CONSOLIDATED FINANCIAL DATA  
 (in thousands, except per share data)

<TABLE>  
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	Year ended December 31,		One month ended January 31,	Year ended	Six months ended July 31,	
	1998	1999	2000	January 31, 2001	2000	2001
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data:						
Revenues.....	\$ 72,924	\$ 85,221	\$ 1,710	\$ 98,468	\$ 47,660	\$ 57,180
Gross profit (loss)....	23,541	31,370	(368)	39,742	18,612	22,211
Income (loss) from operations.....	(7,596)	454	(3,623)	(385)	840	(486)
Net income (loss) before cumulative effect of change in accounting principle.....	(4,572)	497	(2,458)	93	593	(502)
Net income (loss).....	(4,572)	497	(2,458)	(1,007)	(507)	(502)
Earnings (loss) per share before cumulative effect of change in accounting principle:						
Basic.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ 0.00	\$ 0.03	\$ (0.02)
Diluted.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ 0.00	\$ 0.02	\$ (0.02)
Earnings (loss) per share:						
Basic.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ (0.05)	\$ (0.02)	\$ (0.02)
Diluted.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ (0.05)	\$ (0.02)	\$ (0.02)

In April 2000, our board of directors voted to change our fiscal accounting year from December 31 to January 31. The as adjusted consolidated balance sheet data below reflects our sale of 2,790,000 shares of common stock in this offering at an assumed public offering price of \$30.50 per share.

<TABLE>  
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	As of July 31, 2001	
	Actual	As Adjusted
<S>	<C>	<C>
Consolidated Balance Sheet Data:		
Working capital.....	\$34,771	\$115,000
Total assets.....	93,125	173,354
Long-term liabilities.....	2,899	2,899
Deferred revenue.....	9,992	9,992
Total liabilities.....	36,338	36,338
Total stockholders' equity.....	56,787	137,016

On November 27, 2001, we announced our operating results for our third fiscal quarter ended October 31, 2001. Total revenues for the quarter were \$25.2 million, an increase of \$200,000 over the third quarter of fiscal 2001. Total systems revenues for the quarter were \$17.8 million, a \$1.3 million decrease from the third quarter of fiscal 2001. Interactive television system revenues for the quarter were \$10.2 million, a \$7.3 million increase from the comparable prior year quarter due primarily to the growth in deployments of residential video-on-demand systems in the United States by cable systems operators. Digital advertising system revenues were \$3.4 million for the quarter, a \$5.0 million decrease from the comparable prior year quarter primarily reflecting a decrease in demand for expansion systems due to lower advertising revenues of U.S. cable operators. Revenues from sales of our broadcast system products were \$4.1 million for the quarter, a \$3.6 million decrease from the comparable prior year quarter. Services revenues were \$7.4 million for the third quarter of fiscal 2002, a \$1.5 million increase from the comparable prior year quarter.

Systems gross profit as a percentage of systems revenues decreased from 47% for the third quarter of fiscal 2001 to 40% for the third quarter of fiscal 2002 due primarily to a change in product sales mix, with lower sales of higher margin advertising and broadcast products and increased sales of interactive television systems, which have lower gross margins in our initial developments. Total operating expenses for the third quarter of fiscal 2002 were \$11.0 million, a \$1.1 million increase from the comparable prior year quarter. This increase primarily reflects the hiring of additional research and development personnel. As a result, we reported a net loss for the third quarter of fiscal 2002 of \$1.2 million, or \$0.05 per share, compared to net income of \$512,000, or \$0.02 per share, for the third quarter of fiscal 2001.

#### RISK FACTORS

You should carefully consider the following risks before investing in our common stock. If any of the following risks come to fruition, our business, results of operations or financial condition could be materially adversely affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should also refer to the other information set forth in this prospectus, including our financial statements and the accompanying notes.

Our future success is dependent on the development of the emerging video-on-demand market and if video-on-demand does not gain broad market acceptance, our business may not grow as we have planned.

While our revenue growth to date has been primarily from sales of our digital advertisement insertion products and related services, we believe our future revenue growth will come predominately from sales and services related to our video-on-demand products. The video-on-demand market is in the emerging stages of development and involves a limited number of cable system operators. The success of this market requires that cable system operators, particularly the seven largest domestic cable system operators, continue to upgrade their cable networks to support digital two-way transmission service and successfully market video-on-demand and similar services to their cable television subscribers. Cable system operators have only begun commercial deployment of video-on-demand service to residential cable subscribers within the past year and, accordingly, to date our digital video systems have been commercially available only to a limited number of subscribers. As a result, the ability of our digital video systems to support a substantial number of subscribers is commercially unproven. If cable system operators fail to make the capital expenditures necessary to upgrade their networks or determine that broad deployment of video-on-demand services is not viable as a business proposition or if our digital video systems cannot support a substantial number of subscribers while maintaining a high level of performance, our revenues will not grow as we have planned.

Because our customer base is highly concentrated among a limited number of large customers, the loss of or reduced demand of these customers could have a material adverse effect on our business, financial condition and results of operations.

Our customer base is highly concentrated among a limited number of large customers, and, therefore, a limited number of customers account for a significant percentage of our revenues in any year. Our five largest customers have accounted for approximately half of our revenues in each of the past five years. We generally do not have written continuing purchase agreements with our customers and do not generally have written agreements that require customers to purchase fixed minimum quantities of our products. Our sales to specific customers tend to vary significantly from year to year depending upon these customers' budgets for capital expenditures and new product introductions. We believe that a significant amount of our revenues will continue to be derived from a limited number of large customers. The loss of, or reduced demand for products or related services from, any of our major customers could have a material adverse effect on our business, financial condition and results of operations.

Cancellation or deferral of purchases of our products could cause our operating results to be below the expectations of the public market stock analysts who cover our stock, resulting in a decrease in the market price of our common stock.

We derive a substantial portion of our revenues from products that have a selling price in excess of \$200,000. Therefore, any significant cancellation or deferral of purchases of our products could have a material adverse effect on our business, financial condition and results of operations in any particular quarter due to the resulting decrease in revenue and our relatively fixed costs. In addition, to the extent significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected

because our expense levels are based, in part, on our expectations as to our future revenues, and we may be unable to adjust spending in a timely manner to compensate for any revenue shortfall. Because of these factors, in some future quarter our operating results may be below the expectations of public market analysts and investors which may adversely affect the market price of our common stock.

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Seasonal trends may cause our quarterly operating results to fluctuate, making period-to-period comparisons of our operating results meaningless.

We have experienced significant variations in the revenue, expenses and operating results from quarter to quarter and these variations are likely to continue. We believe that fluctuations in the number of orders being placed from quarter to quarter are principally attributable to the buying patterns and budgeting cycles of cable system operators and broadcast companies, the primary buyers of the digital advertising systems and broadcast systems, respectively. We expect that there will continue to be fluctuations in the number and value of orders received. As a result, our results of operations have in the past and likely will, at least in the near future, fluctuate in accordance with this purchasing activity making period-to-period comparisons of our operating results meaningless. In addition, because these factors are difficult for us to forecast, our business, financial condition and results of operations for one quarter or a series of quarters may be adversely affected and below the expectations of public market analysts and investors, resulting in a decrease in the market price of our common stock.

Due to the lengthy sales cycle involved in the sale of our products, our quarterly results may vary and should not be relied on as an indication of future performance.

Digital video, movie and broadcast products are relatively complex and their purchase generally involves a significant commitment of capital, with attendant delays frequently associated with large capital expenditures and implementation procedures within an organization. Moreover, the purchase of these products typically requires coordination and agreement among a potential customer's corporate headquarters and its regional and local operations. For these and other reasons, the sales cycle associated with the purchase of our digital video, movie and broadcast products is typically lengthy and subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews, over which we have little or no control. Based upon all of the foregoing, we believe that our quarterly revenues, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of our results of operations are not necessarily meaningful and that, in any event, these comparisons should not be relied upon as indications of future performance.

If there were a decline in demand or average selling prices for our broadband products, including our ITV System and SPOT System, our revenues would be materially affected.

We expect our broadband products to continue to account for a significant portion of our revenues. Accordingly, a decline in demand or average selling prices for our broadband products, whether as a result of new product introductions by others, price competition, technological change, inability to enhance the products in a timely fashion, or otherwise, would have a material adverse effect on our business, financial condition and results of operations.

If we are unable to manage our growth and the related expansion in our operations effectively, our business may be harmed through a decreased ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees.

Our ability to successfully offer products and services and implement our business plan in a rapidly evolving market requires effective planning and management. Not only are we growing in size, but we are also continuing to transition towards greater reliance on our video-on-demand products for an increased portion of our revenue. Our growth has placed, and our anticipated future operations will continue to place, a significant strain on our management, administrative, operational and other resources. To manage future growth effectively, we must continue to improve our management and operational controls, enhance our reporting systems and procedures, integrate new personnel and manage expanded operations. A failure to manage our growth may harm our business through a decreased ability to monitor and control effectively our operations, and a decrease in the quality of work and innovation of our employees upon which our business is dependent.

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If content providers, such as movie studios, limit the scope of content licensed for use in the digital video-on-demand market, our business, financial condition and results of operations could be negatively affected because the market for our products would be more limited than we currently believe and have communicated to the financial markets.

The success of the video-on-demand market is contingent on content providers, such as movie studios, permitting their content to be licensed for use in this market. Content providers may, due to concerns regarding either or both marketing and illegal duplication of the content, limit the extent to which they provide content to the video-on-demand market. A limitation of content for the video-on-demand market would indirectly limit the market for our ITV System which is used in connection with that market.

If we are unable to successfully introduce to our marketplace new products or enhancements to existing products, our financial condition and operating results may be adversely affected by a decrease in purchases of our products.

Because our business plan is based on technological development in the form of both development of new products and enhancements to our existing products, our future success is dependent on our successful introduction to the marketplace of these products and enhancements. In the future we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these and other new products and enhancements, or find that our new products and enhancements do not adequately meet the requirements of the marketplace or achieve market acceptance. Announcements of currently planned or other new product offerings may cause customers to defer purchasing our existing products. Moreover, despite testing by us and by current and potential customers, errors or failures may be found in our products, and, even if discovered, may not be successfully corrected in a timely manner. These errors or failures could cause delays in product introductions and shipments, or require design modifications that could adversely affect our competitive position. Our inability to develop new products or enhancements on a timely basis or the failure of these new products or enhancements to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

Because we purchase certain of the components used in manufacturing our products from sole suppliers and we use a limited number of third party manufacturers to manufacture our products, our business, financial condition and results of operation could be materially adversely affected by a failure of these suppliers or manufacturers.

Certain key components of our products are currently purchased from a sole supplier, including a computer chassis manufactured by Trimm Technologic Inc., a different computer chassis manufactured by JMR Electronics, Inc., an interface controller video transmission board manufactured by Cyclone Microsystems, Inc., a switch chassis manufactured by Ego Systems, a decoder card manufactured by Vela Research, Inc. and an encoder card manufactured by Optibase, Inc. We have in the past experienced quality control problems, where products did not meet specifications or were damaged in shipping, and delays in the receipt of these components. These problems were generally of short duration and did not have a material adverse effect on us. However, we may in the future experience similar types of problems which could be more severe or more prolonged. While we believe that there are alternative suppliers available for these components, we believe that the procurement of these components from alternative suppliers could take up to four months. In addition, these alternative components may not be functionally equivalent or may be unavailable on a timely basis or on similar terms. The inability to obtain sufficient key components as required, or to develop alternative sources if and as required in the future, could result in delays or reductions in product shipments which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

In addition, we rely on a limited number of third parties who manufacture certain components used in our products. While to date there has been suitable third party manufacturing capacity readily available at acceptable quality levels, in the future there may not be manufacturers that are able to meet our future volume or quality requirements at a price that is favorable to us. Any financial, operational, production or quality assurance difficulties experienced by these third party manufacturers that result in a reduction or interruption in supply to us could have a material adverse effect on our business, financial condition and results of operations.

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

We currently compete against both computer companies offering video server platforms and more traditional analog video playback systems. In the digital advertisement insertion market, we compete against suppliers of both analog tape-based and digital systems.

Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources, including computer hardware and software companies and television equipment manufacturers, may enter those markets, thereby further intensifying competition. Increased competition could result in price reductions and loss of market share which would adversely affect our business, financial condition



and results of operations. Many of our current and potential competitors have greater financial, selling and marketing, technical and other resources than we do. Moreover, our competitors may also foresee the course of market developments more accurately than we. Although we believe that we have certain technological and other advantages over our competitors, realizing and maintaining these advantages will require a continued high level of investment by us in research and product development, marketing and customer service and support. In the future we may not have sufficient resources to continue to make these investments or to make the technological advances necessary to compete successfully with our existing competitors or with new competitors.

If we are unable to compete effectively, our business, prospects, financial condition and operating results would be materially adversely affected because of the difference in our operating results from the assumptions on which our business model is based.

If we fail to respond to rapidly changing technologies related to digital video, our business, financial condition and results of operations would be materially adversely affected because the competitive advantage of our products relative to those of our competitors would decrease.

The markets for our products are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions and enhancements. Future technological advances in the television and video industries may result in the availability of new products or services that could compete with the solutions provided by us or reduce the cost of existing products or services, any of which could enable our existing or potential customers to fulfill their video needs better and more cost efficiently than with our products. Our future success will depend on our ability to enhance our existing digital video products, including the development of new applications for our technology, and to develop and introduce new products to meet and adapt to changing customer requirements and emerging technologies. In the future, we may not be successful in enhancing our digital video products or developing, manufacturing and marketing new products which satisfy customer needs or achieve market acceptance. In addition, there may be services, products or technologies developed by others that render our products or technologies uncompetitive, unmarketable or obsolete, or announcements of currently planned or other new product offerings either by us or our competitors that cause customers to defer or fail to purchase our existing solutions.

Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights from third-party challenges.

Our success and ability to compete depends upon our ability to protect our proprietary technology that is incorporated into our broadband and broadcast products. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Although we have one issued patent, we cannot assure you that any additional patents will be issued or that the issued patent will not be invalidated. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise misappropriate and use our products or technology without authorization, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We may need to resort to litigation in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. If competitors are able to use our technology, our ability to compete effectively could be harmed.

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We have been and in the future could become subject to litigation regarding intellectual property rights, which could seriously harm our business and require us to incur significant costs.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We have been and currently are involved in significant intellectual property litigation, and we may be a party to litigation in the future to enforce our intellectual property rights or as a result of an allegation that we infringe others' intellectual property. Any parties asserting that our products infringe upon their proprietary rights would force us to defend ourselves and possibly our customers or manufacturers against the alleged infringement. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention away from our operations.

Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. In addition, any potential intellectual

property litigation also could force us to stop selling, incorporating or using the products that use the infringed intellectual property or obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, although this license may not be available on reasonable terms, or at all, or redesign those products that use the infringed intellectual property. If we are forced to take any of the foregoing actions, our business may be seriously harmed. You should refer to "Business--Legal Proceedings" for a more detailed description of intellectual property litigation relating to our MediaCluster technology.

Because our business is susceptible to risks associated with international operations, we may not be able to maintain or increase international sales of our products.

International sales have accounted for approximately 15% to 20% of our revenues in each of the past five years. We expect that international sales will account for a significant portion of our business in the future. However, in the future we may be unable to maintain or increase international sales of our products. International sales are subject to a variety of risks, including:

- . difficulties in establishing and managing international distribution channels;
- . difficulties in selling, servicing and supporting overseas products and in translating products into foreign languages;
- . the uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property;
- . multiple and possibly overlapping tax structures;
- . currency and exchange rate fluctuations; and
- . economic or political changes in international markets.

Future acquisitions may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

As part of our business strategy, we may seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our business, augment our market coverage, enhance our technical capabilities or otherwise offer growth opportunities. Acquisitions could create risks for us, including:

- . difficulties in assimilation of acquired personnel, operations, technologies or products which may affect our ability to develop new products and services and compete in our rapidly changing marketplace due to a resulting decrease in the quality of work and innovation of our employees upon which our business is dependent; and

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- . adverse effects on our existing business relationships with suppliers and customers, which may be of particular importance to our business because our customer base is highly concentrated among a limited number of large customers and we purchase certain of the components used in manufacturing our product from a sole supplier and we use a limited number of third party manufacturers to manufacture our product.

In addition, if we consummate acquisitions through an exchange of our securities, our existing stockholders could suffer significant dilution. Any future acquisitions, even if successfully completed, may not generate any additional revenue or provide any benefit to our business.

The success of our business model could be influenced by changes in the regulatory environment, such as changes that either would limit capital expenditures by television operations or reverse the trend towards deregulation in the industries in which we compete.

The telecommunications and television industries are subject to extensive regulation which may limit the growth of our business, both in the United States and other countries. The growth of our business internationally is dependent in part on deregulation of the telecommunications industry abroad similar to that which has occurred in the United States and the timing and magnitude of which is uncertain. Cable system operators are subject to extensive government regulation by the Federal Communications Commission and other federal and state regulatory agencies. These regulations could have the effect of limiting capital expenditures by cable system operators and thus could have a material adverse effect on our business, financial condition and results of operations. The enactment by federal, state or international governments of new laws or regulations, changes in the interpretation of existing regulations or a reversal of the trend toward deregulation in these industries could adversely affect our customers, and thereby materially adversely affect our business, financial condition and results of operations.

We may not be able to hire and retain highly skilled employees, particularly managerial, engineering, selling and marketing, finance and manufacturing personnel, which could affect our ability to compete effectively because our business is technology-based and there is a shortage of these employees within the New England area.

Our success depends to a significant degree upon the continued contributions of our key management, engineering, selling and marketing and manufacturing personnel, many of whom would be difficult to replace given the shortage within the New England area of qualified persons for these positions. We do not have employment contracts with our key personnel. We believe that our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, selling and marketing, finance and manufacturing personnel, as our business is technology-based. Because competition for these personnel is intense, we may not be able to attract and retain qualified personnel in the future. The loss of the services of any of the key personnel, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel, particularly software engineers and sales personnel, could have a material adverse effect on our business, financial condition and results of operations because our business is technology-based.

Increasing political and social turmoil, such as terrorist and military actions, increase the difficulty for us, our vendors and our customers to accurately forecast and plan future business activities and could have a material adverse effect on our business, financial condition and results of operation.

Recent political and social turmoil, including the terrorist attacks of September 11, 2001, can be expected to put further pressure on economic conditions in the United States and worldwide. The political, social and economic conditions make it difficult for us, our vendors and our customers to accurately forecast and plan future business activities. Our business, financial condition and results of operations may be materially adversely affected by a fluctuation in revenue relative to our forecasted value, as we may not be able to vary our incurred expenses in response to revenue actually realized.

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Our management may apply the proceeds of this offering to uses that do not enhance our financial results or market value.

Our management will have considerable discretion in the application of the net proceeds from this offering, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not enhance our financial results or our market value. Pending any application of the net proceeds, they may be placed in investments that do not produce income or that lose value.

The market price of our common stock may be materially adversely affected by market volatility.

The market price of our common stock has been and is likely to continue to be highly volatile and may fluctuate substantially. The price of the common stock that will prevail in the market after this offering may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control. In particular, the announcement of any significant customer developments, or our failure to achieve expected financial results could have a material adverse effect on our stock price.

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#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions "Prospectus Summary," "Risk Factors," "Management Discussion and Analysis of Financial Condition and Results of Operations," "Business" and in other sections of this prospectus that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "intends," "predicts," "future," "potential" or "continue," the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties, and assumptions about us, may include, among other things, statements regarding the development of the video-on-demand and interactive advertising markets, product enhancements, projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-

looking statements, including those factors discussed under the caption entitled "Risk Factors." You should specifically consider the numerous risks outlined under "Risk Factors."

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as otherwise required by law, we are under no duty to update any of these forward-looking statements after the date of this prospectus to conform our prior statements to actual results or revised expectations.

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#### USE OF PROCEEDS

We estimate that our net proceeds from the sale of the 2,790,000 shares of common stock offered by us at an assumed public offering price of \$30.50 per share will be approximately \$80.2 million after deducting estimated offering expenses of \$400,000 and the underwriting discounts and commissions payable by us. See "Underwriters." We will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders. See "Selling Stockholders."

The principal purposes of this offering are to obtain additional working capital and create a larger public float for our common stock.

We expect to use the net proceeds from the sale of shares of common stock offered by us for general corporate purposes, including for working capital and capital expenditures. We may use a portion of the net proceeds to acquire or make investments in businesses, products or technologies that we believe will complement our current or future business. While we continuously evaluate potential transactions and transaction prospects, we do not currently have agreements or commitments with respect to any acquisition or investment. We will retain broad discretion in the allocation of the net proceeds of this offering. Pending such uses, we plan to invest the net proceeds in investment grade, interest-bearing securities.

#### PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol "SEAC." The following table sets forth the high and low closing sale prices for the Common Stock for the periods indicated, as reported on the Nasdaq National Market.

<TABLE>  
<CAPTION>

	High	Low
	-----	-----
<S>	<C>	<C>
Three Month Period Ended:		
April 30, 1999.....	\$7.83	\$5.08
July 31, 1999.....	14.21	6.00
October 31, 1999.....	13.33	8.75
January 31, 2000.....	46.75	12.33
Fiscal 2001:		
Fiscal quarter ended April 30, 2000.....	73.50	30.00
Fiscal quarter ended July 31, 2000.....	41.19	21.08
Fiscal quarter ended October 31, 2000.....	40.75	19.06
Fiscal quarter ended January 31, 2001.....	34.75	16.38
Fiscal 2002:		
Fiscal quarter ended April 30, 2001.....	26.25	10.38
Fiscal quarter ended July 31, 2001.....	27.18	14.63
Fiscal quarter ended October 31, 2001.....	29.30	15.29
Fiscal quarter ended January 31, 2002 (through December 4, 2001).....	30.62	25.75

</TABLE>

On December 4, 2001, the last reported sale price of our common stock on the Nasdaq National Market was \$30.50.

#### DIVIDEND POLICY

We have not paid any cash dividends on our capital stock since our inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings for use in the operation and expansion of the business.

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#### CAPITALIZATION

The following table sets forth our capitalization as of July 31, 2001. The as adjusted information reflects both the issuance and sale of the 2,790,000 shares of common stock offered by us in this offering at an assumed public offering price of \$30.50 per share and the application of the net proceeds we

expect to receive from this offering. The outstanding share information excludes shares of common stock issuable upon exercise of warrants and an aggregate of 3,495,836 shares of common stock issuable on exercise of outstanding options as of July 31, 2001 with a weighted average price of \$18.94 per share. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial data included elsewhere in this prospectus.

<TABLE>  
<CAPTION>

	As of July 31, 2001	
	Actual	As Adjusted
	(in thousands, except share data)	
	<C>	<C>
Long-term liabilities.....	\$ 2,899	\$ 2,899
Stockholders' Equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized, no shares issued and outstanding.....	--	--
Common stock, \$.01 par value; 100,000,000 shares authorized, 22,913,262 shares issued and outstanding, actual; 25,703,262 shares issued and outstanding, as adjusted	229	257
Additional paid-in capital.....	63,385	143,586
Accumulated deficit.....	(5,407)	(5,407)
Deferred equity discount.....	(1,205)	(1,205)
Accumulated other comprehensive loss.....	(215)	(215)
Total stockholders' equity.....	56,787	137,016
Total capitalization.....	\$59,686	\$139,915

</TABLE>

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#### SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus. The consolidated statement of operations data for the twelve months ended December 31, 1998 and 1999, the one month ended January 31, 2000 and the twelve months ended January 31, 2001 and the balance sheet data as of December 31, 1999, January 31, 2000 and January 31, 2001 have been derived from our financial statements that have been audited by PricewaterhouseCoopers LLP, independent accountants, and that are included elsewhere in this prospectus. The financial data for the six-month periods ended July 31, 2000 and 2001 and as of July 31, 2001 have been derived from our unaudited financial statements, which are included elsewhere in this prospectus and include all adjustments, consisting only of normal recurring adjustments that we consider necessary for a fair statement of our financial position and our results of operations for those periods. The historical results are not necessarily indicative of results to be expected for any future period. On January 31, 2001, we implemented the SAB 101 guidelines promulgated by the Securities and Exchange Commission, retroactive to the beginning of the year. The pro forma results for prior periods presented below were calculated assuming the accounting change was made retroactively to all prior periods presented.

<TABLE>  
<CAPTION>

	Year ended December 31,		One month ended January 31,	Year ended January 31,	Six months ended July 31,	
	1998	1999	2000	2001	2000	2001
	(in thousands, except per share data)					
	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data:						
Revenues:						
Systems.....	\$ 58,033	\$ 68,457	\$ 226	\$ 74,986	\$ 36,684	\$ 43,053
Services.....	14,891	16,764	1,484	23,482	10,976	14,127
	72,924	85,221	1,710	98,468	47,660	57,180
Costs of revenues:						
Systems.....	35,772	38,889	633	39,928	20,359	24,526
Services.....	13,611	14,962	1,445	18,798	8,689	10,443
Gross profit (loss).....	23,541	31,370	(368)	39,742	18,612	22,211

Operating expenses:						
Research and development.....	15,763	16,302	1,764	20,283	9,355	11,677
Selling and marketing.....	8,566	8,595	1,034	12,472	5,115	7,189
General and administrative.....	6,132	5,335	457	7,372	3,302	3,831
Restructuring of operations.....	676	--	--	--	--	--
Acquisition costs.....	--	684	--	--	--	--
	-----	-----	-----	-----	-----	-----
	31,137	30,916	3,255	40,127	17,772	22,697
Income (loss) from operations.....	(7,596)	454	(3,623)	(385)	840	(486)
Interest income (expense), net.....	235	28	9	(212)	24	(252)
	-----	-----	-----	-----	-----	-----
Income (loss) before income taxes and cumulative effect of change in accounting principle.....	(7,361)	482	(3,614)	(597)	864	(738)
Provision (benefit) for income taxes.....	(2,789)	(15)	(1,156)	(690)	271	(236)
	-----	-----	-----	-----	-----	-----
Income (loss) before cumulative effect of change in accounting principle.....	(4,572)	497	(2,458)	93	593	(502)
Cumulative effect of change in accounting principle, net of tax of \$732.....	--	--	--	(1,100)	(1,100)	--
	-----	-----	-----	-----	-----	-----
Net income (loss)....	\$ (4,572)	\$ 497	\$ (2,458)	\$ (1,007)	\$ (507)	\$ (502)
	=====	=====	=====	=====	=====	=====
Earnings (loss) per share before cumulative effect of change in accounting principle:						
Basic.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ 0.00	\$ 0.03	\$ (0.02)
Diluted.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ 0.00	\$ 0.02	\$ (0.02)
Earnings (loss) per share:						
Basic.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ (0.05)	\$ (0.02)	\$ (0.02)
Diluted.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ (0.05)	\$ (0.02)	\$ (0.02)
Weighted-average common shares:						
Basic.....	18,982	20,883	21,269	21,745	21,570	22,725
Diluted.....	18,982	21,774	21,269	23,234	21,570	22,725
Pro forma amounts assuming the change in accounting principle is applied retroactively:						
Revenue.....	\$ 71,790	\$ 85,052	\$ 2,144	\$ 98,468		
Net income (loss).....	(5,276)	323	(2,163)	93		
Basic earnings (loss) per share.....	(0.28)	0.02	(0.10)	0.00		
Diluted earnings (loss) per share.....	(0.28)	0.01	(0.10)	0.00		
<CAPTION>						
	As of December 31,		As of January 31,		As of	
	-----		-----		July 31,	
	1998	1999	2000	2001	2001	
	-----	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated Balance Sheet Data:						
Working capital.....	\$ 22,871	\$ 23,365	\$ 20,983	\$ 28,819	\$ 34,771	
Total assets.....	54,527	62,304	56,712	88,253	93,125	
Long-term liabilities.....	1,027	1,231	1,144	3,934	2,899	
Deferred revenue.....	3,939	4,380	6,292	8,435	9,992	
Total liabilities.....	23,207	27,963	24,761	42,951	36,338	
Total stockholders' equity.....	31,320	34,341	31,951	45,302	56,787	
</TABLE>						

elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to competitive factors and other factors discussed under "Risk Factors" and elsewhere in this prospectus.

#### Overview

We are a leading developer, manufacturer and marketer of systems, known as video storage servers, that automate the management and distribution of long-form video streams, such as movies or other feature presentations, and short-form video streams, such as advertisements.

We have three reportable segments: broadband systems, broadcast systems and services. The broadband systems segment includes products, such as our digital advertising and video-on-demand products, that digitally manage, store and distribute digital video for cable system operators and telecommunications companies. The broadcast systems segment includes products for the storage, archival, on-air playback of advertising and other video programming for the broadcast television industry. Our system revenues are comprised of sales of our broadband and broadcast systems. The service segment is comprised of revenue related to product development contracts, installation, training, product maintenance and technical support for all of the above systems, and content which is distributed by the broadband product segment.

Revenues from sales of systems are recognized upon shipment provided title and risk of loss have passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is 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.

Our transactions frequently involve the sales of systems and services under multiple element arrangements. Systems sales always include at least 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.

We have experienced fluctuations in our systems revenues from quarter to quarter due to the timing of receipt of customer orders and the shipment of those orders. The factors that impact the timing of receipt of customer orders include among other factors: (1) the customer's obtaining authorized signatures on their purchase orders; (2) budgetary approvals within the customer's company for capital purchases; and (3) the ability to process the purchase order within the customer's organization in a timely manner. Factors that may impact the shipment of customer orders include: (1) the availability of material to produce the product; and (2) the time required to produce and test the system before delivery. Because the average sales price of our system is high, the delay in the timing of receipt and shipment of any one customer order can result in quarterly fluctuations in our revenue.

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

On December 30, 1999, we acquired all of the outstanding capital stock of Digital Video Arts, Ltd. in exchange for 330,000 shares of our common stock using an exchange ratio of 0.033 of one share of our common stock for each share of Digital Video Arts. The acquisition was accounted for as a pooling of

interests. Digital Video Arts is a developer of custom software products specializing in digital video and interactive television. As a result of the acquisition, Digital Video Arts became our wholly-owned subsidiary. The accompanying consolidated financial statements for all the periods presented have been restated to include the results of operations, financial position and cash flows of Digital Video Arts.

## Results of Operations

### Six Months Ended July 31, 2001 Compared to the Six Months Ended July 31, 2000

**Systems Revenues.** Our systems revenues consist of sales of our broadband and broadcast products. Systems revenues increased 17% to \$43.1 million in the six months ended July 31, 2001 from \$36.7 million in the six months ended July 31, 2000. Revenues from the broadband segment, which accounted for 60% and 59% of total revenues in the six months ended July 31, 2001 and 2000, respectively, increased to \$34.5 million in 2001 as compared to \$27.9 million in 2000. Interactive television system revenues were \$22.7 million for the six months ended July 31, 2001 as compared to \$6.7 million in the prior year primarily due to the initial deployment of residential video-on-demand systems in the United States for cable system operators. Included in the interactive television systems revenue was the amortization of \$1.1 million related to the deferred equity discount associated with the Comcast equity investment. Digital advertising system revenues were \$11.9 million for the six months ended July 31, 2001 as compared to \$21.2 million in the prior year. The decrease resulted primarily from the decline in the number of expansion systems purchased by U.S. cable system operators. Broadcast system segment revenues were \$8.5 million in the six months ended July 31, 2001 as compared to \$8.8 million in the six months ended July 31, 2000. The decrease in broadcast revenues is primarily attributable to the decrease in advertising revenues earned by the broadcast companies resulting in a decrease in their capital expenditures for new broadcast systems. We expect future revenue growth, if any, to come principally from our interactive television and broadcast system products as cable and telecommunications companies continue to offer new video-on-demand applications for their customers and the market for digital video servers within the broadcast industry continues to expand. As revenues from broadcast and interactive television products increase, the digital advertising products will become a smaller portion of total system revenues. However, we believe that there will be a continuing demand for expansions to existing digital advertising insertion systems within the United States and growth potential for new interactive advertising systems in the future.

**Services Revenues.** Our services revenues consist of fees for installation, training, product maintenance, technical support services and movie content fees. Our services revenues increased 29% to \$14.1 million in the six months ended July 31, 2001 from \$11.0 million in the six months ended July 31, 2000. This increase in services revenues primarily resulted from the renewals of technical support and maintenance services, price increases on certain technical support and maintenance services, the impact of a growing installed base of systems and a higher level of product development services.

For the six-month periods ended July 31, 2001 and July 31, 2000, a limited number of our customers each accounted for more than 10% of our total revenues. Single customers accounted for 26% and 11% of total revenues in the six months ended July 31, 2001 and 13%, 12%, 12% and 11% of total revenues in the six months ended July 31, 2000. Revenue from these customers was primarily in the broadband segment. We believe that a significant amount of our revenues will continue to be derived from a limited number of large customers.

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International sales accounted for approximately 13% and 15% of total revenues in the six-month periods ended July 31, 2001 and July 31, 2000, respectively. We expect that international sales will remain a significant portion of our business in the future. As of July 31, 2001, substantially all sales of our products were made in United States dollars. Therefore, we have not experienced, nor do we expect to experience in the near term, any material impact from fluctuations in foreign currency exchange rates on our results of operations or liquidity. If this practice changes in the future, we will reevaluate our foreign currency exchange rate risk.

**Systems Gross Profit.** 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 increased 21% to \$24.5 million in the six months ended July 31, 2001 as compared to \$20.4 million in the six months ended July 31, 2000. In the six months ended July 31, 2001, the increase in costs of systems revenues reflects higher systems revenue offset in part by improved manufacturing efficiencies and lower material costs through improved purchasing efficiencies primarily within the digital advertising insertion products. We expect costs of systems revenues for the interactive television products within the broadband segment 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 we improve our manufacturing and material



purchasing efficiencies.

Systems gross profit as a percentage of systems revenues was 43% and 45% in the six months ended July 31, 2001 and July 31, 2000, respectively. The decrease in systems gross profit in the six months ended July 31, 2001 was primarily due to the shift within broadband product sales from higher gross profit ad insertion systems to lower gross profit interactive television systems. Gross profit for the broadband segment decreased to 43% for the six months ended July 31, 2001 as compared to 45% for the six months ended July 31, 2000 while gross profit for the broadcast segment increased to 43% for the six months ended July 31, 2001 compared to 42% for the six months ended July 31, 2000.

Services Gross Profit. Costs of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support services provided by us and costs associated with providing movie content. Costs of services revenues increased 20% to \$10.4 million in the six months ended July 31, 2001 from \$8.7 million in the six months ended July 31, 2000 primarily as a result of increased revenues and the costs associated with our hiring and training additional service personnel to provide worldwide support for the growing installed base of broadband and broadcast systems and costs associated with providing movie content. Services gross profit as a percentage of services revenue was 26% in the six months ended July 31, 2001 and 21% in the six months ended July 31, 2000. We expect that we will continue to experience fluctuations in gross profit as a percentage of services revenue as a result of the timing of revenues from technical support and other services to support the growing installed base of systems and the timing of costs associated with our ongoing investment required to build a service organization to support the installed base of systems and new products.

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 increased 25% to \$11.7 million in the six months ended July 31, 2001 as compared to \$9.4 million in the six months ended July 31, 2000. The increase in the six months ended July 31, 2001 was primarily attributable to the hiring and contracting of additional development personnel which reflects our continuing investment in new products. We expect that research and development expenses will continue to increase in dollar amount as we continue our 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 41% to \$7.2 million in the six months ended July 31, 2001 from \$5.1 million in the six months ended July 31, 2000. The increase was primarily due to the hiring of additional sales personnel for our interactive television and broadcast products and higher tradeshow and other promotional related costs.

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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. General and administrative expenses increased 16% to \$3.8 million in the six-month period ended July 31, 2001, as compared to \$3.3 million in the six-month period ended July 31, 2000. This increase is primarily due to the amortization of capitalized patent costs and filing fees related to the registration statement covering the shares of SeaChange common stock in the Comcast transaction.

Interest Income (Expense), Net. Interest expense, net was \$252,000 for the six months ended July 31, 2001 and interest income, net was \$24,000 for the six months ended July 31, 2000. The increase in interest expense, net in the six months ended July 31, 2001 primarily resulted from interest expense on borrowings under our lines of credit and borrowings under our construction loan.

Provision (Benefit) for Income Taxes. Our effective tax benefit rate was 32% in the six months ended July 31, 2001. The effective tax rate for the six months ended July 31, 2001 was favorably impacted by the utilization of research and development tax credits. We had net deferred tax assets of \$7.9 million at July 31, 2001 and \$7.7 million at January 31, 2001. Although realizability is not assured, based on the weight of available evidence, we believe it is more likely than not that all remaining deferred tax assets will be realized. The amount of the deferred tax assets considered realizable is subject to change based on future events, including generating taxable income in future periods. We will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if we do not generate sufficient taxable income in future periods. Any reduction of the amount of the deferred tax assets would

reduce net income in the period in which the reduction occurs.

**Cumulative Effect of Change in Accounting Principle.** During the fourth quarter of the twelve months ended January 31, 2001, we implemented the SEC's SAB 101 guidelines, retroactive to the beginning of the year. This was reported as a cumulative effect of a change in accounting principle as of February 1, 2000. Historically, for some of our sales transactions, a portion of the sales price, typically 25%, was not due until installation occurred. We now defer the portion of the sales price not due until installation is complete. The cumulative effect of the change in accounting principle on prior years resulted in a charge to income of \$1.1 million, net of income taxes of \$732,000, or \$0.05 per diluted share which has been included in income for the six months ended July 31, 2000.

Year Ended December 31, 1999 Compared to the Year Ended January 31, 2001

**Systems Revenues.** Systems revenues increased 10% from \$68.5 million in the twelve months ended December 31, 1999 to \$75.0 million in the twelve months ended January 31, 2001. Revenues from the broadband segment, which accounted for 55% of total revenues in the twelve months ended January 31, 2001 and 61% of total revenues in the twelve months ended December 31, 1999, increased from \$51.7 million in 1999 to \$54.4 million in 2001. Digital advertising system revenues were \$40.0 million for the twelve months ended January 31, 2001 as compared to \$44.6 million for the twelve months ended December 31, 1999. Interactive television systems revenues increased to \$14.4 million for the twelve months ended January 31, 2001 as compared to \$7.1 million for the twelve months ended December 31, 1999. The increase in broadband revenues is primarily attributable to the sale of interactive television systems to U.S. cable system operators who began to deploy residential video-on-demand services to their subscriber base during the twelve months ended January 31, 2001, offset in part by a decline in the number of expansion systems purchased by United States cable system operators for digital advertising. Broadcast system segment revenues were \$20.6 million in the twelve months ended January 31, 2001 compared to \$16.8 million in the twelve months ended December 31, 1999. The 23% increase in broadcast revenues for the twelve months ended January 31, 2001 was primarily due to shipments for new broadcast customers in the United States, Europe and the Far East.

**Services Revenues.** Our services revenues increased 40% to \$23.5 million in twelve months ended January 31, 2001 from \$16.8 million in the twelve months ended December 31, 1999. This increase in services revenues primarily resulted from the renewals of existing technical support and maintenance, price increases on certain technical support and maintenance services, the impact of a growing installed base of systems and a higher volume of product development services.

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For the twelve-month periods ended January 31, 2001 and December 31, 1999, certain customers each accounted for more than 10% of our total revenues. Single customers each accounted for 12% and 10% of total revenues in the twelve months ended January 31, 2001 and 15% and 10% of total revenues in the twelve months ended December 31, 1999. Revenue from these customers was primarily in the broadband segment. We believe that a significant amount of our revenues will continue to be derived from a limited number of large customers.

International sales accounted for approximately 21% and 23% of total revenues in the twelve-month periods ended January 31, 2001 and December 31, 1999, respectively.

**Systems Gross Profit.** Costs of systems revenues increased to \$39.9 million in the twelve months ended January 31, 2001 as compared to \$38.9 million in the twelve months ended December 31, 1999. In the twelve months ended January 31, 2001, the cost of systems revenues increased from the prior year primarily as a result of higher systems revenues.

Systems gross profit as a percentage of systems revenues was 47% and 43% in the twelve months ended January 31, 2001 and December 31, 1999, respectively. The increase in systems gross profit in the twelve months ended January 31, 2001 was primarily due to lower material and other manufacturing costs as a percentage of systems revenue within the broadband segment and specifically for system revenues for the digital advertising insertion products. We were able to reduce manufacturing material costs principally through improved purchasing methods despite the continued trend towards the purchase of smaller scale digital advertising insertion systems and expansions to existing systems that have higher material content. Gross profit for the broadband segment improved from 43% for the twelve months ended December 31, 1999 to 48% for the twelve months ended January 31, 2001 while gross profit for the broadcast segment was 44% and 45% for the twelve months ended January 31, 2001 and the twelve months ended December 31, 1999, respectively.

**Services Gross Profit.** Costs of services revenues increased 26% from \$15.0 million in the twelve months ended December 31, 1999 to \$18.8 million in the twelve months ended January 31, 2001, primarily as a result of increased

revenues and the costs associated with our hiring and training additional service personnel to provide worldwide support for the growing installed base of broadband and broadcast systems and costs associated with providing movie content. Services gross profit as a percentage of services revenue was 20% in the twelve months ended January 31, 2001 and 11% in the twelve months ended December 31, 1999. Improvements in the services gross profit in the twelve months ended January 31, 2001 reflect the increase in the installed base of systems under maintenance, price increases on certain annual technical support and maintenance services and higher product development revenues.

Research and Development. Research and development expenses increased 24% from approximately \$16.3 million in the twelve months ended December 31, 1999 to \$20.3 million in the twelve months ended January 31, 2001. The increase in the dollar amount was primarily attributable to the hiring and contracting of additional development personnel which reflects our continuing investment in new products.

Selling and Marketing. Selling and marketing expenses increased 45% from \$8.6 million in the twelve months ended December 31, 1999 to \$12.5 million in the twelve months ended January 31, 2001. This increase is primarily due to the hiring of additional sales personnel for our broadcast and interactive television products, increased sales commissions on higher revenues and higher marketing expenses specifically for tradeshow and other promotional activities.

General and Administrative. General and administrative expenses increased 38% from \$5.3 million in the twelve months ended December 31, 1999 to \$7.4 million in the twelve months ended January 31, 2001. This increase is primarily due to increased legal expenses associated with various litigation matters and accounting expenses associated primarily with tax matters.

Interest Expense (Income), Net. Interest expense, net, was approximately \$212,000 in the twelve months ended January 31, 2001 and interest income, net, was approximately \$28,000 in the twelve months ended

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December 31, 1999. The increase in 2001 in interest expense, net, primarily resulted from interest expense on increased borrowings under our lines of credit and new borrowings under our construction loan.

Provision (Benefit) for Income Taxes. Our effective tax rate for the twelve months ended January 31, 2001 differed from the U.S. federal statutory tax rate due to the utilization of research and development tax credits. Our effective tax benefit rate was 116% for the twelve months ended January 31, 2001 as compared to 3% for the twelve months ended December 31, 1999. We had net deferred tax assets of \$2.9 million, \$4.1 million and \$7.7 million at December 31, 1999, January 31, 2000 and January 31, 2001, respectively.

Year Ended December 31, 1998 Compared to the Year Ended December 31, 1999

Systems Revenues. Systems revenues increased 18% from \$58.0 million in 1998 to \$68.5 million in 1999. Revenues from the digital advertising insertion segment or SPOT Systems, which accounted for 60.5% and 52.3% of total revenues in 1998 and 1999, respectively, increased slightly from \$44.1 million in 1998 to \$44.6 million in 1999. The most significant increase in systems revenues in 1999 compared to 1998 resulted primarily from the sale of broadcast systems, a product that was first introduced and sold by us in the second quarter of 1998. Broadcast segment revenues increased from \$4.2 million, or 5.8% of total revenues, in 1998 to \$16.8 million, or 19.7% of total revenues, in 1999. In addition, during the third quarter of 1999, we sold our first interactive television systems which are used by cable system operators and telecommunications companies to provide movie and other interactive services directly to the home of the cable subscriber. Revenues from the interactive television segment were \$500,000 in 1999. These increases in systems revenues were offset in part by a \$3.1 million decrease in systems revenues from the movies segment which was due to the timing of receiving a relatively small number of orders with a high average value per order.

For the years ended December 31, 1998 and 1999, certain customers accounted for more than 10% of our total revenues. Individual customers accounted for 24% and 15% of total revenues in 1998 and 15% and 10% of total revenues in 1999. Revenues from these customers were predominantly in the digital advertising insertion segment. International sales accounted for approximately 13% and 23% of total revenues in the years ended December 31, 1998 and 1999, respectively.

Services Revenues. Our services revenues increased 13% to \$16.8 million in 1999 from \$14.9 million in 1998. This increase in services revenues primarily resulted from the renewals of maintenance and support contracts and the impact of a growing installed base of systems.

Systems Gross Profit. Costs of systems revenues increased 9% from \$35.8 million in 1998 to \$38.9 million in 1999. In 1999, the increase in costs of systems revenues reflects the higher revenue level and increased manufacturing

labor and overhead costs incurred to support changes in the product mix, including the introduction of the new broadcast and video-on-demand products.

Systems gross profit as a percentage of systems revenues were 38% and 43% in 1998 and 1999, respectively. Gross profit for the digital advertising insertion and the movies segments increased from 40% and 30% in 1998 to 43% and 38% in 1999, respectively, primarily as a result of continued reductions in manufacturing material and labor costs as a percentage of segment revenues. We were able to reduce manufacturing material costs principally through improved purchasing methods despite the continued trend towards the purchase of smaller scale digital advertising insertion systems and expansions to existing systems that have higher material content. Gross profit for the broadcast segment also improved from 43% in 1998 to 45% in 1999 as a result of higher revenues and lower material and labor manufacturing costs as a percentage of revenues. The gross profits in 1998 and 1999 were impacted by increases of approximately \$2.0 million and \$500,000, respectively, in our inventory valuation allowance. These increases were within the digital advertising insertion segment and were the result of new product introductions within this segment and the identification and anticipation of inventory write-downs of slower turning excess and obsolete materials.

Services Gross Profit. Costs of services revenues increased 10% from \$13.6 million in 1998 to \$15.0 million in 1999, primarily as a result of the costs associated with our hiring and training additional service

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personnel to provide worldwide support for the growing installed base of digital ad insertion, movie, broadcast and video-on-demand systems and costs associated with providing movie content. Services gross profit margin as a percentage of services revenue was 9.0% in 1998 and 11% in 1999. The higher services gross profit in 1999 is primarily due to higher level of services revenue.

Research and Development. Research and development expenses increased 3% from \$15.8 million in 1998 to \$16.3 million in 1999. The increase in the dollar amount in 1999 was primarily attributable to the hiring and contracting of additional development personnel which reflects our continuing investment in new products. All internal software development costs to date have been expensed by us.

Selling and Marketing. Selling and marketing expenses remained flat at \$8.6 million in 1998 and 1999.

General and Administrative. General and administrative expenses decreased 13% from \$6.1 million in 1998 to \$5.3 million in 1999. The decrease in the dollar amounts was primarily attributable to lower payroll and related costs related to the centralization of accounting and administrative functions and lower legal costs.

Restructuring of Operations. In March 1998, we recorded a charge of \$676,000 for the restructuring of operations as part of a planned consolidation of the operations of SC Asia. The charge for restructuring included \$569,000 related to the termination of 13 employees, a provision of \$60,000 related to the planned vacating of premises and \$47,000 of compensation expense associated with stock options for certain terminated employees. At March 31, 1998, we had notified all terminated employees. All restructuring charges were paid as of December 31, 1998.

Acquisition Costs. On December 30, 1999, we acquired all of the outstanding common stock of Digital Video Arts, Ltd. in exchange for 330,000 shares of our common stock using an exchange ratio of 0.033 of one share of our common stock for each share of Digital Video Arts. The acquisition was accounted for as a pooling of interests. Digital Video Arts is a developer of custom software products specializing in digital video and interactive television. As a result of the acquisition, Digital Video Arts became our wholly-owned subsidiary. Total revenues of \$85.2 million for the year ended December 31, 1999 consisted of \$84.2 million of our revenues and \$1.0 million of Digital Video Arts' revenues. Net income of \$497,000 for the same period consisted of our net income of \$1.1 million and a Digital Video Arts net loss of \$592,000. Included in net income were acquisition costs of \$684,000 consisting primarily of professional service fees. Due to the acquisition, Digital Video Arts' previously unrecognized tax benefits of operating loss carryforwards were recognized in our consolidated results in the applicable period.

Interest Income, Net. Interest income, net was approximately \$235,000 and \$28,000 in 1998 and 1999, respectively. The decrease in interest income, net in 1999 primarily resulted from lower average invested balances in 1999 and interest expense on borrowings.

Provision (Benefit) for Income Taxes. Our effective tax benefit rate was 37.9% and 3% in 1998 and 1999, respectively, due to the taxable loss in 1998 and the utilization of operating tax loss carryforwards associated with the acquisition of Digital Video Arts in 1999.

One Month Ended January 31, 2000 Compared to the One Month Ended January 31, 1999

**Systems Revenues.** Systems revenues decreased 68% from \$697,000 in the one month ended January 31, 1999 to \$226,000 in the one month ended January 31, 2000. This decreased systems revenues resulted primarily from the timing of receipt of customer orders and related shipment within both the broadband and broadcast segments.

**Services Revenues.** Our services revenues increased 23% from approximately \$1.2 million in the one month ended January 31, 1999 to \$1.5 million in the one month ended January 31, 2000. This increase in services revenues resulted primarily from renewals of technical support and maintenance contracts, higher product development revenues and the impact of a growing installed base of systems.

For the one month period ended January 31, 2000 and January 31, 1999, certain customers accounted for more than 10% of our total revenues. Single customers accounted for 16% and 11% of total revenues in one

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month ended January 31, 2000 and 17%, 12% and 10% of total revenues in the one month ended January 31, 1999. Revenues from these customers were primarily in the broadband segment.

International sales accounted for approximately 18% and 38% of total revenues for the one month ended January 31, 2000 and January 31, 1999, respectively.

**Systems Gross Profit.** Costs of systems revenues decreased 6% from \$670,000 in the one month ended January 31, 1999 to \$633,000 in the one month ended January 31, 2000. For the one month ended January 31, 2000, the decrease in cost of systems revenues primarily reflects lower systems revenue offset in part by fixed manufacturing labor and overhead costs.

Systems gross profit as a percentage of systems revenues was a negative 180% in the one month ended January 31, 2000. In the one month ended January 31, 1999, gross profit as a percentage of systems revenues was 4%. The decrease in systems gross profit in 2000 was primarily due to lower systems revenue and higher material and fixed manufacturing costs as a percentage of systems revenues.

**Services Gross Profit.** Costs of services revenues increased 38% from approximately \$1.0 million in the one month ended January 31, 1999 to \$1.4 million in the one month ended January 31, 2000, primarily as a result of the costs associated with our hiring and training additional service personnel to provide worldwide support for the growing installed base of broadband and broadcast systems and costs associated with providing movie content. Services gross profit as a percentage of services revenue decreased to 3% in the one month ended January 31, 2000 compared to a gross profit margin of 13% in the one month ended January 31, 1999.

**Research and Development.** Research and development expenses increased 33% from approximately \$1.3 million, in the one month ended January 31, 1999 to \$1.8 million in the one month ended January 31, 2000. The increase in the dollar amount was primarily attributable to the hiring and contracting of additional development personnel which reflects our continuing investment in new products.

**Selling and Marketing.** Selling and marketing expenses increased 98% from \$522,000 in the one month ended January 31, 1999 to \$1.0 million in the one month ended January 31, 2000. This increase is primarily due to the hiring of additional sales personnel for our broadcast and interactive television products and higher tradeshow expenses.

**General and Administrative.** General and administrative expenses increased 2% from \$447,000 in the one month ended January 31, 1999 to \$457,000 in the one month ended January 31, 2000.

**Interest Income, Net.** Interest income, net, was approximately \$9,000 in the one month ended January 31, 2000 and January 31, 1999, respectively.

**Benefit for Income Taxes.** Our effective tax benefit rate was 32% and 33% in the one month ended January 31, 2000 and January 31, 1999, respectively.

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#### Quarterly Results of Operations

The following tables present certain unaudited quarterly information for the quarterly periods in the year ended January 31, 2001 and for the quarterly periods ended April 30, 2001 and July 31, 2001. Previously reported amounts for the first, second and third quarters of 2001 have been restated to give effect to the cumulative change in accounting principle and the adoption of

EITF 00-10, "Accounting for Shipping and Handling Revenues and Costs." The results for any quarter are not necessarily indicative of future quarterly results, and we believe that period-to-period comparisons should not be relied upon as an indication of future performance.

<TABLE>  
<CAPTION>

Three Months Ended						
	April 30, 2000	July 31, 2000	October 31, 2000	January 31, 2001	April 30, 2001	July 31, 2001
(in thousands, except per share amounts)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue.....	\$22,304	\$25,356	\$25,026	\$25,782	\$30,156	\$27,024
Gross profit.....	8,706	9,906	10,760	10,370	11,460	10,751
Operating expenses.....	8,346	9,426	9,945	12,410	11,028	11,669
Income (loss) before cumulative effect of change in accounting principle.....	263	330	512	(1,012)	182	(684)
Cumulative effect of change in accounting principle net of tax of \$732.....	(1,100)	--	--	--	--	--
Net income (loss).....	(837)	330	512	(1,012)	182	(684)
Earnings (loss) per share--Basic.....	(0.04)	0.02	0.02	(0.05)	0.01	(0.03)
Earnings (loss) per share--Diluted.....	(0.04)	0.01	0.02	(0.05)	0.01	(0.03)

We have experienced significant variations in revenues, expenses and operating results from quarter to quarter and such variations are likely to continue. A significant portion of our revenues have been generated from a limited number of customers and it is difficult to predict the timing of future orders and shipments to these and other customers. Customers can cancel or reschedule shipments, and development or production difficulties could delay shipments. During the quarterly periods outlined above, we experienced variations in our revenues from quarter to quarter primarily related to the significant growth of our interactive television products in the broadband segment and broadcast segment products.

We have also experienced significant variations in our quarterly systems gross margins. Changes in pricing policies, the product mix, the timing and significance of new product introductions and product enhancements, and fluctuations in the number of systems affects manufacturing efficiencies and, accordingly, gross profits. Quarterly services gross margins have historically fluctuated significantly because installation and training service revenue varies by quarter while the related costs are relatively consistent by quarter.

Operating expenses also vary with the number, timing and significance of new product and product enhancement introductions by us and our competitors, increased competition, the gain or loss of significant customers, the hiring of new personnel and general economic conditions. During the quarterly periods outlined above, we experienced certain fluctuations in our operating expenses. During the twelve months ended January 31, 2001, we increased headcount within our research and development and sales and marketing areas to reflect our continued investment in future product development and our desire to increase our interactive television and broadcast revenues. As a result, our expenses in both of these areas increased during the year. In addition, our selling and marketing costs fluctuate from quarter to quarter as a result of large tradeshows that take place in the first and third quarter of the year and significant promotional costs that are incurred for new product introductions. All of the above factors are difficult for us to forecast, and these or other factors may materially adversely effect our business, financial condition and results of operations for one quarter or a series of quarters. Only a small portion of our expenses vary with revenues in the short-term and there would likely be a material adverse effect on our operating results if future revenues are lower than expectations.

Based upon all of the foregoing, we believe that quarterly revenues and operating results are likely to vary significantly in the future and that period-to-period comparisons of our results of operations are not necessarily meaningful and, therefore, should not be relied upon as indications of future performance.

Liquidity and Capital Resources

We have financed our operations and capital expenditures primarily with the proceeds of our common stock, borrowings and cash flows generated from

operations. Cash and cash equivalents increased \$2.9 million from \$6.1 million at January 31, 2001 to \$9.0 million at July 31, 2001. Working capital increased from approximately \$28.8 million at January 31, 2001 to approximately \$34.8 million at July 31, 2001.

Net cash provided by operating activities was approximately \$4.5 million and \$226,000 for the six months ended July 31, 2001 and July 31, 2000, respectively. The net cash provided by operating activities in the six months ended July 31, 2001 was the result of the net loss adjusted for non-cash expenses including depreciation and amortization of \$4.3 million and the changes in certain operating assets and liabilities. The significant net changes in assets and liabilities that provided cash from operations included a decrease in inventories of \$2.0 million, a decrease in accounts receivable of \$664,000 and an increase in deferred revenues of \$1.6 million. These items that generated cash from operations were offset by a decrease in accounts payable of \$644,000 and a decrease in customer deposits of \$1.3 million. We expect inventory levels to continue to decline as revenues from both the broadband and broadcast product segment products increase. We expect that the broadcast segment and the interactive television products within the broadband segment will continue to require a significant amount of cash to fund future product development, to manufacture and deploy customer test and demonstration equipment and to meet higher revenue levels in both product segments. We had non-cancelable purchase commitments for inventories of approximately \$5.4 million at October 31, 2001.

Net cash used in investing activities was approximately \$7.3 million and \$4.8 million for the six months ended July 31, 2001 and July 31, 2000, respectively. Intangible assets increased by \$2.7 million as a result of the successful defense of our patents. Investment activity consisted primarily of capital expenditures related to capital equipment required to support the expansion and growth of the business. We had no material capital expenditure commitments as of October 31, 2001.

Net cash provided by financing activities was approximately \$5.7 million and approximately \$13.8 million for the six months ended July 31, 2001 and July 31, 2000, respectively. In the six months ended July 31, 2001, the cash provided by financing activities included \$10.0 million in connection with the issuance of common stock on February 28, 2001, from a private placement sale of common stock and a warrant to Comcast SC Investment, Inc. During the same period, cash used in financing activities included approximately \$4.0 million in repayments under our revolving line of credit and \$1.1 million in principal payments under our equipment line of credit and capital lease obligations.

It is typical for us to experience fluctuations in our monthly operating results primarily due to the timing of receiving customer orders and the related shipment of these customer orders. As a result of these monthly fluctuations, we may experience an increase in our inventories as a result of procurement of both short and long lead components for anticipated orders for both our product segments, a decrease in our accounts payable balance primarily due to the timing of payments for materials purchased for prior month shipments, a decrease in accounts receivable amounts as a result of customer payments without corresponding customer shipments and a resulting decrease in cash and cash equivalents.

Net cash used in operating activities was approximately \$4.9 million for the twelve months ended January 31, 2001. Net cash provided by operating activities was approximately \$8.6 million for the twelve months ended December 31, 1999. The net cash used in operating activities in the twelve months ended January 31, 2001 was the result of the net loss adjusted for non-cash expenses including depreciation and amortization of \$4.9 million offset by changes in certain operating assets and liabilities. The significant net changes in assets and liabilities that used cash in operations included an increase in accounts receivable of \$10.4 million, an increase in inventories of \$5.1 million and an increase in prepaid expenses and other assets of \$2.1 million. The increase in accounts receivable was the result of higher revenues and a larger international customer base that typically has longer payment cycles. Inventory levels increased during the period principally as a result of new product introductions within the interactive television and broadcast product areas. Increases

of inventory levels occurred in each of these product areas specifically for customer demonstration equipment and procurement commitments in component inventories with an average order to delivery requirement of twelve to fifteen weeks. We expect these inventory levels to decrease and then stabilize as revenues from both these products increase. We expect that the broadcast segment and the interactive television products within the broadband segment will continue to require a significant amount of cash to fund future product development, to manufacture and deploy customer test and demonstration equipment and to meet higher revenue levels in both product segments. These items that used cash in operations were partially offset by an increase in accounts payable of \$6.9 million and an increase in deferred revenue of \$2.1 million.

Net cash used in investing activities was approximately \$12.8 million and \$3.1 million for the twelve months ended January 31, 2001 and December 31, 1999, respectively. Investment activity consisted primarily of capital expenditures related to construction to expand the current manufacturing facility and 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 \$21.1 million and \$364,000 for the twelve months ended January 31, 2001 and December 31, 1999, respectively. In the twelve months ended January 31, 2001, the cash provided by financing included \$12.8 million received in connection with the issuance of common stock, \$10 million of which was issued to Microsoft Corporation, and \$10.0 million in borrowings under the lines of credit and our construction loan. Microsoft entered into an agreement with us to collaborate on extending Microsoft Windows Media Technologies from Broadband Internet delivery to cable and broadcast television systems. Concurrent with this agreement, Microsoft purchased 277,162 shares of our common stock for \$10 million at 8% below the average closing price of our common stock over the ten trading days ending one trading day prior to the date of the relevant commercial milestones. Microsoft has agreed to purchase additional shares of our common stock based upon the achievement of mutually agreed upon development milestones including the development of software that meets specific streaming performance levels and the commercial release of an enhanced version of the software that will be used with Microsoft's Next Generation Media Server. During the same period, cash used in financing activities included approximately \$1.7 million in principal payments under our equipment line of credit and capital lease obligations.

During the one month periods ended January 31, 2000 and January 31, 1999, we used cash in operations of \$8.3 million and \$1.3 million, respectively.

We have entered into a \$10.0 million revolving line of credit with a bank that expires in October 2003. Loans made under this revolving line of credit would generally bear interest at a rate per annum equal to the bank's prime rate, 5.50% at October 31, 2001. As of October 31, 2001, we have borrowings of \$5.4 million under this revolving line of credit. Borrowings under this line of credit are collateralized by substantially all of our assets. The loan agreement requires that we provide the bank with certain periodic financial reports and comply with certain financial ratios including a minimum level of earnings before interest, taxes and depreciation and amortization on a trailing twelve month basis. As of October 31, 2001, we were in compliance with these financial covenants. This line of credit replaced our prior revolving line of credit and equipment line with a different bank. In conjunction with entering into the new bank line, we repaid to our prior lender all outstanding borrowings under the equipment line of financing in an amount of \$3.4 million.

In October 2000, we entered into an agreement with a bank to finance \$1.2 million of the construction costs related to the purchase and renovation of a manufacturing mill in New Hampshire that we purchased in February 2000. During the construction period, interest is accrued and payable at a per annum rate of 8.875%. Upon occupancy of the building, the loan converted into two promissory notes whereby we will pay principal and interest based upon a fixed interest rate per annum over a five and ten year period, 8.875% at October 31, 2001. Borrowings under the loan are secured by the land and buildings of the renovated mill. The loan agreement requires that we provide the bank with certain periodic financial reports and comply with certain financial ratios. At October 31, 2001, we were in compliance with all covenants. As of October 31, 2001, borrowings outstanding under the loan were \$1.0 million.

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We believe that existing funds together with available borrowings under the revolving lines of credit and the proceeds from this offering are adequate to satisfy our working capital and capital expenditure requirements for the foreseeable future.

#### Effects of Inflation

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

#### Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. We believe the adoption of SFAS 141 will not have a material impact on our current financial position and results of operations.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective for us on February 1, 2002. SFAS 142



requires, among other things, the discontinuance of goodwill amortization and includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and reclassification of certain intangibles out of previously reported goodwill. We believe the adoption of SFAS 142 will not have a material impact on our current financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." SFAS 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS 143 is effective for financial statements for fiscal years beginning after June 15, 2002. We believe the adoption of SFAS 143 will not have a material impact on our current financial position and results of operations.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 requires one method of accounting for long-lived assets disposed of by sale. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. We believe the adoption of SFAS 144 will not have a material impact on our current financial position and results of operations.

#### Quantitative and Qualitative Disclosures About Market 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 primary exposure has been related to local currency revenue and operating expenses in Europe and Asia. Historically, we have not hedged specific currency exposures as gains and losses on foreign currency transactions have not been material to date. At January 31, 2001 and July 31, 2001, we had approximately \$10.1 million and \$5.0 million 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 approximately \$95,000 for the twelve month period ended January 31, 2001 and \$37,000 for the six month period ended July 31, 2001.

The carrying amounts reflected in the consolidated balance sheet of cash and cash equivalents, trade receivables, and trade payables approximates fair value at July 31, 2001 due to the short maturities of these instruments.

We maintain investment portfolio holdings of various issuers, types, and maturities. Our cash and marketable securities include cash equivalents, which we consider 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 July 31, 2001, a sharp rise in interest rates should not have a material adverse impact on the fair value of our investment portfolio. As a result, we do not currently hedge these interest rate exposures.

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#### BUSINESS

We are a leading developer, manufacturer and marketer of systems, known as video storage servers, that automate the management and distribution of long-form video streams, such as movies or other feature presentations, and short-form video streams, such as advertisements. We sell our products and services to cable system operators, including Adelphia, AOL Time Warner, AT&T, Cablevision, Charter Communications, Comcast and Cox Communications; telecommunications companies, including Qwest; and broadcast television companies, including The Ackerley Group, Echostar, Group W Broadcasting and United Pan-Europe Corporation. We believe that our digital video systems enable our customers to differentiate their service offerings to reduce subscriber turnover and access new revenue generating opportunities from subscribers, advertisers and electronic commerce initiatives. Using our systems, we believe our customers can increase their revenues by offering additional services such as video-on-demand movies and subscription video-on-demand programming, both of which allow subscribers to watch content at any time with pause, rewind and fast forward features. Our systems also allow our customers to insert targeted advertising segments, known as spot advertising, into their local cable programming. In addition, our systems enable cable system operators to offer other interactive television services that allow subscribers to customize and/or dynamically interact with their television viewing experience in a manner similar to that experienced with the use of a personal computer.

Our digital video systems provide enhanced storage and retrieval capabilities, multi-channel content delivery and highly automated information and order processing. These technologies provide a foundation for products

that can be deployed in next generation systems capable of increased levels of subscriber interactivity. Our technologies and systems mitigate the effects of electronic signal dispersion and offer higher image quality and greater reliability than analog tape based systems. We have received several awards for technological excellence, including an Emmy Award in 2001 for our patented MediaCluster technology.

Our broadband or high bandwidth network segment includes our ITV System which digitally manages, stores and distributes digital video, allowing cable system operators and telecommunications companies to offer video-on-demand and other interactive television services, including interactive electronic advertising and retrieval of Internet content through the television. Our ITV System can be deployed in either a residential environment or a hotel environment to deliver a wide variety of video services. The ITV System delivers video-on-demand and other guest services, Internet access and personal computer games in the hotel environment, and our movie system provides long-form video storage and delivery for the pay-per-view movie markets. Since 2000, we have been selected to supply our ITV System in 22 domestic and international commercial deployments of video-on-demand systems, including deployments by five of the top seven cable system operators in the United States. We test and integrate our ITV System with the digital set top boxes, or hardware devices used to receive and unscramble television signals, of such manufacturers as Scientific Atlanta, Motorola, Pace, Pioneer and Sony Corporation.

In addition to our ITV System, our broadband business segment includes our SPOT System, which is a system for the transmission of video content, known as a video insertion system, for digital advertisements and other short-form video. Based on currently available industry sources and our internal data, we believe our SPOT System is the leading video insertion system in the United States in the multi-channel television market for digital advertisements and other short-form video. Our system converts analog video forms such as advertisements and news updates to digital video forms, stores the digital video forms in remote or local storage devices known as digital libraries, and inserts them automatically into television network streams. The SPOT System provides high accuracy relative to the volume of video being played and high video image quality, and permits geographic and demographic specificity of advertisements. We believe our SPOT System reduces operating costs by automating the management and distribution process. Our Advertising Management Software product operates with our SPOT System to automate and simplify complex sales, scheduling and billing processes for the multi-channel television market. A majority of our customers for these products consist of major cable system operators and telecommunications companies in the United States. To date we have sold SPOT Systems to support over 30,000 channels throughout the world. We believe that the capabilities of our SPOT System will position us well as the

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opportunities to distribute advertisements into a wide variety of digital media platforms and the market for interactive advertising continues to increase.

Our broadcast network business segment includes our Broadcast MediaCluster System, which allows broadcast television companies to directly transmit content, such as commercials and other programming for broadcast television companies, to their viewers through either single, multi-channel or satellite based delivery systems. We believe that our Broadcast MediaCluster System will eliminate the need for analog tape libraries and provide broadcasters with the automated storage and playback features that they require. Since 1998, we have installed our Broadcast MediaCluster System at customer locations including network affiliates and multi-channel operations in the United States, Europe and the Far East.

#### Industry Background

##### Cable System Operators and Telecommunications Companies

The number of cable subscribers has been estimated at 80 million in the United States and 330 million worldwide. Over the last several years, cable system operators have spent billions of dollars to upgrade their networks from analog to digital, yielding a significant increase in available bandwidth, channel capacity and two-way capability. We believe this investment by the cable system operators reflects their commitment to video-on-demand, advertising insertion, Internet access and other value added services, and differentiates cable system operators from competing service providers such as satellite delivery systems.

Video-on-demand represents a new opportunity for cable system operators. The increased channel capacity through the installation of fiber optic cables has provided many cable system operators with the capacity to offer video-on-demand services to residential cable subscribers. In 2001, cable system operators and telecommunications companies began the deployment of residential video-on-demand, which allows subscribers to watch video programming at any time with pause, rewind and fast forward capabilities. Six of the seven

largest cable system operators have begun deploying video-on-demand services in one or more residential markets. The first application offered by cable system operators has been movies on demand. Other applications in development include subscription video-on-demand, news, sports and weather on demand, personal video recording, targeted advertising for video-on-demand and music video and audio on demand.

In addition, because cable television programming is sent over broadband, or high bandwidth, networks, cable system operators have the opportunity to segment and target their programming to viewers in selected geographies. We believe that the ability of cable system operators to target viewers will extend to personal targeting of advertisements to specific individuals. In addition, continuing growth in cable television's multiple specialized programming networks, such as CNN, MTV and ESPN and other networks such as Black Entertainment Television, the Discovery Channel and Nickelodeon, allows advertisers to target viewers demographically. Despite this advantage over television broadcasters, cable system operators historically have not realized advertising revenues in proportion to their share of television viewers. According to industry sources, in 2001, 35% of all television viewers were watching ad-supported cable networks, yet cable television advertising revenue accounted for only 23% of the total television advertising revenue. As cable system operators gain the ability to target individual customers with advertisements, we believe the amount of revenue derived by cable system operators from advertising will increase.

Increased demand for video and audio content over the Internet will also require a substantial increase in storage capacity and bandwidth over time. We believe that cable system operators and telecommunications companies will play an integral role in providing these broadband Internet applications. We also believe that in order to offer high quality video applications over the Internet, cable system operators and telecommunications companies will need storage and distribution products capable of complex management and scheduling of video data streams.

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#### Television Broadcasters

Both domestically and internationally, broadcast stations face many of the same technological issues as cable system operators. Additionally, television broadcasters rely on advertising for nearly all of their revenue and require high accuracy and image quality relative to the volume of video being played. The majority of television broadcasters utilize tape-based systems with robotic libraries, which are cumbersome and require high levels of maintenance and manual intervention to ensure that the needed performance requirements are met. Also, the videotapes in these systems need to be replaced frequently due to repeated use.

Many television broadcasters are using digital bandwidth to originate multiple program streams. As this application further develops, television broadcasters will require more video storage and delivery systems that can effectively manage and deliver these multiple television signals. In addition, we believe that television broadcasters will continue to automate their entire programming to reduce overall operating costs and improve reliability.

#### The SeaChange Solution

We are a leading developer, manufacturer and marketer of systems, known as video storage servers, that automate the management and distribution of long-form video streams, such as movies or other feature presentations, and short-form video streams, such as advertisements. We market our products and services to cable system operators, telecommunications companies and broadcast television companies. Our solutions are based on the following four core areas of functionality:

- . storage and retrieval of video content to and from digital libraries;
- . automated distribution of video streams between digital libraries by means of local and wide area data networks;
- . delivery of video streams over single and multiple channels; and
- . management of video sales, scheduling, billing and execution of related business transactions.

We use these core areas of functionality to provide solutions to a number of commercial markets and are focused on providing solutions to meet the opportunities demanded by next generation systems with increased levels of subscriber interactivity. Our systems are designed to provide a consistent set of features and benefits, including:

- . Viewer Targeting. Our digital video products enable cable system operators to efficiently target viewers in specific demographic or geographic groups. We believe this allows operators to capitalize on new revenue generating opportunities from subscribers and advertisers. Using

our ITV System, cable system operators are able to offer interactive television services to individual residences or hotel rooms and, with our SPOT System, operators can better target digital advertisement campaigns.

- . Scalability. Our products are scalable in both video storage and video output stream capacity. Our proprietary technology, including our patented single-copy storage system, allows a single copy of content to be streamed through all available outputs without the need for duplication of content or re-routing between servers on the system. Our storage technology and distributed architecture results in a highly scalable system that reduces operational complexity and yields storage and bandwidth efficiencies as the amount of available content and the number of subscribers increase. Our products are scalable to the needs of our customers whether operating in a single channel system concentrated in one specific zone or a system with hundreds of channels serving multiple markets and a large number of users within each market.

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- . Interoperability. Our products have been designed to be compatible with a wide range of hardware systems and software applications used by cable system operators to deliver their digital video offerings. These include set top boxes from Motorola, Scientific Atlanta, Sony, Pioneer and Pace, a variety of programming guides including TV Guide, Passport and Worldgate, billing systems, service delivery systems and interactive application control software.
- . Automation. Our automated system allows cable system operators to distribute and manage content without significant human intervention. We believe this automation also allows our customers to minimize operating personnel and equipment requirements resulting in cost savings and lower ongoing operating costs.
- . Reliability. Through the use of our proprietary storage technology and application software and low-cost standard computer industry components, our products are designed to be fault resilient, with no single point of failure, providing the high reliability required for television and video-on-demand operations.

#### Strategy

Our objective is to be the leader in the market for the storage, management and distribution of professional quality digital video for the television marketplace. The key elements of our strategy are to:

- . Maintain and Extend Long-term Customer Relationships. We focus our product development, marketing and direct sales efforts on maintaining and extending long-term customer relationships with cable system operators, telecommunications companies and television broadcasters in the United States and internationally. We have formed important relationships with customers by initially providing solutions such as advertisement and other short-form video insertion, and we have extended these relationships to include video-on-demand systems and other interactive television services. We believe that the fundamental shift from broadcast to on-demand video and the growing emphasis on interactive technologies will continue to present opportunities for us to develop, market and support our solutions to both our existing customer base and to customers in additional markets.
- . Offer Integrated Solutions. Our customers operate complex networks that require the delivery and management of video programming across multiple channels and target zones. We believe that cable system operators desire solutions that can integrate all steps of digital video delivery, from scheduling to post-air verification and billing, and that can interoperate with existing and emerging third-party equipment and software. To address these needs, we intend to continue to provide and further develop, internally and with our partners, integrated applications and support services for our customers. We believe that providing complete integrated solutions has been a significant factor in our success and will be an increasingly important competitive advantage.
- . Establish and Maintain Technological Leadership. We believe our competitive position is dependent in a large part on the features and performance of our integrated systems. As a result, we focus our research and development efforts on introducing systems with improved hardware and software capabilities. We have been granted a patent for our single-copy storage technology and have other patents pending. We have received several awards for technological excellence, including an Emmy Award in 2001 for our patented MediaCluster storage technology.
- . Provide Superior Customer Service and Support. Our products operate in customer environments where continuous operation is critical. As a result, we believe that providing a high level of service and support give us a competitive advantage and is a differentiating factor in

developing and maintaining key customer relationships. Our in-depth industry and application knowledge allows us to better understand the service needs of our customers. As of October 31, 2001, over 35% of our employees were dedicated to customer service and support, including project design and implementation, installation and training. In addition, using remote diagnostic and communications

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features embedded in our products, the service organization has the ability to monitor the performance of customer installations and, in most cases, rectify problems remotely. Customers have access to service personnel via 24-hour, seven-day a week telephone support.

## Products

### Broadband Products

#### SeaChange ITV System

We have developed and are deploying a video-on-demand system for sale to cable television companies and other telecommunications companies. Our ITV System consists of:

- . our video storage servers which reside at headends or nodes in a cable system and are used to play out or stream videos as requested;
- . our Command Center control software to manage and control the system;
- . our advertising systems hardware and software; and
- . interfaces to digital headend modulators, control systems and subscriber management systems.

Our ITV System currently allows our customers to offer the following interactive services:

- . Video-on-Demand. This interactive service allows residential users and hotel guests to review lists of available movies, order individual movies and view them in real time. Using this service, subscribers gain full control over the video stream, including pause, fast-forward and rewind functions. Billing is typically done through the subscriber's normal cable bill, and movie choices are refreshed on a regular basis.
- . Subscription Video-on-Demand. This interactive service provides premium channel offerings, such as those offered by HBO, Showtime or Cinemax, in an on-demand manner, as well as on a scheduled basis. Similar to our video-on-demand interactive service described above, our subscription video-on-demand service allows subscribers to review lists of available premium channel content, order individual programs and watch them at home with full video cassette recorder-like control over the video stream. As in video-on-demand, billing flows through the normal cable bill.

In addition, our ITV System is designed to support the following interactive services that are currently being developed by cable system operators:

- . Personal Time Television. This interactive service will provide users with some level of control over live television, allowing users to gain access to up to date program information, full video cassette recorder-like control over the video stream, and the ability to watch one program while recording another. This personal time television service, using our servers and software located in cable company headends, will provide functionality competitive with that provided by personal video recorders, such as TiVo or Ultimate TV, to record television programs for later viewing. The personal time television interactive service will allow cable companies to offer time shifting and live television control to their subscribers without the customers having to purchase a video cassette recorder or personal video recorder.
- . Targeted and Interactive Advertising. This interactive service will support interactive advertising, or advertising where the subscriber controls the path and delivery of an advertisement, in a personal time television interactive service and in other forms of programming that result in a dedicated communications link between that subscriber's set top box and the video-on-demand system itself. This service will be competitive with those provided by direct marketing and direct mail firms and may allow purchases over the television, such as one might do with a web browser over the Internet.

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- . Personalized News, Sports and Weather. This interactive service will allow individual clips of video content to be aggregated into larger

segments, or even into programs. This service will allow cable system operators to offer a service where information programs, such as news, sports or weather, are customized to reflect a subscriber's personal needs. We believe this business will allow cable system operators to gain revenue from subscription fees and to provide a feature that cannot be easily duplicated by satellite or broadcast television systems, resulting in increased customer loyalty to the cable company.

The delivery of these current and anticipated interactive services utilizes both our hardware and software through the following steps:

- . Customer Selection. When a customer selects from their set top box a video title to view, a message is transmitted from the set top box to our video server system located at the headend of the cable system.
- . Video Selection Execution. Our video server system receives the video title request and retrieves the selection from the storage disk, which is a compressed digital video file. Our software determines if the title has space for advertising, and if so, retrieves the commercial content files as well. The video files are loaded on the video server, which then executes the files.
- . Transmission to the Customer. A network management device assesses the best route along the operator's network to deliver the video selection. The video file is delivered to a modulator, which formats the video file so that it can be delivered across the broadband network. The video file is then delivered back to the customer's set top box.
- . Customer Viewing. The set top box receives the video file and decrypts the signal and delivers it to the television for viewing. The software in the set top box provides the subscriber with the functionality of a traditional video cassette recorder, allowing the customer to pause, fast-forward and rewind the video file. Some set top boxes have storage capabilities that enable the customer to store the video file for an extended period of time.
- . Billing. Content consumption records are kept by our software, and on a regular basis, records of the movies, programs and commercials viewed are exported to appropriate billing systems.

#### SeaChange SPOT System

Our SPOT System automates the complex process of advertisement and other video insertion across multiple channels and geographic zones for cable system operators and telecommunications companies. Through our embedded proprietary software, our SPOT System allows cable system operators to insert local and regional advertisements and other short-form video streams into the time allocated for these video streams by cable television networks such as CNN, MTV, ESPN, Black Entertainment Television, the Discovery Channel and Nickelodeon. Our SPOT System is also capable of inserting advertising into digital cable channels and delivering targeted advertising, as well as advertising with interactive links to content on the ITV System, as well as other interactive advertising systems.

Our SPOT System is an integrated solution composed of software applications, hardware platforms, data networks and easy to use graphical interfaces. Our SPOT System is designed to be installed at local cable transmission sites, known as headends, and advertising sales business offices. Our video insertion process consists of six steps:

- . Encoding. The process begins with our encoding software which in real time transforms and compresses analog to digital short-and long-form video.
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- . Storage. Our SPOT System organizes, manages and stores these video streams in a disk-based video library capable of storing thousands of spots.
  - . Scheduling. Our advertising management software coordinates with the traffic and billing application to determine the designated time slot, channel and geographic zone for each video stream.
  - . Distribution. Our strategic digital video software then copies the video files from the master video library and distributes them over the operator's data network to appropriate headends, where they are stored in video servers for future play.
  - . Insertion. Following a network cue, our video switch module automatically inserts the video stream into the network feed (initiating the analog conversion, if necessary), where they are then seen by television viewers.
  - . Verification. After the video streams run, our proprietary software and

hardware verifies the content, accuracy, timing and placement of these video streams to facilitate proper customer billing.

#### SeaChange Advertising Management Software

Our Advertising Management Software product, referred to in the past as our Traffic and Billing Software product, is designed to permit cable system operators to manage advertising sales, scheduling, packaging and billing operations. This product provides management performance reports, inventory management and optimization, interactive linkage construction, billing and accounts receivable management. Our Advertising Management Software product works with our SPOT System, our ITV System and with many other broadcast automation systems.

#### Broadcast Products

##### SeaChange Broadcast MediaCluster System

Our Broadcast MediaCluster System is currently composed of three to seven individual video servers arranged in a cluster acting as one system. This system is designed to provide high quality, digital based video storage and playback for use with automation systems in broadcast television stations. This product is intended to replace on-air tape decks used to store and play back advertising, movies and other programming from video tape cart systems and, in some cases, to replace the cart systems themselves. Our Broadcast MediaCluster System is designed for customers both in larger broadcast television markets, which use station automation systems, and in smaller markets, which use control software included in the system.

As with the ITV System in the broadband segment, our Broadcast MediaCluster System is designed to simultaneously record, encode, store to a disk and play video content using compression and decompression hardware. This product is designed to seamlessly integrate into television broadcasters' current tape-based operations and meet the high performance requirements of television broadcasters. Our Broadcast MediaCluster System has features that enable the broadcaster to have end to end functionality and reliability, including one feature that enables broadcasters to schedule its programming for a week of television content.

#### Customer Service and Support

We install, maintain and support our products in North America, Asia, South America and Europe. We offer basic and advanced formal on-site training for customer employees. We currently provide installation, maintenance and support to international customers and also provide movie content in conjunction with sales of our ITV System to hotels. We offer technical support to customers, agents and distributors on a 24-hour, seven-day a week basis. Our systems sales always include at least one year of free maintenance.

#### Customers

We currently sell our products primarily to cable system operators, broadcast and telecommunications companies.

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Our customer base is highly concentrated among a limited number of large customers, primarily due to the fact that the cable, movie, broadcast, and telecommunications industries in the United States are dominated by a limited number of large companies. A significant portion of our revenues in any given fiscal period have been derived from substantial orders placed by these large organizations. In the year ended December 31, 1999, the year ended January 31, 2001, and the six months ended July 31, 2001 revenues from our five largest customers represented approximately 47%, 44% and 58%, respectively, of our total revenues. Customers accounting for more than 10% of total revenues consisted of AT&T Media Services (15%) and Time Warner (10%) in 1999; AT&T Media Services (16%) and Time Warner (11%) in the one month ended January 31, 2000; Time Warner (12%) and Cox Communications (10%) in the twelve months ended January 31, 2001; and Comcast (26%) and Cablevision (11%) in the six months ended July 31, 2001. We expect that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues in future periods. As a result of this customer concentration, our business, financial condition and results of operations could be materially adversely affected by the failure of anticipated orders to materialize and by deferrals or cancellations of orders as a result of changes in customer requirements or new product announcements or introductions. In addition, the concentration of customers may make variations in revenue, expenses and operating results due to seasonality of orders more pronounced.

We believe that our backlog at any particular time is not meaningful as an indicator of our future level of sales for any particular period. Because of the nature of our products and our use of standard components, substantially all of the backlog at the end of a quarter can be manufactured by us and is intended to be shipped by the end of the following quarter. However, because

of the requirements of particular customers these backlogs may not be shipped or, if shipped, the related revenues may not be recognized in that quarter. Therefore, there is no direct correlation between the backlog at the end of any quarter and our total sales for the following quarter or other periods.

#### Selling and Marketing

We sell and market our products in the United States primarily through a direct field sales organization and internationally through direct sales and independent agents and distributors, complemented by a coordinated marketing effort of our marketing group. Direct sales activities in the United States are conducted from our Massachusetts headquarters and seven field offices. In October 1996, we entered into an exclusive sales and marketing services agreement with a private Italian company to provide these services throughout continental Europe. We also market certain of our products to systems integrators and value-added resellers.

In light of the complexity of our digital video products, we primarily employ a consultative direct sales process. Working closely with customers to understand and define their needs enables us to obtain better information regarding market requirements, enhance our expertise in our customers' industries, and more effectively and precisely convey to customers how our solutions address the customer's specific needs. In addition to the direct sales process, customer references and visits by potential customers to sites where our products are in place are often critical in the sales process.

We use several marketing programs focused on our targeted markets to support the sale and distribution of our products. We use exhibitions at a limited number of prominent industry trade shows and conferences and presentations at technology seminars to promote awareness of us and our products. We also publish technical articles in trade and technical journals and promotional product literature.

#### Research and Product Development

Our management believes that our success will depend to a substantial degree upon our ability to develop and introduce in a timely fashion new products and enhancements to our existing products that meet changing customer requirements in our current and new markets. We have in the past made, and intend to continue to make, substantial investments in product and technological development. Through our direct sales process we monitor changing customer needs, changes in the marketplace and emerging industry standards, and are therefore better able to focus our research and development efforts to address these evolving industry requirements.

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Our research and development expenditures totaled approximately \$16.3 million, \$20.3 and \$11.7 million for the year ended December 31, 1999, the year ended January 31, 2001, and the six months ended July 31, 2001, respectively. At October 31, 2001, 151 employees were engaged in research and product development. We believe that the experience of our product development personnel is an important factor in our success. We perform our research and product development activities at our headquarters and in offices in Greenville, New Hampshire; Atlanta, Georgia; and Fort Washington, Pennsylvania. We have historically expensed our direct research and development costs as incurred.

In December 1999, we enhanced our research and development capabilities through the acquisition of Digital Video Arts, Ltd., a developer of custom software products specializing in digital video and interactive television.

#### Manufacturing

Our manufacturing operations are located at facilities in Maynard, Massachusetts and in Greenville, New Hampshire. The manufacturing operations in Massachusetts consist primarily of component and subassembly procurement, system integration and final assembly, testing and quality control of the complete systems. Our operations in New Hampshire consist primarily of component and subassembly procurement, video server integration and final assembly, testing and quality control of the video servers. We rely on independent contractors to manufacture components and subassemblies to our specifications. Each of our products undergoes testing and quality inspection at the final assembly stage.

#### Competition

The markets in which we compete are characterized by intense competition, with a large number of suppliers providing different types of products to different segments of the markets. In new markets for our products, we compete principally based on price. In markets in which we have an established presence, we compete principally on the basis of the breadth of our products' features and benefits, including the flexibility, scalability, professional quality, ease of use, reliability and cost effectiveness of our products, and our reputation and the depth of our expertise, customer service and support.



While we believe that we currently compete favorably overall with respect to these factors and that our ability to provide solutions to manage, store and distribute digital video differentiates us from our competitors, in the future we may not be able to continue to compete successfully with respect to these factors.

In the market for long-form video products including video-on-demand, we compete with various companies offering video server platforms such as Concurrent Computer Corp., nCube and Diva Systems Corp. In the television broadcast market, we compete against Grass Valley Group, Inc., Pinnacle Systems, Inc., Sony Corporation and Leitch Incorporated. In the digital advertisement insertion market, we generally compete only with nCube (formerly SkyConnect, Inc.). In addition, our Advertising Management Software competes against certain products of Columbine Cable Systems, Inc., Cable Computerized Management Systems, Inc., a subsidiary of Indenet Inc., CAM Systems, Inc., a subsidiary of Starnet Inc., LAN International USA, Inc., Visiotel, Inc. and various suppliers of sales, scheduling and billing software products. We expect the competition in each of these markets to intensify in the future.

Many of our current and prospective competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources than us. As a result, these competitors may be able to devote greater resources to the development, promotion, sale and support of their products than us. Moreover, these companies may introduce additional products that are competitive with ours or enter into strategic relationships to offer complete solutions, and in the future our products may not be able to compete effectively with these products.

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#### Proprietary Rights

Our success and our ability to compete is dependent, in part, upon our proprietary rights. We have been granted one U.S. patent for our MediaCluster technology and have filed a foreign patent application for the same technology. We also have other patent applications in process for extensions of our existing technology and for other technologies. In addition, we rely on a combination of contractual rights, trademark laws, trade secrets and copyright laws to establish and protect our proprietary rights in our products. It is possible that in the future not all of these patents will be issued or that, if issued, the validity of these patents would be upheld. It is also possible that the steps taken by us to protect our intellectual property will be inadequate to prevent misappropriation of our technology or that our competitors will independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries in which our products are or may be distributed do not protect our proprietary rights to the same extent as do the laws of the United States.

#### Employees

As of October 31, 2001, we employed 440 persons, including 151 in research and development, 153 in customer service and support, 43 in selling and marketing, 60 in manufacturing and 33 in finance and administration. We believe that our relations with our employees are good.

#### Facilities

Our corporate headquarters, which is also our principal administrative, selling, marketing, customer service and support and product development facility, is located in Maynard, Massachusetts and consists of approximately 105,000 square feet under a lease which expires on March 31, 2005 with annual base rent of \$610,000. We purchased approximately 24,000 square feet of office and manufacturing space in Greenville, New Hampshire on February 15, 2000 for \$280,000. We also lease two facilities totaling approximately 13,000 square feet in Greenville, New Hampshire that are used for the development and final assembly of our video servers. In connection with the acquisition in December 1999 of Digital Video Arts, we entered into a lease for approximately 8,000 square feet of office space in Fort Washington, Pennsylvania, which is primarily used for the development of custom software products for companies specializing in digital video and interactive television. We also lease small research and development and/or sales and support offices in Atlanta, Georgia, San Francisco, California, Denver, Colorado, St. Louis, Missouri, Reno, Nevada, Valbonne, France, and Singapore.

#### Legal Proceedings

On June 13, 2000, we filed in the United States District Court for the District of Delaware a lawsuit against one of our competitors, nCube Corp., whereby we alleged that nCube's MediaCube-4 product infringed a patent held by us (Patent No. 5,862,312) relating to our MediaCluster technology. In instituting the claim, we sought both a permanent injunction and damages in an unspecified amount. nCube made a counterclaim against us that the patent held by us was invalid and that nCube's MediaCube-4 product did not infringe our patent. On September 6, 2000, nCube conceded that, based on a claim

construction ruling issued by the District Court on August 2000, nCube's MediaCube-4 product infringed our patent. On September 25, 2000, a jury upheld the validity of our patent. nCube has filed motions challenging both the jury's verdict and the District Court's claim construction ruling. The District Court has yet to rule on nCube's motions. At this time we are awaiting the court's decision regarding a permanent injunction. Damages will be determined in future proceedings.

On January 8, 2001, nCube Corp. filed a complaint against us in the United States District Court for the District of Delaware alleging that our use of our MediaCluster, MediaExpress and Media Server technology each infringe a patent held by nCube (Patent No. 5,805,804). In instituting the claim, nCube has sought both an injunction and monetary damages in an unspecified amount. We responded on January 26, 2001, denying the claim of infringement. We also asserted a counterclaim seeking a declaration from the District Court that U.S. Patent No. 5,805,804 is invalid and not infringed. Currently, discovery on this claim is scheduled to be completed in December 2001, following which will be a claim construction hearing.

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On June 14, 1999, we 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 our business and reputation in the marketplace. The complaint further alleges that Mr. Putterman and Lathrop Investment Management, Inc. defamed us through false postings on an Internet message board. The complaint seeks unspecified amounts of compensatory and punitive damages. On June 14, 2000, Concurrent filed a counterclaim under seal against us seeking unspecified damages. On July 28, 2000, Concurrent filed a motion for summary judgment on the claim of civil conspiracy and on January 4, 2001, the trial court entered an order granting summary judgment for Concurrent on that claim. We immediately requested reconsideration of this order or, in the alternative, recertification for immediate appeal. On June 12, 2001, the trial court denied the motion for reconsideration but made findings which permitted an immediate appeal and on July 11, 2001 we filed an appeal. The motions relating to these claims and counterclaims are currently pending and no trial date has been set.

We cannot be certain of the outcome of the foregoing litigation, but do plan to oppose allegations against us and assert our claims against other parties vigorously. In addition, as these claims are subject to additional discovery and certain claims for damages are as yet unspecified, we are unable to estimate the impact to our business, financial condition and results of operations or cash flows.

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MANAGEMENT

The following table sets forth for each of our directors, and our executive officers, their ages and the positions currently held by each such person with us:

<TABLE>  
<CAPTION>

Name	Age	Position
William C. Styslinger, III.....	55	President, Chief Executive Officer, Chairman of the Board and Director
William L. Fiedler.....	57	Chief Financial Officer, Treasurer, Secretary and Vice President, Finance and Administration
Scott Blais.....	43	Vice President, Customer Services
Jeffrey M. Boone.....	37	Vice President, Software Engineering
Branko J. Gerovac.....	51	Vice President, Research
Ira Goldfarb.....	44	Vice President, Worldwide Sales
Bruce E. Mann.....	53	Vice President, Network Storage Engineering
Martin R. Hoffmann(1) (2).....	69	Director
Thomas F. Olson(1) (2).....	53	Director
Carmine Vona(1) (2).....	63	Director

</TABLE>

(1) Member of Compensation and Option Committee.  
(2) Member of Audit Committee.

Directors

William C. Styslinger, III, has served as our President, Chief Executive Officer and a Director since our inception in July 1993 and as Chairman of the Board since January 1995. Prior to our formation in 1993, Mr. Styslinger was employed at Digital Equipment Corporation since March 1978, most recently as manager of the Cable Television Business Unit from October 1991 to May 1993.

Mr. Styslinger is a member of the Board of Directors of Omtool, Inc., a provider of enterprise client/server facsimile software solutions.

Martin R. Hoffmann has served as one of our Directors since January 1995. Mr. Hoffmann currently engages in consulting activities and is pursuing pro bono opportunities. Mr. Hoffmann served as Of Counsel to the Washington D.C. office of Skadden, Arps, Slate, Meagher & Flom LLP from January 1996 until July 2000. From April 1995 to January 1996, Mr. Hoffmann maintained a law practice and business consulting practice. He was a Visiting Senior Fellow at the Center for Policy, Industry and Industrial Development at Massachusetts Institute of Technology from May 1993 to April 1995, prior to which, from April 1989, he served as Vice President and General Counsel for Digital Equipment Corporation. Mr. Hoffmann is a member of the Board of Directors of Castle Energy Corporation, an oil and gas exploration and production company, and Chairman of the Board of Mitretek Systems, a non-profit technology and services company.

Thomas F. Olson has served as one of our Directors since May 2001. Mr. Olson has been Chief Executive Officer of National Cable Communications, a company specializing in cable television advertising time sales since January 1999. From January 1995 to May 1998, Mr. Olson was Managing Partner of National Cable Communications and Chief Executive Officer of Katz Media Group, a radio, broadcast television and cable television national sales representation firm. Mr. Olson was with Katz Media Group for 23 years.

Carmine Vona has served as one of our Directors since January 1995. Mr. Vona has been President and Chief Executive Officer of Vona Information Systems, Inc., a consulting firm, since June 1996. Prior to that, Mr. Vona was Executive Vice President and Senior Managing Director for worldwide technology at Bankers Trust Co. from November 1969 to June 1996. From August 1986 to June 1996 Mr. Vona was Chairman of BT-FSIS, a software development company and a wholly owned subsidiary of Bankers Trust Co.

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#### Executive Officers

Scott Blais has served as our Vice President, Customer Services since October 1998. Prior to joining us, Mr. Blais spent three years holding various positions including Vice President and General Manager at Adra Systems, Inc., a software company. Prior to that, Mr. Blais held the position of Director of Customer Services and Quality Assurance for Keyfile Corporation, a software company.

Jeffrey M. Boone has served as our Vice President, Software Engineering since January 1998. Prior to that, Mr. Boone served as our Engineering Manager from June 1996 to December 1997, and as a member of the our technical staff from September 1995 to June 1996. Prior to joining us, Mr. Boone was a Systems Architect at Logica North American, a software consulting company, from June 1994 to September 1995.

William L. Fiedler has served as our Chief Financial Officer, Treasurer and Vice President, Finance and Administration since September 1998 and as our Secretary since May 2000. Prior to joining us, Mr. Fiedler served from July 1984 to June 1998 as the Chief Financial Officer, Treasurer and Senior Vice President, Finance and Administration of Matrix One, Inc., a developer of product data management systems. Prior to that, Mr. Fiedler served as the Chief Financial Officer of Hendrix Electronics Inc., a developer of text processing and graphics publishing systems, and had also held controllership positions at Bose Corporation and GTE Sylvania.

Branko J. Gerovac has served as our Vice President, Research since joining us in February 1999. Prior to that, Mr. Gerovac served from 1994 to 1999 as an Associate Director of Research at the Massachusetts Institute of Technology. Mr. Gerovac was previously employed from 1981 to 1994 by Digital Equipment Corporation as a consulting engineer.

Ira Goldfarb has served as our Vice President, Worldwide Sales since January 1998. Prior to that, Mr. Goldfarb served as our Vice President, U.S. Systems Sales from August 1997 to January 1998, as our Vice President, Eastern Region from January 1997 to August 1997, and as Vice President, Central Region, from August 1994 to January 1997. Prior to joining us, Mr. Goldfarb held several sales management positions at Digital Equipment Corporation from September 1983 to July 1994.

Bruce E. Mann joined us in September 1994 as Vice President, Network Storage Engineering. Mr. Mann is also President of SeaChange Systems, Inc., one of our subsidiaries which develops and manufactures video server-based products. Prior to joining us, Mr. Mann served as Director of Engineering at Ungermann-Bass, Inc., a subsidiary of Tandem Computers Inc., from March 1993 to September 1994. Prior to that, from September 1976 to March 1993, Mr. Mann was an engineer at Digital Equipment Corporation, most recently as Senior Consulting Engineer.

Our executive officers are appointed by, and serve at the discretion of,

our board of directors, and serve until their successors have been duly elected and qualified. There are no family relationships among any of the our executive officers or directors.

SELLING STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of October 31, 2001 by the stockholders who are selling shares of our common stock in this offering.

Each of the selling stockholders is currently one of our executive officers or, in the case of Mr. Hoffmann, a director. See "Management." Each person has sole voting power and investment power, or shares such power with his or her spouse, with respect to all shares of capital stock listed as owned by such person or entity.

The number and percentage of shares beneficially owned is determined in accordance with the rules of the Securities and Exchange Commission, and is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which a person has sole or shared voting power or investment power and also any shares of common stock underlying options or warrants that are exercisable by that person within 60 days of October 31, 2001. However, these shares underlying options or warrants are not treated as outstanding for the purpose of computing the percentage ownership of any other person or entity. Percentage of beneficial ownership prior to the offering is based on 22,962,415 shares of our common stock outstanding as of October 31, 2001.

<TABLE>  
<CAPTION>

Name	Number of Shares Beneficially Owned Prior to the Offering	Shares Being Offered Hereby	After the Offering	
			Number of Shares Beneficially Owned	Percentage of Outstanding
<S>	<C>	<C>	<C>	<C>
William C. Styslinger(1).....	2,184,023	125,000	2,059,023	7.99%
Scott Blais(2).....	23,936	5,000	18,936	*
Jeffrey M. Boone (3)....	84,077	10,000	74,077	*
William L. Fiedler(4)...	88,051	10,000	78,051	*
Ira Goldfarb(5).....	121,468	15,000	106,468	*
Martin R. Hoffmann(6)...	205,009	35,000	170,009	*
Bruce E. Mann(7).....	364,095	10,000	354,095	1.37%

</TABLE>

\* Less than one percent.

- (1) Includes 215,000 shares of Common Stock owned by Merrill Lynch, Trustee f/b/o William C. Styslinger, III, IRA. Excludes (i) 96,429 shares of Common Stock owned by Thomas and Emily Franeta as Trustees of The Styslinger Family Trust; (ii) 10,147 shares of Common Stock held by Thomas Franeta as Custodian for Kimberly J. Styslinger; and (iii) 75,000 shares of Common Stock owned by his wife, Joyce Styslinger. Mr. Styslinger disclaims beneficial ownership of the shares held by The Styslinger Family Trust, by Thomas Franeta as Custodian for Kimberly J. Styslinger and by his wife, Joyce Styslinger. Includes 41,344 shares of Common Stock issuable pursuant to outstanding stock options that may be exercised within 60 days of October 31, 2001.
- (2) Includes 21,831 shares of Common Stock issuable pursuant to outstanding options that may be exercised within 60 days of October 31, 2001.
- (3) Includes 35,652 shares of Common Stock issuable pursuant to outstanding stock options that may be exercised within 60 days of October 31, 2001.
- (4) Includes 88,051 shares of Common Stock issuable pursuant to outstanding options that may be exercised within 60 days of October 31, 2001.
- (5) Includes 29,833 shares of Common Stock issuable pursuant to outstanding stock options that may be exercised within 60 days of October 31, 2001.
- (6) Includes 15,107 shares of Common Stock issuable pursuant to outstanding stock options that may be exercised within 60 days of October 31, 2001.
- (7) Includes (i) 34,045 shares of Common Stock issuable pursuant to outstanding stock options that may be exercised within 60 days of October 31, 2001. Excludes an aggregate of 23,824 shares of Common Stock held by Mr. Mann's three children. Mr. Mann disclaims beneficial ownership of those shares held by his children.

UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated, Thomas Weisel Partners LLC and RBC

Dain Rauscher, Inc. are acting as representatives, have each agreed to purchase, and we have agreed to sell to them, severally, the number of shares of our common stock indicated below:

<TABLE>  
<CAPTION>

Name ----	Number of Shares -----
<S>	<C>
Morgan Stanley & Co. Incorporated.....	
Thomas Weisel Partners LLC.....	
RBC Dain Rauscher, Inc.....	
Total.....	----- 3,000,000 =====

</TABLE>

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to some dealers at a price that represents a concession not in excess of \$ a share under the public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of \$ a share to other underwriters or to other dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 450,000 additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering overallotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to various conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the name of that underwriter in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. If the underwriters exercise the option in full, the total price to the public would be \$ million and the total proceeds to us, before deducting estimated offering expenses, would be \$ million.

The common stock is listed on the NASDAQ National Market under the symbol "SEAC."

SeaChange, our directors and executive officers and the selling stockholders have each agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, it, he or she will not, during the period ending 90 days after the date of this prospectus:

- . offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or

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- . enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock.

whether any transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise.

The restrictions described in this paragraph do not apply to:

- . the sale of shares to the underwriters;
- . the issuance by us of shares of common stock upon the exercise of an option or a warrant, either currently outstanding or that may be issued pursuant to existing agreements, the conversion of a security outstanding on the date of this prospectus, and the issuance by us of

warrants pursuant to existing agreements, in each case of which the underwriters have been advised in writing;

- . the issuance by us of shares of common stock or options to purchase shares of common stock pursuant to our existing stock option and purchase plans;
- . the transfer by any individual of shares of common stock or any securities convertible into or exercisable for common stock to members of their immediate family, such members consisting of the undersigned's spouse, the undersigned's issue, parents of the undersigned or spouse, or the issue of the parents of the undersigned or spouse or to a trust or limited partnership for the benefit of such members or as a bona fide gift if each transferee or donee agrees in writing as a condition precedent to such transfer or gift to be bound by the same restrictions;
- . the issuance by us of shares of common stock or options to purchase shares of common stock in connection with the repurchase or exchange of the currently issued and outstanding shares of common stock of SeaChange Systems, Inc. held by persons other than us and the currently issued and outstanding options to purchase shares of common stock of SeaChange Systems, Inc.;
- . the issuance by us of shares of common stock, warrants to purchase shares of common stock or shares of common stock upon the exercise of such warrants in an aggregate amount not to exceed 100,000 shares of common stock in connection with strategic agreements as to which there are current discussions underway; or
- . transactions by any person other than us relating to shares of common stock or other securities acquired in open market transactions after the completion of the offering of the shares.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the common stock for their own account. In addition, to cover over-allotments or to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in the offering, if the syndicate repurchases previously distributed common stock in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the common stock above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

From time to time, Morgan Stanley & Co. Incorporated has provided, and continues to provide, investment banking services to us.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Due to the fact that one of the representatives of the underwriters was organized within the last three years, we are providing you the following information. Thomas Weisel Partners LLC, one of the representatives of the underwriters, was organized and registered as a broker-dealer in December 1998. Since December 1998, Thomas

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Weisel Partners has been named as a lead or co-manager of, or as a syndicate member in, numerous public offerings of equity securities. Thomas Weisel Partners does not have any material relationship with us or any of our officers, directors or other controlling persons, except with respect to its contractual relationship with us pursuant to the underwriting agreement entered into in connection with this offering.

Transfer Agent and Registrar

Mellon Investor Services, L.L.C., 111 Founders Plaza, Suite 1100, East Hartford, Connecticut 06108 is the transfer agent for our common stock.

#### LEGAL MATTERS

Certain legal matters with respect to the issuance of the shares offered hereby will be passed upon for SeaChange International by Testa, Hurwitz & Thibault, LLP, Boston, Massachusetts. As of the date of this prospectus, certain attorneys with the firm of Testa, Hurwitz & Thibault, LLP beneficially own an aggregate of 2,250 shares of our common stock. Certain legal matters in connection with this offering will be passed upon for the underwriters by Ropes & Gray, Boston, Massachusetts.

EXPERTS

The consolidated financial statements as of December 31, 1999, January 31, 2000 and January 31, 2001 and for each of the two years in the period ended December 31, 1999, the one month ended January 31, 2000 and the year ended January 31, 2001, included in this prospectus have been so included in reliance upon the report (which contains an explanatory paragraph relating to SeaChange International's change in method of recognizing revenue as described in Note 3 to the consolidated financial statements) of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

#### WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and accordingly file reports, proxy statements and other information with the Securities and Exchange Commission. Reports, proxy statements and other information filed by SeaChange International may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549.

Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Our common stock is traded on the Nasdaq National Market. Reports, proxy statements and other information concerning SeaChange International may be inspected at the offices of the National Association of Securities Dealers, Inc. located at 1735 K Street, N.W., Washington, D.C. 20006.

We have filed with the Securities and Exchange Commission a registration statement on Form S-3 under the Securities Act of 1933, as amended, with respect to the shares of our common stock offered hereby. This prospectus does not contain all information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the Securities and Exchange Commission. For further information regarding us and the shares of our common stock offered hereby, we refer you to the registration statement and to the exhibits and schedules filed with it. Statements contained in this prospectus regarding the contents of any agreement or other document filed as an exhibit to the registration statement are necessarily summaries of those documents, and in each instance we refer you to the copy of that document filed as an exhibit to the registration statement for a more complete description of the matters involved. The registration statement, including the exhibits and schedules thereto, may be inspected at the public reference facilities maintained by the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and copies of all or any part thereof may be obtained from that office upon payment of the prescribed fees. In addition, the Securities

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and Exchange Commission maintains a web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission.

We will provide without charge to each person who is delivered a prospectus, on written or oral request, a copy of any or all of the documents incorporated by reference in this document, other than exhibits to those documents unless those exhibits are specifically incorporated by reference into those documents. Requests for copies should be directed to Investor Relations, SeaChange International, Inc., 124 Acton Street, Maynard, Massachusetts 01754, Telephone: (978) 897-0100.

#### INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The following documents filed by us with the SEC pursuant to the Exchange Act are incorporated in this prospectus by reference:

1. SeaChange's Amended Annual Report on Form 10-K/A for the fiscal year ended January 31, 2001 (File No. 000-21393).
2. SeaChange's Quarterly Report on Form 10-Q for the period ended April 30, 2001 (File No. 000-21393).
3. SeaChange's Quarterly Report on Form 10-Q for the period ended July 31, 2001 (File No. 000-21393).
4. The description of our common stock contained in the section titled "Description of Registrant's Securities to be Registered" contained in our registration statement on Form 8-A filed under the Exchange Act with the SEC on September 18, 1996 (File No. 000-21393), and incorporating by reference the information contained in our registration statements on Form S-1 (File No. 333-12233), including any amendment or report filed for the purpose of updating that description.

All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, subsequent to the filing by us of the initial registration

statement of which this prospectus is a part and prior to the termination of this offering, shall be deemed incorporated by reference in this prospectus and made a part hereof from the date of filing of those documents. Any statement contained in a document incorporated or deemed incorporated by reference in this prospectus shall be deemed modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed incorporated by reference herein or in any prospectus supplement modifies or supersedes that statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

SEACHANGE INTERNATIONAL, INC.

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SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEET  
(in thousands, except share data)  
(unaudited)

<TABLE>	
<CAPTION>	
	July 31, 2001
	-----
<S>	<C>
Assets	
Current assets:	
Cash and cash equivalents.....	\$ 8,994
Accounts receivable, net of allowance for doubtful accounts of \$634 at July 31, 2001.....	26,448
Inventories.....	22,409
Prepaid expenses and other current assets.....	3,358
Deferred income taxes.....	7,001
	-----
Total current assets.....	68,210
Property and equipment, net.....	18,297
Other assets.....	770
Deferred income taxes.....	910
Goodwill and intangibles.....	4,938
	-----
	\$ 93,125
	=====
Liabilities and Stockholders' Equity	
Current liabilities:	
Line of credit.....	\$ --
Current portion of equipment line of credit and obligations under capital lease.....	2,318
Accounts payable.....	16,688
Accrued expenses.....	1,435
Customer deposits.....	2,683
Deferred revenue.....	9,992
Income taxes payable.....	323
	-----
Total current liabilities.....	33,439
	-----



Long-term portion of equipment line of credit and obligations under capital lease.....	2,899
Commitments and contingencies	-----
Stockholders' Equity:	
Preferred stock, 5,000,000 shares authorized, none outstanding.....	--
Common stock, \$.01 par value; 100,000,000 shares authorized; 22,913,262 shares issued at July 31, 2001.....	229
Additional paid-in capital.....	63,385
Deferred equity discount.....	(1,205)
Accumulated deficit.....	(5,407)
Accumulated other comprehensive loss.....	(215)
Total stockholders' equity.....	56,787
	-----
	\$ 93,125
	=====

</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 per share data)  
(unaudited)

<TABLE>  
<CAPTION>

	Six months ended	
	July 31, 2000	July 31, 2001
	-----	-----
<S>	<C>	<C>
Revenue:		
Systems.....	\$ 36,684	\$43,053
Services.....	10,976	14,127
	-----	-----
	47,660	57,180
Cost of revenues:		
Systems.....	20,359	24,526
Services.....	8,689	10,443
	-----	-----
	29,048	34,969
Gross profit.....	18,612	22,211
	-----	-----
Operating expenses:		
Research and development.....	9,355	11,677
Selling and marketing.....	5,115	7,189
General and administrative.....	3,302	3,831
	-----	-----
	17,772	22,697
Income (loss) from operations.....	840	(486)
Interest income (expense), net.....	24	(252)
	-----	-----
Income (loss) before income taxes.....	864	(738)
Provision (benefit) for income taxes.....	271	(236)
	-----	-----
Income (loss) before cumulative effect of change in accounting principle.....	593	(502)
Cumulative effect of change in accounting principle, net of tax of \$732.....	(1,100)	--
	-----	-----
Net income (loss).....	\$ (507)	\$ (502)
	=====	=====
Basic earnings per share before cumulative effect of change in accounting principle.....	\$ 0.03	\$ (0.02)
Cumulative effect of change in accounting principle.....	\$ (0.05)	--
	-----	-----
Basic earnings (loss) per share.....	\$ (0.02)	\$ (0.02)
	=====	=====
Diluted earnings (loss) per share.....	\$ (0.02)	\$ (0.02)
	=====	=====
Weighted average common shares outstanding:		
Basic.....	21,570	22,725
Diluted.....	21,570	22,725

</TABLE>

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 IN CASH AND CASH EQUIVALENTS  
(in thousands)  
(unaudited)

<TABLE>  
<CAPTION>

	Six months ended	
	July 31, 2000	July 31, 2001
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss.....	\$ (507)	\$ (502)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization.....	2,267	3,217
Inventory valuation allowance.....	92	--
Amortization of deferred equity discount.....	--	1,124
Deferred income taxes.....	--	(236)
Changes in operating assets and liabilities:		
Accounts receivable.....	(3,867)	664
Inventories.....	(2,446)	1,952
Prepaid expenses and other assets.....	(1,974)	(343)
Accounts payable.....	3,314	(644)
Accrued expenses.....	(836)	(381)
Customer deposits.....	2,392	(1,263)
Deferred revenue.....	2,515	1,557
Income taxes payable.....	(724)	(633)
Net cash provided by operating activities...	226	4,512
Cash flows from investing activities:		
Purchases of property and equipment.....	(4,836)	(4,613)
Increase in intangible assets.....	--	(2,709)
Net cash used in investing activities.....	(4,836)	(7,322)
Cash flows from financing activities:		
Borrowings under equipment line of credit.....	3,240	--
Repayment of borrowings under revolving line of credit.....	--	(4,000)
Repayment of borrowings under equipment line of credit.....	(625)	(1,147)
Repayment of obligations under capital lease....	(126)	(102)
Net proceeds from issuance of common stock.....	11,299	10,908
Net cash provided by financing activities...	13,788	5,659
Net increase in cash and cash equivalents.....	9,178	2,849
Cash and cash equivalents, beginning of period...	2,721	6,145
Cash and cash equivalents, end of period.....	\$11,899	\$ 8,994
Supplemental disclosure of noncash activities:		
Transfer of items originally classified as fixed assets to inventories.....	\$ 450	\$ 141
Transfer of items originally classified as inventories to fixed assets.....	\$ --	\$ 687

</TABLE>

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

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except per share data)  
(unaudited)

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 statement 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 periods presented 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 January 31, 2001.

## 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. If a portion of the sales price is not due until installation of the system is complete, that portion of the sales price is deferred until installation is complete. 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. Shipping and handling costs are included in revenue and cost of revenues.

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 are 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.

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### SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(in thousands, except per share data)  
(unaudited)

## 3. Earnings Per Share

For the six months ended July 31, 2001 and July 31, 2000, common shares of 2,714,000 and 3,496,000, respectively, issuable upon the exercise of stock options, 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>  
<CAPTION>

	Six months ended	
	July 31, 2000	July 31, 2001
Weighted average shares used in calculating earnings per share--		
Basic.....	21,570	22,725
Dilutive common stock equivalents.....	--	--
Weighted average shares used in calculating earnings per share--		
Diluted.....	21,570	22,725

</TABLE>

## 4. Inventories

Inventories consist of the following:

<TABLE>

<CAPTION>

	July 31, 2001
<S>	<C>
Components and assemblies .....	\$14,821
Finished products .....	\$ 7,588
	-----
	\$22,409
	=====

</TABLE>

#### 5. Comprehensive Income (Loss)

SeaChange's comprehensive income (loss) was as follows:

<TABLE>  
<CAPTION>

	Six months ended	
	July 31, 2000	July 31, 2001
	-----	-----
<S>	<C>	<C>
Net income (loss).....	\$ (507)	\$ (502)
Other comprehensive (expense), net of tax:		
Foreign currency translation adjustment, net of tax of		
\$(14) and \$(33), respectively.....	(54)	(30)
Other comprehensive income (expense).....	(54)	(30)
	-----	-----
Comprehensive income (loss).....	\$ (561)	\$ (532)
	=====	=====

</TABLE>

#### 6. Deferred Legal Costs

SeaChange defers legal costs associated with defending its existing patents. If the patent defense is successful, the costs are capitalized and amortized over their estimated remaining useful life. If the patent defense is unsuccessful, the amounts deferred are charged to operating expense. In July 2001, approximately \$2.6 million in deferred legal costs were capitalized into intangible assets as a result of the successful defense of patents.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(in thousands, except per share data)  
(unaudited)

#### 7. Change in Accounting Principle

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Historically, for some of SeaChange's sales transactions, a portion of the sales price, typically 25%, was not due until installation occurred. Under SAB 101 and the new accounting method adopted retroactive to February 1, 2000, SeaChange now defers the portion of the sales price not due until installation is complete. During the fourth quarter of the twelve months ended January 31, 2001, SeaChange implemented the SEC's SAB 101 guidelines, retroactive to the beginning of the year. This was reported as a cumulative effect of a change in accounting principle as of February 1, 2000. The cumulative effect of the change in accounting principle on prior years resulted in a charge to income of \$1.1 million (net of income taxes of \$732,000), or \$0.05 per diluted share, which has been included in income for the six months ended July 31, 2000. The results for the six months ended July 31, 2000 have been restated to conform with SAB 101.

#### 8. Segment Information

SeaChange has three reportable segments: broadband systems, broadcast systems and services. The broadband systems segment provides products to digitally manage, store and distribute digital video for cable system operators and telecommunications companies. The broadcast systems segment provides products for the storage, archival, on-air playback of advertising and other video programming for the broadcast television industry. The service segment provides installation, training, product management, post-contract support services for all of the above systems and content which is distributed by the broadband product segment. SeaChange does not measure the assets allocated to the segments. SeaChange measures results of the segments based on the respective gross profits. There were no inter-segment sales or transfers

during the periods presented. Long-lived assets are principally located in the United States. The following summarizes the revenues and cost of revenues by reportable segment:

<TABLE>  
<CAPTION>

	Six months ended	
	July 31, 2000	July 31, 2001
<S>	<C>	<C>
Revenues:		
Broadband.....	\$27,896	\$34,529
Broadcast.....	8,788	8,524
Services.....	10,976	14,127
Total.....	\$47,660	\$57,180
Cost of revenues:		
Broadband.....	\$15,235	\$19,700
Broadcast.....	5,124	4,826
Services.....	8,689	10,443
Total.....	\$29,048	\$34,969

The following summarizes revenues by geographic locations:

Revenues:		
United States.....	\$40,347	\$49,678
Canada and South America.....	2,002	534
Europe.....	2,974	3,893
Asian Pacific and rest of world.....	2,337	3,075
Total.....	\$47,660	\$57,180

</TABLE>

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(in thousands, except per share data)  
(unaudited)

For the six months ended July 31, 2001 and 2000, certain customers each accounted for more than 10% of SeaChange's revenue. Individual customers each accounted for 26% and 11% of revenues in the six months ended July 31, 2001 and 13%, 12%, 12% and 11% in the six months ended July 31, 2000.

<TABLE>  
<CAPTION>

	Six months ended	
	July 31, 2000	July 31, 2001
<S>	<C>	<C>
Customer A.....	13%	26%
Customer B.....	12%	11%
Customer C.....	12%	
Customer D.....	11%	

</TABLE>

9. Legal Proceedings

On June 13, 2000, SeaChange filed in the United States District Court for the District of Delaware a lawsuit against one of its competitors, nCube Corp., whereby SeaChange alleged that nCube's MediaCube-4 product infringed a patent (Patent No. 5,862,312) relating to our MediaCluster technology. In instituting the claim, SeaChange sought both a permanent injunction and damages in an unspecified amount. nCube made a counterclaim against SeaChange that the patent held by SeaChange was invalid and that nCube's MediaCube-4 product did not infringe SeaChange's patent. On September 6, 2000, nCube conceded that, based on a claim construction ruling issued by the District Court on August 2000, nCube's MediaCube-4 product infringed SeaChange's patent. On September 25, 2000, a jury upheld the validity of SeaChange's patent. nCube has filed motions challenging both the jury's verdict and the District Court's claim construction ruling. The District Court has yet to rule on nCube's motions. At this time SeaChange is awaiting the court's decision regarding a permanent injunction. Damages will be determined in future proceedings.

On January 8, 2001, nCube Corp. filed a complaint against SeaChange in the United States District Court for the District of Delaware alleging that SeaChange's use of SeaChange's MediaCluster, MediaExpress and Media Server technology each infringe a patent held by nCube (Patent No. 5,805,804). In instituting the claim, nCube has sought both an injunction and monetary damages in an unspecified amount. SeaChange responded on January 26, 2001, denying the claim of infringement. SeaChange also asserted a counterclaim seeking a declaration from the District Court that U.S. Patent No. 5,805,804 is invalid and not infringed. Currently, discovery on this claim is scheduled to be completed in December 2001, following which will be a claim construction hearing.

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 SeaChange's business and reputation 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. On June 14, 2000, Concurrent filed a counterclaim under seal against SeaChange seeking unspecified damages. On July 28, 2000, Concurrent filed a motion for summary judgment on the claim of civil conspiracy and on January 4, 2001, the trial court entered an order granting summary judgment for Concurrent on that claim. SeaChange immediately requested reconsideration of this order or, in the alternative, recertification for immediate appeal. On June 12, 2001, the trial court denied the motion for reconsideration but made findings which permitted an immediate appeal and on July 11, 2001 SeaChange filed an appeal. The motions relating to these claims and counterclaims are currently pending and no trial date has been set.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(in thousands, except per share data)  
(unaudited)

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 subject to additional 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.

#### 10. Comcast Equity Investment and Video-on-Demand Purchase Agreements

On December 1, 2000, SeaChange and Comcast Cable Communications, Inc. entered into a video-on-demand purchase agreement for SeaChange's interactive television video servers and related services. Under the terms of the video-on-demand purchase agreement, Comcast has committed to purchase SeaChange's equipment capable of serving a minimum of one million cable subscribers by approximately December 2002. In addition, Comcast may earn up to an additional 450,000 incentive common stock purchase warrants through December 2003 based on the number of cable subscribers in excess of one million who are served by SeaChange's equipment which has been purchased by Comcast. In connection with the execution of this commercial agreement, SeaChange entered into a common stock and warrant purchase agreement, dated as of December 1, 2000, with Comcast SC Investment, Inc., whereby Comcast SC agreed to purchase, subject to certain closing conditions including registration of the shares purchased thereby, 466,255 shares of SeaChange's common stock for approximately \$10 million and Comcast SC would receive a warrant to purchase 100,000 shares, exercisable at \$21.445 per share, of SeaChange's common stock. This stock and warrant purchase agreement was terminated by SeaChange and Comcast SC on February 28, 2001. The terms and conditions of the video-on-demand purchase agreement have not been modified.

On February 28, 2001, SeaChange and Comcast SC signed and closed a new common stock and warrant purchase agreement on terms similar to the prior agreement. Under the terms of this new agreement, SeaChange sold in a private placement to Comcast SC for approximately \$10,000,000 an aggregate of 756,144 shares of SeaChange's common stock and a warrant to purchase 100,000 shares of SeaChange's common stock with an exercise price of \$13.225 per share. Under certain conditions determined upon the effectiveness of the registration of the shares, the number of common shares purchased and the number of common stock purchase warrants and related exercise price are subject to adjustment. An additional number of shares of common stock would be issued to Comcast SC without any additional consideration as is equal to the difference between 756,144, the number of shares of common stock issued on February 28, 2001, and the number of shares obtained by dividing \$10,000,000 by the lower of 1) 92% of the closing market price of SeaChange's common stock on the date of effectiveness of this registration statement, and 2) the average of the closing market price of SeaChange's common stock for the five trading days ending on the effective date of this registration statement, if either of such

prices is lower than \$13.225. The warrant agreement contains an adjustment mechanism such that the warrant would be exercisable for an additional 25,000 shares of SeaChange's common stock if the registration statement has not been declared effective on or before March 31, 2001 and an additional 333.33 shares of SeaChange's common stock per day beginning on and including May 1, 2001 for each day up to and including the day the registration statement is declared effective. The warrant agreement also provides that the exercise price of the warrant would be reduced on the effective date of the registration statement to the lower of 1) 92% of the closing market price of SeaChange's common stock on the effective date of the registration statement, and 2) the average of the closing market prices of SeaChange's common stock for the five trading days ending on the date of effectiveness of the registration statement, if either of such prices is lower than \$13.225, the exercise price as of the closing date.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(in thousands, except per share data)  
(unaudited)

SeaChange determined the intrinsic value of \$586,000 related to the 756,144 shares of common stock purchased on February 28, 2001 and measured the fair value of \$1.1 million related to the 100,000 common stock purchase warrants as of the closing date and recorded these amounts as contra-equity. On April 30, 2001, SeaChange recorded an additional contra-equity amount of \$325,000 for the fair value of the additional 25,000 common stock purchase warrants of SeaChange common stock as the registration statement had not been declared effective on or before March 31, 2001. On June 13, 2001, the effective date of the registration statement, SeaChange issued an additional 14,667 common stock purchase warrants in accordance with the agreement, and recorded an additional contra equity amount of \$335,000, representing the incremental fair value of the total warrants issued. Based on the closing market price on the date of effectiveness of this registration statement and the five trading days preceding the date of effectiveness of this registration statement, no additional common shares were issued to Comcast SC pursuant to the terms of the purchase agreement and Comcast is not entitled to the issuance in the future of additional shares pursuant to the terms of the purchase agreement. Also, based on the then prevailing market prices of SeaChange's common stock, the exercise price of the warrant was not reduced and is not subject to reduction in the future, other than equitable adjustment in connection with a stock split or other comparable event and future dilutive issuances. The contra-equity amount is being amortized as an offset to gross revenue in proportion to the revenue recognized from the sale of equipment with respect to the first one million subscribers Comcast has committed to under the video-on-demand purchase agreement. During the three months ended April 30, 2001 and July 31, 2001, SeaChange amortized \$449,000 and \$675,000, respectively, of the deferred equity discount. The fair value of the additional incentive common stock purchase warrants will also be recorded as an offset to gross revenue as the warrants are earned by Comcast, if any.

11. New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. SeaChange believes the adoption of SFAS 141 will not have a material impact on its current financial position and results of operations.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective for SeaChange on February 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization and includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and reclassification of certain intangibles out of previously reported goodwill. SeaChange believes the adoption of SFAS 142 will not have a material impact on its current financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." SFAS 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS 143 is effective for financial statements for fiscal years beginning after June 15, 2002. SeaChange believes the adoption of SFAS 143 will not have a material impact on its current financial position and results of operations.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets."

## SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(in thousands, except per share data)  
(unaudited)

SFAS 144 requires one method of accounting for long-lived assets disposed of by sale. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. SeaChange believes the adoption of SFAS 144 will not have a material impact on its current financial position and results of operations.

## 12. Income Taxes

At July 31, 2001, SeaChange had net deferred tax assets of \$7.9 million. Although realizability is not assured, based on the weight of available evidence, SeaChange believes it is more likely than not that all remaining deferred tax assets will be realized. The amount of the deferred tax assets considered realizable is subject to change based on future events, including generating taxable income in future periods. SeaChange will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if SeaChange does not generate sufficient taxable income in future periods.

## 13. Subsequent Events

SeaChange has entered into a \$10.0 million revolving line of credit with a bank that expires in October 2003. Loans made under this revolving line of credit would generally bear interest at a rate per annum equal to the bank's prime rate, 5.50% at October 31, 2001. As of October 31, 2001, SeaChange has borrowings of \$5.4 million under this revolving line of credit. Borrowings under this line of credit are collateralized by substantially all of SeaChange's assets. The loan agreement requires that SeaChange provide the bank with certain periodic financial reports and comply with certain financial ratios including a minimum level of earnings before interest, taxes and depreciation and amortization on a trailing twelve month basis. As of October 31, 2001, SeaChange was in compliance with these financial covenants.

This line of credit replaces SeaChange's prior revolving line of credit and equipment line with a different bank. In conjunction with entering into the new bank line, SeaChange repaid to its prior lender all outstanding borrowings under the equipment line of financing in an amount of \$3.4 million.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders  
of SeaChange International, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of SeaChange International, Inc. and its subsidiaries at December 31, 1999, January 31, 2000 and January 31, 2001 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1999, the one month ended January 31, 2000 and the year ended January 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, during the year ended January 31, 2001, the Company changed its method of recognizing revenue.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts  
March 5, 2001 (except for the  
information presented in Note 12  
for which the date is June 12, 2001)



## SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEET  
(in thousands, except share data)<TABLE>  
<CAPTION>

	December 31, 1999	January 31, 2000	January 31, 2001
<S>	<C>	<C>	<C>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents.....	\$ 11,318	\$ 2,721	\$ 6,145
Accounts receivable, net of allowance for doubtful accounts of \$908 at December 31, 1999 and January 31, 2000 and \$742 at January 31, 2001.....	17,840	16,756	27,112
Inventories.....	17,128	20,089	24,907
Prepaid expenses and other current assets.....	1,568	1,634	2,671
Deferred income taxes.....	2,243	3,400	7,001
	-----	-----	-----
Total current assets.....	50,097	44,600	67,836
Property and equipment, net.....	10,538	10,492	15,886
Other assets.....	884	869	1,833
Goodwill and intangibles.....	785	751	2,698
	-----	-----	-----
	\$ 62,304	\$56,712	\$88,253
	=====	=====	=====
<b>Liabilities and Stockholders' Equity</b>			
<b>Current liabilities:</b>			
Line of credit.....	\$ --	\$ --	\$ 4,000
Current portion of equipment line of credit and obligations under capital lease.....	1,048	1,045	2,532
Accounts payable.....	15,038	10,451	17,332
Accrued expenses.....	3,499	2,776	1,816
Customer deposits.....	2,092	2,428	3,946
Deferred revenue.....	4,380	6,292	8,435
Income taxes payable.....	675	625	956
	-----	-----	-----
Total current liabilities.....	26,732	23,617	39,017
	-----	-----	-----
Long-term portion of equipment line of credit and obligations under capital lease.....	1,231	1,144	3,934
	-----	-----	-----
<b>Commitments and contingencies (Note 12)</b>			
<b>Stockholders' Equity:</b>			
Convertible preferred stock, 5,000,000 shares authorized, none outstanding....	--	--	--
Common stock, \$.01 par value; 100,000,000 shares authorized; 21,285,855, 21,300,185 and 22,037,811 shares issued at December 31, 1999 and January 31, 2000 and 2001, respectively.....	213	213	221
Additional paid-in capital.....	35,633	35,695	50,157
Deferred equity discount.....	--	--	--
Accumulated deficit.....	(1,440)	(3,898)	(4,905)
Accumulated other comprehensive loss....	(65)	(59)	(171)
	-----	-----	-----
Total stockholders' equity.....	34,341	31,951	45,302
	-----	-----	-----
	\$ 62,304	\$56,712	\$88,253
	=====	=====	=====

&lt;/TABLE&gt;

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 per share data)<TABLE>  
<CAPTION>

Year ended December 31,	One month ended January 31,	One Year ended January 31,	One month ended January 31,
-----	-----	-----	-----
1998	1999	2000	1999

<S>	<C>	<C>	<C>	<C>	(unaudited) <C>
Revenues:					
Systems.....	\$58,033	\$68,457	\$ 226	\$74,986	\$ 697
Services.....	14,891	16,764	1,484	23,482	1,211
	72,924	85,221	1,710	98,468	1,908
Costs of revenues:					
Systems.....	35,772	38,889	633	39,928	670
Services.....	13,611	14,962	1,445	18,798	1,049
	49,383	53,851	2,078	58,726	1,719
Gross profit (loss).....	23,541	31,370	(368)	39,742	189
Operating expenses:					
Research and development.....	15,763	16,302	1,764	20,283	1,324
Selling and marketing... General and administrative.....	8,566	8,595	1,034	12,472	522
Restructuring of operations.....	6,132	5,335	457	7,372	447
Acquisition costs.....	676	--	--	--	--
	--	684	--	--	--
	31,137	30,916	3,255	40,127	2,293
Income (loss) from operations.....	(7,596)	454	(3,623)	(385)	(2,104)
Interest income (expense), net.....	235	28	9	(212)	9
Income (loss) before income taxes.....	(7,361)	482	(3,614)	(597)	(2,095)
Provision (benefit) for income taxes.....	(2,789)	(15)	(1,156)	(690)	(691)
Income (loss) before cumulative effect of change in accounting principle.....	(4,572)	497	(2,458)	93	(1,404)
Cumulative effect of change in accounting principle, net of tax of \$732.....	--	--	--	(1,100)	--
Net income (loss).....	<u>\$ (4,572)</u>	<u>\$ 497</u>	<u>\$ (2,458)</u>	<u>\$ (1,007)</u>	<u>\$ (1,404)</u>
Basic and diluted earnings (loss) per share before cumulative effect of change in accounting principle....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ 0.00	\$ (0.07)
Cumulative effect of change in accounting principle.....	--	--	--	(0.05)	--
Basic and diluted earnings (loss) per share.....	<u>\$ (0.24)</u>	<u>\$ 0.02</u>	<u>\$ (0.12)</u>	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>
Pro forma amounts assuming the change in accounting principle is applied retroactively:					
Net income (loss).....	<u>\$ (5,276)</u>	<u>\$ 323</u>	<u>\$ (2,163)</u>	<u>\$ 93</u>	
Earnings (loss) per share--Basic.....	<u>\$ (0.28)</u>	<u>\$ 0.02</u>	<u>\$ (0.10)</u>	<u>\$ 0.00</u>	
Earnings (loss) per share--Diluted.....	<u>\$ (0.28)</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>	<u>\$ 0.00</u>	
Shares used in calculating:					
Basic earnings (loss) per share.....	<u>18,982</u>	<u>20,883</u>	<u>21,269</u>	<u>21,745</u>	<u>20,901</u>
Diluted earnings (loss) per share.....	<u>18,982</u>	<u>21,774</u>	<u>21,269</u>	<u>23,234</u>	<u>20,901</u>

</TABLE>

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

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SEACHANGE INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(in thousands, except share data)

<TABLE>  
<CAPTION>

	Common Stock		Additional	Retained	Cumulative	Total	Compre-
	Number of	Par	paid-in	earnings	translation	Stock-	hensive
	shares	value	capital	(accumulated)	adjustment	Holders'	income
				deficit		Equity	(Loss)
	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1997.....	20,703,313	\$207	\$32,148	\$ 2,635	\$ 14	\$35,004	
Issuance of common stock pursuant to exercise of stock options.....	135,790	1	507	--	--	508	
Issuance of common stock in connection with employee stock purchase plan.....	79,157	1	405	--	--	406	
Compensation expense associated with stock issuance.....	--	--	47	--	--	47	
Translation adjustment..	--	--	--	--	(73)	(73)	(73)
Net loss.....	--	--	--	(4,572)	--	(4,572)	(4,572)
	-----		-----	-----	-----	-----	-----
Comprehensive loss.....							\$ (4,645)
							=====
Balance at December 31, 1998.....	20,918,260	209	33,107	(1,937)	(59)	31,320	
Issuance of common stock pursuant to exercise of stock options.....	13,905	--	50	--	--	50	
Translation adjustment..	--	--	--	--	25	25	25
Net loss.....	--	--	--	(1,404)	--	(1,404)	(1,404)
	-----		-----	-----	-----	-----	-----
Comprehensive loss.....							\$ (1,379)
							=====
Balance at January 31, 1999 (unaudited).....	20,932,165	209	33,157	(3,341)	(34)	29,991	
Issuance of common stock pursuant to exercise of stock options.....	296,848	3	1,145	--	--	1,148	
Issuance of common stock in connection with employee stock purchase plan.....	87,014	1	422	--	--	423	
Issuance of common stock in connection with Digital Video Arts, Ltd. acquisition.....	17,078	--	528	--	--	528	
Purchase and retirement of treasury stock.....	(47,250)	--	(1)	--	--	(1)	
Tax benefit from stock options.....	--	--	382	--	--	382	
Translation adjustment..	--	--	--	--	(31)	(31)	(31)
Net income.....	--	--	--	1,901	--	1,901	1,901
	-----		-----	-----	-----	-----	-----
Comprehensive income....							\$ 1,870
							=====
Balance at December 31, 1999.....	21,285,855	213	35,633	(1,440)	(65)	34,341	
Issuance of common stock pursuant to exercise of stock options.....	14,330	--	62	--	--	62	
Translation adjustment..	--	--	--	--	6	6	6
Net loss.....	--	--	--	(2,458)	--	(2,458)	(2,458)
	-----		-----	-----	-----	-----	-----
Comprehensive loss.....							\$ (2,452)
							=====
Balance at January 31, 2000.....	21,300,185	213	35,695	(3,898)	(59)	31,951	
Issuance of common stock pursuant to exercise of stock options.....	392,669	4	1,802	--	--	1,806	
Issuance of common stock in connection with employee stock purchase							

plan.....	67,795	1	1,013	--	--	1,014	
Issuance of common stock in connection with Microsoft Corporation investment.....	277,162	3	9,997	--	--	10,000	
Tax benefit from stock options.....	--	--	1,650	--	--	1,650	
Translation adjustment..	--	--	--	--	(112)	(112)	(112)
Net loss.....	--	--	--	(1,007)	--	(1,007)	(1,007)
	-----		-----	-----	-----	-----	-----
Comprehensive loss.....							\$ (1,119)
							=====
Balance at January 31, 2001.....	22,037,811	\$221	\$50,157	\$(4,905)	\$(171)	\$45,302	
	=====	=====	=====	=====	=====	=====	

</TABLE>

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>

	Year ended December 31,		One month ended January 31,	Year ended January 31,	One month ended January 31,
	1998	1999	2000	2001	1999
	-----	-----	-----	-----	-----
					(unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:					
Net income (loss).....	\$(4,572)	\$ 497	\$(2,458)	\$(1,007)	\$(1,404)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization.....	4,813	4,218	355	4,920	379
Inventory valuation allowance.....	2,016	458	--	823	--
Compensation expense associated with stock and stock options.....	47	--	--	--	--
Amortization of deferred equity discount.....	--	--	--	--	--
Acquisition costs.....	--	684	--	--	--
Deferred income taxes..	(876)	(933)	(1,156)	(3,601)	(691)
Changes in operating assets and liabilities:					
Accounts receivable....	(6,525)	(177)	1,084	(10,356)	5,019
Inventories.....	(4,368)	(4,257)	(2,961)	(5,126)	(1,630)
Prepaid expenses and other current assets and other assets.....	(1,610)	2,249	(46)	(2,113)	(743)
Accounts payable.....	1,255	4,935	(4,587)	6,881	(2,678)
Accrued expenses.....	656	(61)	(723)	(960)	(652)
Customer deposits.....	(345)	388	336	1,518	188
Deferred revenue.....	1,644	441	1,912	2,143	1,037
Income taxes payable..	390	200	(50)	1,981	(115)
	-----	-----	-----	-----	-----
Net cash provided by (used in) operating activities.....	(7,475)	8,642	(8,294)	(4,897)	(1,290)
	-----	-----	-----	-----	-----
Cash flows from investing activities:					
Purchases of property and equipment.....	(3,816)	(3,130)	(275)	(10,276)	(62)
Proceeds from sale and maturity of marketable securities.....	10,212	--	--	--	--
Purchases of marketable securities.....	(902)	--	--	--	--
Increase in intangible assets.....	--	--	--	(2,500)	--

Net cash provided by (used in) investing activities.....	5,494	(3,130)	(275)	(12,776)	(62)
Cash flows from financing activities:					
Proceeds from borrowings under line of credit.....	2,000	--	--	4,000	--
Proceeds from borrowings under equipment line of credit.....	1,226	1,106	--	4,823	--
Proceeds from borrowings under construction loan....	--	--	--	1,183	--
Repayments under line of credit and equipment line of credit.....	--	(2,245)	(72)	(1,569)	(2,039)
Repayment of obligation under capital lease...	(18)	(500)	(18)	(160)	(11)
Proceeds from issuance of common stock.....	914	2,003	62	12,820	50
Net cash provided by (used in) financing activities.....	4,122	364	(28)	21,097	(2,000)
Net increase (decrease) in cash and cash equivalents.....	2,141	5,876	(8,597)	3,424	(3,352)
Cash and cash equivalents, beginning of period.....	3,301	5,442	11,318	2,721	5,442
Cash and cash equivalents, end of period.....	\$ 5,442	\$11,318	\$ 2,721	\$ 6,145	\$ 2,090
Supplemental disclosure of cash flow information:					
Income taxes paid.....	\$ 132	\$ 81	\$ --	\$ 303	\$ --
Interest paid.....	\$ 35	\$ 210	\$ 19	\$ 473	\$ 17
Supplemental disclosure of noncash activity:					
Transfer of items originally classified as inventories to fixed assets.....	\$ 584	\$ 227	\$ --	\$ --	\$ 109
Transfer of items originally classified as fixed assets to inventories.....	\$ 668	\$ 3,055	\$ --	\$ 515	\$ --
Equipment acquired under capital lease...	\$ 374	\$ 336	\$ --	\$ --	\$ --

</TABLE>

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

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

SeaChange develops, manufactures and sells systems, known as video storage servers, 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, to cable system operators, telecommunications companies and broadcast television companies. Through January 31, 2001, substantially all of SeaChange's revenues were derived from the sale of broadband and broadcast systems and related services and content to cable system operators, broadcast and telecommunications companies in the United States and internationally.

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

## 2. Summary of Significant Accounting Policies

Significant accounting policies followed in the preparation of the accompanying consolidated financial statements are as follows:

### Principles of Consolidation

The consolidated financial statements include the accounts of SeaChange and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

### 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. If a portion of the sales price is not due until installation of the system is complete, that portion of the sales price is deferred until installation is complete. 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. Shipping and handling costs are included in revenue and cost of revenues.

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.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

### Concentration of Credit Risk

Financial instruments which potentially expose SeaChange to concentrations of credit risk include trade accounts receivable. To minimize this risk, SeaChange evaluates customers' financial condition, requires advance payments from certain of its customers and maintains reserves for potential credit losses. At December 31, 1998 and 1999, and at January 31, 2000 and 2001, SeaChange had an allowance for doubtful accounts of \$870,000, \$908,000, \$908,000, and \$742,000, respectively, to provide for potential credit losses and such losses to date have not exceeded management's expectations.

In the years ended December 31, 1998 and 1999, the month ended January 31, 2000, and the year ended January 31, 2001, revenues from SeaChange's five largest customers represented approximately 55%, 47%, 47%, and 44% respectively, of SeaChange's total revenues. In the years ended December 31, 1998 and 1999, the one month ended January 31, 2000, and the year ended January 31, 2001, two customers each accounted for more than 10% of SeaChange's revenues. The same two customers accounted for more than 10% of SeaChange's revenues in the years ended December 31, 1998 and 1999, and the one month ended January 31, 2000.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### Cash, Cash Equivalents and Marketable Securities

SeaChange considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. SeaChange invests its excess cash in money market funds, municipal securities and corporate debt securities that are subject to minimal credit and market risk. Marketable securities are classified as available-for-sale and are carried at market value, and any unrealized gains or losses are recorded as a part of stockholders' equity. Gross unrealized gains and losses on securities for the years ended December 31, 1998 and 1999, the one month ended January 31, 2000 and the year ended January 31, 2001, the cost of which is based upon the specific identification method, were not significant.

#### Property and Equipment

Property and equipment consist of land and buildings, office and computer equipment, leasehold improvements, demonstration equipment, deployed assets and spare components and assemblies used to service SeaChange's installed base. Demonstration equipment consists of systems manufactured by SeaChange for use in marketing and selling activities. Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the respective leases by use of the straight-line method. Deployed assets are the movie systems owned and manufactured by us that are installed in a hotel environment. Deployed assets are depreciated over the life of the related service agreements ranging from 3 to 7 years. Maintenance and repair costs are expensed as incurred. Significant improvements are capitalized and depreciated. Upon retirement or sale, the cost of the assets disposed of, and the related accumulated depreciation, are removed from the accounts, and any resulting gain or loss is included in the determination of net income.

#### Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist primarily of components and subassemblies and finished products held for sale.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimize this risk, SeaChange evaluates inventory levels and expected usage on a periodic basis and records valuation allowances as required.

SeaChange is dependent upon certain vendors for the manufacture of significant components of its digital advertising insertion, movie and broadcast systems. If these vendors were to become unwilling or unable to continue to manufacture these products in required volumes, SeaChange would have to identify and qualify acceptable alternative vendors. The inability to develop alternate sources, if required in the future, could result in delays or reductions in product shipments and thereby adversely affect SeaChange's revenue and profits.

#### Goodwill and Intangible Assets

Goodwill and assembled workforce are amortized on a straight-line basis over five to seven years. Software acquired in connection with acquisitions is amortized over the greater of the amount computed using (a) the ratio that current gross revenues for related products bear to total current and anticipated future gross revenues for that product or (b) on a straight-line basis over the estimated remaining life of the software. The carrying value of goodwill and intangible assets is reviewed on a quarterly basis for the existence of facts and circumstances both internally and externally that may suggest impairment or that the useful lives of these assets are no longer appropriate. To date, no such impairment has occurred. SeaChange determines whether an impairment has occurred based on gross expected future cash flows and measures the amount of impairment based on the related future flow estimated discounted cash flows. The cash estimates used to determine the impairment, if any, contain management's best estimates, using appropriate and customary assumptions and projections at that time.

SeaChange defers legal costs associated with defending its existing patents. If the patent defense is successful, the costs are capitalized and amortized over their estimated remaining useful life. If the patent defense is unsuccessful, the amounts deferred are charged to operating expense. Included in goodwill and intangible assets at January 31, 2001 is approximately \$2,500,000 of capitalized legal costs associated with the successful defense of SeaChange's patents. The patent intangible is being amortized over four years. Included in other assets at January 31, 2001 is approximately \$715,000 in deferred legal costs associated with the on-going defense of certain of our patents. Accumulated amortization of goodwill and intangible assets was

\$850,000, \$884,000 and \$1,438,000 at December 31, 1999, January 31, 2000 and January 31, 2001, respectively.

#### Research and Development and Software Development Costs

Costs incurred in the research and development of SeaChange's products are expensed as incurred, except for certain software development costs. Costs associated with the development of computer software are expensed prior to establishing technological feasibility and capitalized thereafter until the product is released for sale. Software development costs eligible for capitalization to date have not been material to SeaChange's financial statements. Costs associated with acquired software rights are capitalized if technological feasibility of the software has been established.

#### Stock Compensation

Employee stock awards under SeaChange's and its subsidiaries' compensation plans are accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", ("APB 25") and related interpretations. SeaChange provides the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", ("SFAS 123") and related interpretations. Non-employee stock awards are accounted for in accordance with Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services".

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

#### Foreign Currency Translation

SeaChange has determined that the functional currency of its foreign subsidiaries is the local currency. Accordingly, assets and liabilities are translated to U.S. dollars at current exchange rates as of each balance sheet date. Income and expense items are translated using average exchange rates during the year. Cumulative currency translation adjustments are presented as a separate component of stockholders' equity. Transaction gains and losses and unrealized gains and losses on intercompany receivables are recognized in the Statement of Operations and have not been material to date.

#### Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements. SeaChange has presented accumulated other comprehensive income and other comprehensive income in the Statement of Stockholders' (Deficit) Equity. Other comprehensive loss consists primarily of cumulative translation adjustments.

#### Advertising Costs

Advertising costs are charged to expense as incurred. Advertising costs were \$624,000, \$857,000, \$40,000, and \$1,089,000, for the years ended December 31, 1998 and 1999, the month ended January 31, 2000, and the year ended January 31, 2001, respectively.

#### Earnings Per Share

Earnings per share are presented in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share", ("SFAS 128") which requires the presentation of "basic" earnings per share and "diluted" earnings per share. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average shares of common stock outstanding during the period. For the purposes of calculating diluted earnings per share the denominator includes both the weighted average number of shares of common stock outstanding during the period and the weighted average number of potential common stock, such as stock options and restricted stock.

For the year ended December 31, 1998, the one month ended January 31, 2000 and the one month ended January 31, 1999, 2,114,000, 2,055,000 and 2,057,000 common shares issuable upon the exercise of stock options, respectively, and 1,792,000 shares of unvested restricted common stock for the year ended December 31, 1998, are antidilutive because SeaChange recorded a net loss for the periods and, therefore, have been excluded from the diluted earnings per share computations.

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SEACHANGE INTERNATIONAL, INC.



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

<TABLE>  
<CAPTION>

	Year Ended December		Month Ended January 31, 2000	Year Ended January 31, 2001	Month Ended January 31, 1999
	31, 1998	31, 1999			
					(unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
Weighted average shares used in calculating earnings per share--					
Basic.....	18,982,000	20,883,000	21,269,000	21,745,000	20,901,000
Dilutive common stock equivalents.....	--	891,000	--	1,489,000	--
Weighted average shares used in calculating earnings per share--					
Diluted.....	18,982,000	21,774,000	21,269,000	23,234,000	20,901,000

</TABLE>

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivatives 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. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133. This accounting standard amended the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and hedging activities. We will adopt SFAS No. 133, as amended, in fiscal year 2002. To date we have not utilized derivative instruments or hedging activities and, therefore, the adoption of SFAS 133 is not expected to have a material impact on our financial position or results of operations.

3. Change in Accounting Principle

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Historically, for some of SeaChange's sales transactions, a portion of the sales price, typically 25%, was not due until installation occurred. Under SAB 101 and the new accounting method adopted retroactive to February 1, 2000, SeaChange now defers the portion of the sales price not due until installation is complete. During the fourth quarter of the twelve months ended January 31, 2001, SeaChange implemented the SEC's SAB 101 guidelines, retroactive to the beginning of the year. This was reported as a cumulative effect of a change in accounting principle as of February 1, 2000. The cumulative effect of the change in accounting principle on prior years resulted in a charge to income of \$1.1 million (net of income taxes of \$732,000), or \$0.05 per diluted share, which has been included in income for the twelve months ended January 31, 2001. For the twelve months ended January 31, 2001, SeaChange recognized \$1.5 million in revenue that is included in the cumulative effect adjustment as of February 1, 2000. During the twelve months ended January 31, 2001, SeaChange changed its standard payment terms such that no portion of the sales price is due upon installation. The results for the first three quarters of twelve months ended January 31, 2001 have been restated to conform with SAB 101. The pro forma results for prior periods presented in the consolidated statement of operations were calculated assuming the accounting change was made retroactively to all prior periods presented.

4. Consolidated Balance Sheet Detail

Inventories consist of the following:

<TABLE>  
<CAPTION>

	December 31, 1999	2000	2001
<S>	<C>	<C>	<C>
Components and assemblies.....	\$14,739,000	\$17,602,000	\$18,695,000
Finished products.....	2,389,000	2,487,000	6,212,000
	\$17,128,000	\$20,089,000	\$24,907,000

</TABLE>

Property and equipment consist of the following:

<TABLE>  
<CAPTION>

	Estimated useful life (years)	December 31, 1999	January 31, 2000		2001
<S>	<C>	<C>	<C>	<C>	<C>
Land.....		\$ --	\$ --	\$ 283,000	
Buildings.....	20	--	--	1,201,000	
Office furniture and equipment.....	5	1,645,000	2,268,000	2,454,000	
Computer and demonstration equipment.....	3	12,213,000	11,752,000	17,317,000	
Deployed assets.....	3-7	4,065,000	4,209,000	5,413,000	
Service and spare components.....	5	2,584,000	2,584,000	2,951,000	
Leasehold improvements.....	1-7	1,096,000	1,065,000	1,676,000	
Automobiles.....	5	56,000	56,000	101,000	
		21,659,000	21,934,000	31,396,000	
Less--Accumulated depreciation and amortization.....		11,121,000	11,442,000	15,510,000	
		\$10,538,000	\$10,492,000	\$15,886,000	

</TABLE>

Depreciation expense was \$3,857,000, \$3,806,000, \$319,000, and \$4,345,000 for the years ended December 31, 1998 and 1999, for the month ended January 31, 2000, and the year ended January 31, 2001, respectively.

Accrued expenses consist of the following:

<TABLE>  
<CAPTION>

	December 31, 1999	January 31, 2000		2001
<S>	<C>	<C>	<C>	<C>
Accrued software license fees.....	\$1,565,000	\$1,565,000	\$ 157,000	
Accrued sales and use taxes.....	647,000	--	581,000	
Other accrued expenses.....	1,287,000	1,211,000	1,078,000	
	\$3,499,000	\$2,776,000	\$1,816,000	

</TABLE>

#### 5. Segment Information

SeaChange has three reportable segments: broadband systems, broadcast systems and services. The broadband systems segment provides products to digitally manage, store and distribute digital video for cable system operators and telecommunications companies. The broadcast systems segment provides products for the storage, archival, on-air playback of advertising and other video programming for the broadcast television

industry. The service segment provides installation, training, product maintenance and technical support for all of the above systems and content which is distributed by the broadband product segment. SeaChange does not measure the assets allocated to the segments. SeaChange measures results of the segments based on the respective gross profits. There were no inter-segment sales or transfers. Long-lived assets are principally located in the

United States. SeaChange has changed its reportable segments from the prior year and has reclassified prior period amounts to conform to these current segments. The following summarizes the revenues and cost of revenues by reportable segment:

<TABLE>  
<CAPTION>

	Year ended December 31,		One month	Year ended	One month
	-----		ended	January 31,	ended
	1998	1999	January	January 31,	January 31,
			31, 2000	2001	1999
					(unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Broadband.....	\$53,810,000	\$51,664,000	\$ 190,000	\$54,412,000	\$ 467,000
Broadcast.....	4,223,000	16,793,000	36,000	20,574,000	230,000
Services.....	14,891,000	16,764,000	1,484,000	23,482,000	1,211,000
	-----	-----	-----	-----	-----
	\$72,924,000	\$85,221,000	\$1,710,000	\$98,468,000	\$1,908,000
	=====	=====	=====	=====	=====
Costs of revenues:					
Broadband.....	\$33,352,000	\$29,702,000	\$ 503,000	\$28,481,000	\$ 463,000
Broadcast.....	2,420,000	9,187,000	130,000	11,447,000	207,000
Services.....	13,611,000	14,962,000	1,445,000	18,798,000	1,049,000
	-----	-----	-----	-----	-----
	\$49,383,000	\$53,851,000	\$2,078,000	\$58,726,000	\$1,719,000
	=====	=====	=====	=====	=====

</TABLE>

The following summarizes revenues by geographic locations:

<TABLE>  
<CAPTION>

	Year ended December 31,		One month	Year ended	One month
	-----		ended	January 31,	ended
	1998	1999	January	January 31,	January 31,
			31, 2000	2001	1999
					(unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
United States.....	\$63,497,000	\$65,730,000	\$1,398,000	\$78,025,000	\$1,185,000
Canada and South					
America.....	691,000	5,371,000	44,000	4,161,000	626,000
Europe.....	4,272,000	9,777,000	234,000	8,827,000	19,000
Rest of world.....	4,464,000	4,343,000	34,000	7,455,000	78,000
	-----	-----	-----	-----	-----
	\$72,924,000	\$85,221,000	\$1,710,000	\$98,468,000	\$1,908,000
	=====	=====	=====	=====	=====

</TABLE>

For the years ended December 31, 1998 and 1999, the one month ended January 31, 2000, and the year ended January 31, 2001, certain customers accounted for more than 10% of SeaChange's revenues. Individual customers accounted for 24% and 15% in 1998; 15% and 10% in 1999; 16% and 11% in the one month ended January 31, 2000; and 12% and 10% in the twelve months ended January 31, 2001. The following summarizes revenues by significant customer:

<TABLE>  
<CAPTION>

	Year ended		One month	Year ended
	December 31,		ended	January 31,
	-----		January 31,	January 31,
	1998	1999	2000	2001
<S>	<C>	<C>	<C>	<C>
Customer A.....	24%	15%	16%	--
Customer B.....	15%	10%	11%	12%
Customer C.....	--	--	--	10%

</TABLE>

## 6. Acquisition and Restructuring of Operations

### Acquisition

On December 30, 1999, SeaChange acquired all of the authorized and outstanding common stock of Digital Video Arts, Ltd. in exchange for 330,000

shares of SeaChange's common stock using an exchange ratio of 0.033 of one share of SeaChange's common stock for each share of Digital Video Arts. The acquisition was accounted for as a pooling of interests. Digital Video Arts is a developer of custom software products specializing in digital video and interactive television. As a result of the acquisition, Digital Video Arts became a wholly-owned subsidiary of SeaChange. Total revenues of \$85.2 million for the year ended December 31, 1999 consisted of \$84.2 million of SeaChange's revenues and \$1.0 million of Digital Video Arts' revenues. Net income of \$497,000 for the same period consisted of SeaChange's net income of \$1.1 million and Digital Video Arts' net loss of \$592,000. Included in net income were acquisition costs of \$684,000 consisting primarily of professional service fees. All intercompany transactions were eliminated in consolidation. Due to the acquisition, Digital Video Arts' previously unrecognized tax benefits of operating loss carryforwards were recognized by the combined Company in the applicable period. The accompanying consolidated financial statements for all the periods presented have been restated to include the results of operations, financial position and cash flows of Digital Video Arts.

#### Restructuring of Operations

In March 1998, SeaChange recorded a charge of \$676,000 for the restructuring of operations as part of a planned consolidation of the operations of SC Asia. The charge for restructuring included \$569,000 related to the termination of 13 employees, a provision of \$60,000 related to the planned vacating of premises and \$47,000 of compensation expense associated with stock options for certain terminated employees. At March 31, 1998, SeaChange had notified all terminated employees. All restructuring charges were paid as of December 31, 1998.

#### 7. Lines of Credit and Long-term Bank Debt

SeaChange had a \$6.0 million revolving line of credit and a \$5.0 million equipment line of credit with a bank. This revolving line of credit expired in March 2000 and SeaChange's ability to make purchases under the equipment line of credit expired in March 2000. In July 2000, SeaChange renewed its revolving line of credit and equipment line of credit with a bank. The revolving line of credit was extended until March 2001 and borrowings under the facility increased to \$7.5 million. The equipment line of credit was extended to provide SeaChange additional equipment financing of \$4.0 million through March 2001. In addition, SeaChange entered into a \$3.0 million line of credit facility with the Export-Import Bank of the United States ("EXIM") which allows SeaChange to borrow money based upon eligible foreign customer account balances. The ability to borrow funds by SeaChange under this facility also expired in March 2001. SeaChange is currently in the process of negotiating the renewal of all the lines of credit. Borrowings under all the lines of credit are collateralized 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 LIBOR rate plus 2% (9.05% at January 31, 2001). Loans under the EXIM line of credit bear interest at a rate per annum equal to the prime rate (9.5% at January 31, 2001). 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% (10.5% at January 31, 2001). 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 the maintenance of total liabilities, excluding deferred revenue, to net worth ratio of at least .80 to 1.0. At January 31, 2001, SeaChange was not in compliance with certain financial covenants of the loan agreement for all the lines of credit. Subsequent to year-end, SeaChange received a waiver of non-compliance from the bank. As of January 31, 2001, there were \$4.0 million in borrowings against the revolving line of credit and borrowings

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

outstanding under the equipment line of credit were \$4.9 million. There were no borrowings outstanding under the EXIM line of credit at January 31, 2001.

In October 2000, SeaChange entered into an agreement with a bank to finance \$1.2 million of the construction costs related to the purchase and renovation of a manufacturing mill in New Hampshire that SeaChange previously purchased in February 2000. During the construction period, interest is accrued and payable at a per annum rate of 8.875%. Upon occupancy of the building, the loan converted into two promissory notes whereby SeaChange will pay principal and interest based upon a fixed interest rate per annum over a five and ten year period, respectively (8.875% at January 31, 2001). Borrowings under the loan are secured by the land and buildings of the renovated mill. The loan agreement requires that SeaChange provide the bank with certain periodic financial reports and comply with certain financial ratios. At January 31, 2001, SeaChange were in compliance with all covenants. As of January 31, 2001, borrowings outstanding under the loan were \$1.2 million.

Principal payments under the lines of credit and the construction loan are payable over the next five years as follows:

<TABLE>  
<CAPTION>

	Payments
	-----
<S>	<C>
Year ended January 31, 2002.....	\$ 6,329,000
2003.....	2,074,000
2004.....	938,000
2005.....	186,000
2006.....	203,000
Thereafter.....	349,000
	-----
Total.....	\$10,079,000
	=====

</TABLE>

#### 8. Income Taxes

The components of income (loss) before income taxes are as follows:

<TABLE>  
<CAPTION>

	Year ended December		Month ended	Year ended
	31,		January 31,	January 31,
	-----	-----	-----	-----
	1998	1999	2000	2001
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Domestic.....	\$ (7,361,000)	\$331,000	\$ (3,614,000)	\$ (2,704,000)
Foreign.....	--	151,000	--	2,107,000
	-----	-----	-----	-----
	\$ (7,361,000)	\$482,000	\$ (3,614,000)	\$ (597,000)
	=====	=====	=====	=====

</TABLE>

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#### SEACHANGE INTERNATIONAL, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The components of the provision (benefit) for income taxes are as follows:

<TABLE>  
<CAPTION>

	Year ended December		Month ended	Year
	31,		January 31,	ended
	-----	-----	-----	January
	1998	1999	2000	31,
	-----	-----	-----	2001
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Current provision				
(benefit):				
Federal.....	\$ (1,913,000)	\$ 532,000	\$ --	\$ --
State.....	--	354,000	--	--
Foreign.....	--	56,000	--	--
	-----	-----	-----	-----
	(1,913,000)	942,000	--	--
	=====	=====	=====	=====
Deferred benefit:				
Federal.....	(124,000)	(586,000)	(889,000)	(538,000)
State.....	(752,000)	(371,000)	(267,000)	(86,000)
Foreign.....	--	--	--	(66,000)
	-----	-----	-----	-----
	(876,000)	(957,000)	(1,156,000)	(690,000)
	-----	-----	-----	-----
	\$ (2,789,000)	\$ (15,000)	\$ (1,156,000)	\$ (690,000)
	=====	=====	=====	=====

</TABLE>

The components of deferred income taxes are as follows:

<TABLE>  
<CAPTION>

	December	January 31,	January 31,
	31,	2000	2001
	-----	-----	-----
	1999	2000	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
Deferred tax assets:			

Inventories.....	\$ 1,282,000	\$ 1,133,000	\$ 1,396,000
Allowance for doubtful accounts...	405,000	366,000	207,000
Deferred revenue.....	115,000	--	--
Software.....	107,000	106,000	97,000
Accrued expenses.....	135,000	335,000	8,000
Property and equipment.....	104,000	200,000	57,000
Research and development credit carryforwards.....	198,000	268,000	1,358,000
Federal net operating loss carryforwards.....	--	1,339,000	3,769,000
State net operating loss carryforwards.....	554,000	573,000	717,000
Foreign net operating loss carryforwards.....	--	--	66,000
Acquired net operating loss carryforwards and basis differences.....	3,361,000	3,361,000	3,361,000
	-----	-----	-----
	6,261,000	7,681,000	11,036,000
			0
Valuation allowance.....	(3,361,000)	(3,361,000)	(3,361,000)
	-----	-----	-----
Total deferred tax assets.....	2,900,000	4,320,000	7,675,000
	-----	-----	-----
Deferred tax liabilities:			
Property and equipment.....	--	--	--
Deferred Revenue.....	--	246,000	--
	-----	-----	-----
Total deferred tax liabilities..	--	246,000	--
	-----	-----	-----
Net deferred income taxes.....	\$ 2,900,000	\$ 4,074,000	\$ 7,675,000
	=====	=====	=====

</TABLE>

Deferred income taxes reflect the tax impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Under Statement of

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Financial Accounting Standards No. 109, "Accounting for Income Taxes," the benefit associated with future deductible temporary differences is recognized if it is more likely than not that the benefit will be realized. The measurement of deferred tax assets is reduced by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The valuation allowance of \$3,361,000 at December 31, 1999, January 31, 2000 and January 31, 2001 relates to net operating loss carryforwards and tax basis differences acquired in SeaChange's purchase of SC Asia. These acquired deferred tax assets may only be utilized to offset future taxable income attributable to SC Asia. In addition, the recognition of these deferred tax assets is subject to Internal Revenue Code change in ownership rules which may limit the amount that can be utilized to offset future taxable income. SeaChange believes that the valuation allowance is appropriate given the weight of objective evidence, including the historical operating results of IPC. Any tax benefits subsequently recognized related to these assets will first reduce the remaining balance in goodwill and then other acquired intangible assets.

Although realizability is not assured, based on the weight of available evidence, SeaChange believes it is more likely than not that all remaining deferred tax assets will be realized. The amount of the deferred tax asset considered realizable is subject to change based on future events, including generating taxable income in future periods. SeaChange will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if SeaChange does not generate sufficient taxable income in future periods.

In accordance with APB 23, SeaChange does not provide for U.S. federal income taxes on the earnings of its non-U.S. subsidiaries, as it is management's plan to permanently reinvest in operations outside the U.S. At January 31, 2001, undistributed earnings of approximately \$163,000 are considered by SeaChange to be permanently invested in certain foreign subsidiaries. The amount of tax that would be owed if the profits were distributed is \$56,000.

At January 31, 2001, SeaChange had federal and state net operating loss carryforwards of approximately \$10,341,000 and \$15,467,000, respectively, which expire at various dates through 2021. Of these amounts, \$4,030,000 and

\$4,030,000, respectively, relate to deductions for disqualifying dispositions of incentive stock options that will be credited to paid-in capital, when realized.

At January 31, 2001, SeaChange had federal and state research and development tax credit carryforwards of approximately \$1,098,000 and \$359,000, respectively, which expire at various dates through 2016. Of these amounts, \$38,000 and \$0, respectively, relate to qualified wage expenses incurred as a result of disqualifying dispositions of incentive stock options by employees that will be credited to paid-in capital, when realized.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The income tax provision (benefit) computed using the federal statutory income tax rate differs from SeaChange's effective tax rate primarily due to the following:

<TABLE>  
<CAPTION>

	Year Ended December 31		Month Ended	Year
	1998	1999	January 31,	Ended
			January 31,	January
			2000	31,
				2001
<S>	<C>	<C>	<C>	<C>
Statutory U.S. federal tax rate.....	\$ (2,552,000)	\$ 164,000	\$ (1,239,000)	\$ (203,000)
State taxes after state tax credits, net of federal tax benefits.....	(496,000)	(12,000)	(176,000)	(28,000)
Other.....	355,000	98,000	278,000	(93,000)
Research and development tax credits.....	(316,000)	(446,000)	(25,000)	(443,000)
Non-deductible acquisition costs.....	--	233,000	--	--
Acquired net operating losses.....	--	(192,000)	--	--
Nondeductible expenses, including write-off of acquired in-process research and development in 1997.....	220,000	140,000	6,000	77,000
	<u>\$ (2,789,000)</u>	<u>\$ (15,000)</u>	<u>\$ (1,156,000)</u>	<u>\$ (690,000)</u>
	=====	=====	=====	=====

</TABLE>

SeaChange's effective tax benefit rate was 38% and 3% in the year ended December 31, 1998 and 1999, respectively, 32% in the month ended January 31, 2000 and 116% in the year ended January 31, 2001. In the second quarter of 1999, the separate return limitation year (SRLY) regulations were finalized to allow for the use of acquired net operating loss carryforwards where an ownership change and an acquisition has taken place within a six month period. As a result of SeaChange's acquisition of Digital Video Arts, SeaChange recorded a tax benefit of \$192,000 in the second quarter of 1999 related to the use of Digital Video Arts net operating loss carryforwards. In the fourth quarter of 1999, the federal research and development tax credit was retroactively extended through June 30, 2004. As a result, SeaChange recorded a tax benefit of \$446,000 in the fourth quarter of 1999 related to the utilization of these tax credits.

9. Preferred Stock

Stock Authorization

The Board of Directors is authorized to issue from time to time up to an aggregate of 5,000,000 shares of preferred stock, in one or more series. Each such series of preferred stock shall have the number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges to be determined by the Board of Directors, including dividend rights, voting rights, redemption rights and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights.

10. Common Stock

Microsoft Investment

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.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In addition to the ability to use the technology owned by Microsoft and licensed to SeaChange pursuant to the licensing and development agreement, Microsoft purchased 277,162 shares of SeaChange's common stock for \$10 million. In addition, under the terms of the agreement, Microsoft may purchase approximately \$10 million of additional shares of SeaChange's common stock upon the satisfaction of certain commercial milestones. The initial shares purchased for \$10 million was completed by SeaChange and Microsoft on May 23, 2000.

Stock Split

On December 10, 1999, the Board of Directors authorized a 3-for-2 stock split of SeaChange's common stock, which became effective on December 27, 1999. All shares of common stock, common stock options, preferred stock conversion ratios and per share amounts included in the accompanying consolidated financial statements have been adjusted to give retroactive effect to the stock split for 1999.

Treasury Stock

In 1999, SeaChange repurchased and retired 47,250 shares of its common stock from employees of SeaChange. All of the shares were held for more than six months from the time the shares became vested. Accordingly, no compensation expense was recorded for the difference between the repurchase price and the original purchase price paid by the stockholder.

Reserved Shares

At January 31, 2001, SeaChange had 3,982,183 shares of common stock reserved for issuance upon the exercise of common stock options and the purchase of stock under the Employee Stock Purchase Plan.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

11. Stock Plans

Employee Stock Purchase Plan

In September 1996, SeaChange's Board of Directors adopted and the stockholders approved an employee stock purchase plan (the "Stock Purchase Plan"), effective January 1, 1997, which provides for the issuance of a maximum of 450,000 shares of common stock to participating employees who meet eligibility requirements. Employees who would immediately after the grant own 5% or more of the total combined voting power or value of SeaChange's stock and directors who are not employees of SeaChange may not participate in the Stock Purchase Plan. The purchase price of the stock is 85% of the lesser of the average market price of the common stock on the first or last business day of each six-month plan period. During the year ended December 31, 1998, and 1999, the one month ended January 31, 2000 and the year ended January 31, 2001, 79,157, 87,014, 0, and 67,795 shares of common stock, respectively, were issued under the Stock Purchase Plan. As of January 31, 2001, 171,992 shares are available under the Stock Purchase Plan for issuance.

1995 Stock Option Plan

The Amended and Restated 1995 Stock Option Plan (the "1995 Stock Option Plan") provides for the grant of incentive stock options and nonqualified stock options for the purchase of up to an aggregate of 4,800,000 shares of SeaChange's common stock by officers, employees, consultants and directors of SeaChange. The Board of Directors is responsible for administration of the 1995 Stock Option Plan and determining the term of each option, option exercise price, number of shares for which each option is granted and the rate at which each option is exercisable. Options generally vest ratably over five



years. SeaChange may not grant an employee incentive stock options with a fair value in excess of \$100,000 that are initially exercisable during any one calendar year.

Incentive stock options may be granted to employees at an exercise price per share of not less than the fair value per common share on the date of the grant (not less than 110% of the fair value in the case of holders of more than 10% of SeaChange's voting stock). Nonqualified stock options may be granted to any officer, employee, director or consultant at an exercise price per share as determined by SeaChange's Board of Directors.

Options granted under the 1995 Stock Option Plan generally expire ten years from the date of the grant (five years for incentive stock options granted to holders of more than 10% of SeaChange's voting stock).

#### Director Stock Option Plan

In June 1996, SeaChange's Board of Directors adopted and the stockholders approved a director stock option plan (the "Director Option Plan") which provides for the grant of options to full time directors of SeaChange to purchase a maximum of 45,000 shares of common stock under the Director Option Plan. Under the Director Option Plan, participating directors receive an option to purchase 5,062 shares of common stock per annum. Options granted under the Director Option Plan vest as to 33 1/3% of the shares underlying the option immediately upon the date of the grant, and vest as to an additional 8 1/3% of the shares underlying the option at the end of each of the next 8 quarters, provided that the optionee remains a director. Directors will also receive, on each three-year anniversary of such director's option grant date, an additional option to purchase 5,062 shares of common stock, provided that such director continues to serve on the Board of Directors. All options granted under the Director Option Plan have an exercise price equal to the fair value of the common stock on the date of grant and a term of ten years from the date of grant.

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#### SEACHANGE INTERNATIONAL, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Transactions under the 1995 Stock Option Plan and the Director Option Plan during the years ended December 31, 1998 and 1999, the one month ended January 31, 2000 and the year ended January 31, 2001 are summarized as follows:

<TABLE>  
<CAPTION>

	Year ended December 31,		Month ended		Year ended			
	1998	1999	January 31,	2000	January 31,	2001		
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price		
Outstanding at beginning of period	1,714,586	\$ 7.60	2,113,824	\$ 5.34	2,040,053	\$ 7.79	2,054,539	\$ 8.29
Granted.....	1,334,594	4.95	524,739	14.76	35,400	35.50	2,006,977	26.82
Exercised.....	(135,790)	3.71	(310,753)	3.94	(14,330)	4.28	(392,669)	4.57
Cancelled.....	(799,566)	9.99	(287,757)	6.00	(6,584)	6.61	(203,883)	19.57
	=====		=====		=====		=====	
Outstanding at period end.....	2,113,824	\$ 5.34	2,040,053	\$ 7.79	2,054,539	\$ 8.29	3,464,964	\$18.80
	=====		=====		=====		=====	
Options exercisable at period end.....	473,465		594,265		625,387		834,024	
Weighted average fair value of options granted during the period.....		\$ 3.54		\$ 7.11		\$26.57		\$22.36

The following table summarizes information about employee and director stock options outstanding at January 31, 2000 and January 31, 2001:

<TABLE>  
<CAPTION>

	Options outstanding at	Options outstanding at
	January 31, 2000	January 31, 2001
	Weighted	Weighted
	-----	-----

	Number outstanding	average remaining contractual life (years)	Weighted average exercise price	Number outstanding	average remaining contractual life (years)	Weighted average exercise price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Range of exercise prices:						
\$0.33 to 0.82.....	142,580	3.48	\$ 0.75	34,496	4.68	\$ 0.70
2.80 to 4.00.....	540,831	8.51	3.87	393,814	7.72	3.95
4.45 to 6.25.....	697,412	8.01	5.48	543,049	7.02	5.47
6.58 to 10.00.....	285,505	8.50	7.47	237,247	7.59	7.49
10.33 to 14.33.....	143,677	9.17	11.55	128,271	8.24	11.46
19.17 to 23.31.....	74,138	6.73	19.46	1,017,361	9.60	23.08
26.75 to 39.13.....	170,396	9.91	33.92	1,110,726	9.22	30.49
	-----	-----	-----	-----	-----	-----
	2,054,539	8.09	\$ 8.29	3,464,964	8.62	\$18.80
	=====	=====	=====	=====	=====	=====

</TABLE>

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

<TABLE>  
<CAPTION>

	Options exercisable at January 31, 2000		Options exercisable at January 31, 2001	
	Number exercisable	Weighted average exercise price	Number exercisable	Weighted average exercise price
<S>	<C>	<C>	<C>	<C>
Range of exercise prices \$0.33 to				
0.82.....	117,781	\$0.76	34,496	\$ 0.70
2.80 to 4.00.....	152,791	3.72	143,364	3.87
4.45 to 6.25.....	250,966	5.41	288,960	5.41
6.58 to 10.00.....	48,899	7.64	97,122	7.54
10.33 to 14.33.....	12,812	12.91	41,847	11.63
19.17 to 23.31.....	42,138	19.33	39,343	19.47
26.75 to 39.13.....	--	--	188,892	30.68
	-----	-----	-----	-----
	625,387	\$5.39	834,024	\$11.90
	=====	=====	=====	=====

</TABLE>

#### Fair Value Disclosures

SeaChange applies APB 25 in accounting for employee stock awards. Compensation expense associated with equity awards of \$47,000 has been recorded for the year ended December 31, 1998. Had compensation expense for SeaChange's employee stock plans been determined based on the fair value at the grant dates, as prescribed in SFAS 123, SeaChange's net income (loss) and earnings (loss) per share would have been as follows:

<TABLE>  
<CAPTION>

	Year ended December 31,		Month ended January 31,	Year ended January 31,
	1998	1999	2000	2001
<S>	<C>	<C>	<C>	<C>
Net income (loss)				
As reported.....	\$ (4,572,000)	\$ 497,000	\$ (2,458,000)	\$ (1,007,000)
Pro forma.....	\$ (6,456,000)	\$ 122,000	\$ (2,703,000)	\$ (14,825,000)
Basic earnings (loss) per share				
As reported.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ (0.05)
Pro forma.....	\$ (0.34)	\$ 0.01	\$ (0.13)	\$ (0.68)
Diluted earnings (loss) per share				
As reported.....	\$ (0.24)	\$ 0.02	\$ (0.12)	\$ (0.05)
Pro forma.....	\$ (0.34)	\$ 0.01	\$ (0.13)	\$ (0.68)

</TABLE>

The fair value of each option granted was estimated on the date of grant assuming a weighted average volatility factor of 67% for the year ended December 31, 1998, 46% for the year ended December 31, 1999, and 100% for the

month ended January 31, 2000 and twelve months ended January 31, 2001. Additional weighted average assumptions used for grants during the years ended December 31, 1998 and 1999, the one month ended January 31, 2000 and the year ended January 31, 2001 included: dividend yield of 0.0% for all periods; risk-free interest rates of 6.00% for options granted during the year ended December 31, 1998, 5.54% for options granted during the year ended December 31, 1999 and the one month ended January 31, 2000 and 4.94% for option granted the year ended January 31, 2001; and an expected option term of 5 years for all periods.

Because additional option grants are expected to be made each year and options vest over several years, the above pro forma disclosures are not representative of pro forma effects of reported net income for future years.

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Stock Option Repricing

On January 23, 1998, the Compensation and Option Committee of the Board of Directors of SeaChange ("Committee") determined that, because certain stock options held by employees of SeaChange had an exercise price significantly higher than the fair market value of SeaChange's common stock, such stock options were not providing the desired long-term incentive to employees. Accordingly, the Committee granted those employees whose options were between \$10.00 and \$16.42 per share an opportunity to cancel their existing options for new options on a 1-for-1 basis, with a new five-year vesting schedule beginning on January 23, 1998. Employees whose options were above \$16.42 were offered an opportunity to cancel their existing options for new options on a 2-for-3 basis, with no change in their original vesting schedule. As a result of this stock option repricing, new options were granted to purchase 319,169 shares of common stock and the average exercise price of such options was reduced from \$14.79 per share to \$5.50 per share, the fair market value of SeaChange's common stock at the close of the market on January 22, 1998. With the exception of one executive officer, SeaChange's directors and executive officers were not eligible to participate in this stock option repricing. During the execution of the stock option repricing plan, SeaChange's stock price was below \$5.50 per share and, therefore, no compensation charge was recorded as a result of the stock option repricing.

12. Commitments and Contingencies

SeaChange leases its operating facilities and certain office equipment under non-cancelable capital and operating leases, which expire at various dates through 2007. Rental expense under operating leases was approximately \$1,341,000, \$1,681,000, \$167,000, and \$2,307,000 for the years ended December 31, 1998 and 1999, the month ended January 31, 2000, and the year ended January 31, 2001, respectively. Future commitments under minimum lease payments as of January 31, 2001 are as follows:

<TABLE>  
<CAPTION>

	Capital	Operating
	-----	-----
<S>	<C>	<C>
Year ended January 31, 2002.....	\$221,000	\$1,638,000
2003.....	145,000	1,334,000
2004.....	60,000	871,000
2005.....	--	861,000
2006.....	--	295,000
Thereafter.....	--	327,000
	-----	-----
Minimum lease payments.....	426,000	\$5,326,000
		=====
Less: Amount representing interest.....	39,000	
	-----	
	\$387,000	
	=====	

</TABLE>

SeaChange had non-cancelable purchase commitments for inventories of approximately \$5,400,000 at January 31, 2001.

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 our customers, Cox Communications, Inc. This claim was later amended by Beam Laser on June 16, 2000 to also include two related companies of Cox Communications: CableRep, Inc. and CoxCom, Inc. Beam Laser has asserted that the ad insertion technology, which includes our spot ad insertion system, used by Cox Communications, CableRep and CoxCom infringes two of the patents held by Beam Laser (Patents No. 4,814,883 and

5,200,825). 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. On May 19, 2000, we filed a motion seeking to intervene in the action between our customer and Beam Laser, and to transfer the case to the District Court of

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SEACHANGE INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Massachusetts. On June 23, 2000, the court granted our intervention motion and deferred ruling on the issue of transfer. Also on June 23, 2000, we filed our intervenor complaint in the Virginia action seeking, among other things, a declaratory judgment of non-infringement, invalidity and unenforceability regarding the two patents of Beam Laser that are at question. In addition, we have agreed to indemnify our customer for claims brought against the customer that are related to the customer's use of our products. On October 23, 2000, the court denied our motion to transfer. On November 29, 2000, Beam Laser filed a motion to amend its pleading to add claims against us seeking equitable relief, a finding of willful or contributory infringement, and attorneys' fees. On January 26, 2001, the magistrate denied Beam Laser's motion to amend. Beam Laser has filed an objection to this denial, and on March 16, 2001, the court allowed

Beam's motion to amend the complaint, to add charges of infringement against SeaChange, but not allowing any claims for damages or willful infringement. In addition, on April 20, 2001, the court denied a motion for summary judgment of laches, stating it will schedule an evidentiary hearing. On June 1, 2001, the court granted our motion for summary judgment of non-infringement disposing of all claims asserted against SeaChange. Also, on June 1, 2001, the court granted our customer's motion for summary judgment of non-infringement of one of its facilities. Our motions and those of the Cox companies for summary judgment are still pending, as are the counterclaims against Beam Laser. The court has set a date of July 16, 2001 for trial on all remaining claims.

On June 13, 2000, we filed in the United States District Court for the District of Delaware a lawsuit against one of our competitors, nCube Corp., whereby we alleged that nCube's MediaCube-4 product infringed a patent held by us (Patent No. 5,862,312). In instituting the claim, we sought both a permanent injunction and damages in an unspecified amount. nCube made a counterclaim against us that the patent held by us was invalid and that nCube's MediaCube-4 product did not infringe our patent. On September 6, 2000, nCube conceded, based on the District Court's prior claim construction ruling, that its MediaCube-4 product infringed our patent. On September 25, 2000 a jury upheld the validity of our patent. nCube has filed motions challenging both the jury's verdict and the District Court's claim construction ruling. The District Court has yet to rule on nCube's motions. At this time we are awaiting the court's decision regarding a permanent injunction. Damages will be determined in future proceedings.

On January 8, 2001, nCube Corp. filed a complaint against us in the United States District Court for the District of Delaware alleging that our use of our Media Cluster, Media Express and Media Server technology each infringe a patent held by nCube (Patent No. 5,805,804). In instituting the claim, nCube has sought both an injunction and monetary damages in an unspecified amount. We responded on January 26, 2001, denying that the claim of infringement. We also asserted a counterclaim seeking a declaration from the District Court that U.S. Patent No. 5,805,804 is invalid and not infringed.

On June 14, 1999, we 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 our business and reputation in the marketplace. The complaint further alleges that Mr. Putterman and Lathrop Investment Management, Inc. defamed us through false postings on an Internet message board. The complaint seeks unspecified amounts of compensatory and punitive damages. On June 14, 2000, Concurrent filed a counterclaim under seal against us seeking unspecified damages. These motions are currently pending and no trial date has been set.

We cannot be certain of the outcome of the foregoing litigation, but do plan to oppose allegations against us and assert our claims against other parties vigorously. In addition, as these claims are subject to additional discovery and certain claims for damages are as yet unspecified, we are unable to estimate the impact to our business, financial condition, and results of operations or cash flows.

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SEACHANGE INTERNATIONAL, INC.

## 13. Employee Benefit Plan

SeaChange sponsors a 401(k) retirement savings plan (the "Plan"). Participation in the Plan is available to full-time employees who meet eligibility requirements. Eligible employees may contribute up to 15% of their annual salary, subject to certain limitations. SeaChange matches contributions up to 25% of the first 6% of compensation contributed by the employee to the Plan. During the years ended December 31, 1998 and 1999, the month ended January 31, 2000, and the year ended January 31, 2001, SeaChange contributed \$189,000, \$225,000, \$19,000, and \$286,000, respectively, to the Plan.

## 14. Comcast Equity Investment and Video-On-Demand Purchase Agreements

On December 1, 2000, SeaChange and Comcast Cable Communications, Inc. entered into a video-on-demand purchase agreement for SeaChange's interactive television video servers and related services. Under the terms of the video-on-demand purchase agreement, Comcast has committed to purchase SeaChange's equipment capable of serving a minimum of one million cable subscribers by approximately December 2002. In addition, Comcast may earn up to an additional 450,000 incentive common stock purchase warrants through December 2003 based on the number of cable subscribers in excess of one million who are served by SeaChange's equipment which has been purchased by Comcast. In connection with the execution of this commercial agreement, SeaChange entered into a common stock and warrant purchase agreement, dated as of December 1, 2000, with Comcast SC Investment, Inc., whereby Comcast SC agreed to purchase, subject to certain closing conditions including registration of the shares purchased thereby, 466,255 shares of SeaChange's common stock for approximately \$10 million and Comcast SC would receive a warrant to purchase 100,000 shares, exercisable at \$21.445 per share, of SeaChange's common stock. This stock and warrant purchase agreement was terminated by SeaChange and Comcast SC on February 28, 2001. The terms and conditions of the video-on-demand purchase agreement have not been modified.

On February 28, 2001, SeaChange and Comcast SC signed and closed a new common stock and warrant purchase agreement on terms similar to the prior agreement. Under the terms of this new agreement, SeaChange sold in a private placement to Comcast SC for approximately \$10,000,000 an aggregate of 756,144 shares of SeaChange's common stock and a warrant to purchase 100,000 shares of SeaChange's common stock with an exercise price of \$13.225 per share. Under certain conditions determined upon the effectiveness of the registration of the shares, the number of common shares purchased and the number of common stock purchase warrants and related exercise price are subject to adjustment. An additional number of shares of common stock shall be issued to Comcast SC without any additional consideration as is equal to the difference between 756,144, the number of shares of common stock issued on February 28, 2001, and the number of shares obtained by dividing \$10,000,000 by the lower of 1) 92% of the closing market price of SeaChange's common stock on the date of effectiveness of this registration statement, and 2) the average of the closing market price of SeaChange's common stock for the five trading days ending on the effective date of this registration statement, if either of such prices is lower than \$13.225. The warrant agreement contains an adjustment mechanism such that the warrant is exercisable for an additional 25,000 shares of SeaChange's common stock if the registration statement has not been declared effective on or before March 31, 2001 and an additional 333.33 shares of SeaChange's common stock per day beginning on and including May 1, 2001 for each day up to and including the day the registration statement is declared effective. The warrant agreement also provides that the exercise price of the warrant will be reduced on the effective date of the registration statement to the lower of 1) 92% of the closing market price of SeaChange's common stock on the effective date of the registration statement, and 2) the average of the closing market prices of SeaChange's common stock for the five trading days ending on the date of effectiveness of the registration statement, if either of such prices is lower than \$13.225, the exercise price as of the closing date.

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SEACHANGE INTERNATIONAL, INC.

SeaChange will determine the intrinsic value of the common stock purchase and will measure the fair value of the 100,000 common stock purchase warrants at the closing date and will record these amounts as contra-equity. Upon effectiveness of the registration statement, SeaChange will measure the fair value of the additional common shares issued, if any, and the incremental fair value of the common stock warrants, and will add those amounts to the amount of contra-equity initially recorded at the closing date. The contra-equity amount will be amortized in future periods as an offset to gross revenue in proportion to the revenue recognized from the sale of equipment with respect to the first one million subscribers Comcast has committed to under the video-on-demand purchase agreement. The fair value of the additional incentive

common stock purchase warrants will also be recorded as an offset to gross revenue as the warrants are earned by Comcast, if any.

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REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors  
of SeaChange International, Inc.:

Our audits of the consolidated financial statements referred to in our report dated March 5, 2001, except for the information presented in Note 12 for which the date is June 12, 2001, appearing in the Annual Report to Shareholders of SeaChange International Inc. also included an audit of the financial statement schedule listed in Item 14(a) (2) of Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts  
March 5, 2001

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Schedule II

SEACHANGE INTERNATIONAL, INC.

VALUATION OF QUALIFYING ACCOUNTS AND RESERVES

<TABLE>  
<CAPTION>

	Balance at beginning of period	Charged to costs and expenses	Deductions and write-offs	Other	Balance at end of period
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for Doubtful Accounts:					
Year ended December 31, 1998.....	\$ 559,000	\$ 497,000	\$ (186,000)	\$ --	\$ 870,000
Year ended December 31, 1999.....	\$ 870,000	\$ 225,000	\$ (187,000)	\$ --	\$ 908,000
Month ended January 31, 2000.....	\$ 908,000	\$ --	\$ --	\$ --	\$ 908,000
Year ended January 31, 2001.....	\$ 908,000	\$ 516,000	\$ (682,000)	\$ --	\$ 742,000
Inventory Valuation Allowance:					
Year ended December 31, 1998.....	\$1,504,000	\$2,016,000	\$ (919,000)	\$ --	\$2,601,000
Year ended December 31, 1999.....	\$2,601,000	\$ 458,000	\$ (395,000)	\$ --	\$2,664,000
Month ended January 31, 2000.....	\$2,664,000	\$ 11,000	\$ --	\$ --	\$2,675,000
Year ended January 31, 2001.....	\$2,675,000	\$ 823,000	\$ (722,000)	\$ --	\$2,776,000

</TABLE>

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[Logo appears here]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

Estimated expenses (other than underwriting discounts and commissions) payable in connection with the sale of the Common Stock offered hereby are as follows:

<S>	<C>
SEC Registration Fee.....	\$ 23,681.00
NASD filing fee.....	10,408.00
Transfer agent and registrar fees.....	5,000.00
Legal fees and expenses.....	100,000.00

Accounting fees and expenses.....	100,000.00
Printing and engraving expenses.....	125,000.00
Miscellaneous.....	35,911.00
	-----
TOTAL.....	\$400,000.00
	=====

</TABLE>

We will bear all expenses shown above.

Item 15. Indemnification of Directors and Officers.

The Delaware General Corporation Law and our Certificate of Incorporation provide for indemnification of our directors and officers for liabilities and expenses that they may incur in those capacities. In general, directors and officers are indemnified with respect to actions taken in good faith in a manner reasonably believed to be in, or not opposed to, the best interests of SeaChange, and with respect to any criminal action or proceeding, actions that the indemnitee had no reasonable cause to believe were unlawful. We refer you to our Certificate of Incorporation filed as Exhibit 4.2 to our registration statement on Form S-8 filed with the SEC on December 8, 1996 (File No. 333-17379) and the amendment thereto filed as Exhibit 4.2 to our registration statement on Form S-3 filed with the SEC on December 6, 2000 (File No. 333-51386).

We maintain directors' and officers' liability insurance to insure our directors and certain officers against certain liabilities and expenses which arise out of or in connection with their capacities as directors and officers.

Item 16. Exhibits.

<TABLE>

<CAPTION>

Exhibit

No.	Description
-----	-------------

-----

<C> <S>

- 1.1\* --Form of Underwriting Agreement.
- 4.1 --Specimen certificate representing the Common Stock (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
- 4.2 --Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
- 4.3 --Certificate of Amendment, filed May 25, 2000 with the Secretary of State in the State of Delaware, to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 4.2 to the Company's registration statement on Form S-3 previously filed on December 6, 2000 with the Commission (Filed No. 333-51386) and incorporated herein by reference).
- 5.1 --Opinion of Testa, Hurwitz & Thibeault, LLP.
- 10.1 --Loan and Security Agreement, dated October 22, 2001, by and between the Company and Citizens Bank of Massachusetts

</TABLE>

II-1

<TABLE>

<CAPTION>

Exhibit

No.	Description
-----	-------------

-----

<C> <S>

- 23.1 --Consent of PricewaterhouseCoopers LLP
- 23.2 --Consent of Testa, Hurwitz & Thibeault, LLP (included in Exhibit 5.1)
- 24.1 --Power of Attorney (included on signature page)

</TABLE>

- -----

\* To be filed by amendment.

Item 17. Undertakings.

The registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange

Act of 1934 (and, where appropriate, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Maynard, Commonwealth of Massachusetts on November 30, 2001.

SeaChange International, Inc.

By: /s/ William C. Styslinger, III \_\_\_  
William C. Styslinger, III  
President, Chief Executive  
Officer,  
Director and Chairman

#### POWER OF ATTORNEY AND SIGNATURES

We, the undersigned officers and directors of SeaChange International, Inc., hereby severally constitute and appoint William C. Styslinger, III and William L. Fiedler, and each of them singly, our true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and his name, place and stead, in any and all capacities, to sign all pre-effective and post-effective amendments to this Registration Statement, and any and all registration statements (including any amendments thereto) relating to the offering covered hereby which may be filed with the Securities and Exchange Commission pursuant to Rule 462(b) under the Securities Act of 1933, and to file any of the foregoing with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto each of said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.



<TABLE>  
<CAPTION>

Signature -----	Title -----	Date -----
<S> /s/ William C. Styslinger, III ----- William C. Styslinger III	<C> President, Chief Executive Officer, Director and Chairman (Principal Executive Officer)	<C> November 30, 2001
/s/ William L. Fiedler ----- William L. Fiedler	Chief Financial Officer, Secretary, Treasurer and Vice President, Finance and Administration (Principal Financial Officer and Principal Accounting Officer)	November 30, 2001
/s/ Martin R. Hoffmann ----- Martin R. Hoffmann	Director	November 30, 2001
/s/ Thomas F. Olson ----- Thomas F. Olson	Director	November 30, 2001
/s/ Carmine Vona ----- Carmine Vona	Director	November 30, 2001

</TABLE>

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EXHIBIT INDEX

<TABLE>  
<CAPTION>

Exhibit No.	Description -----
<C> 1.1*	<S> --Form of Underwriting Agreement.
4.1	--Specimen certificate representing the Common Stock (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
4.2	--Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1 previously filed on November 4, 1996 with the Commission (File No. 333-12233) and incorporated herein by reference).
4.3	--Certificate of Amendment, filed May 25, 2000 with the Secretary of State in the State of Delaware, to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 4.2 to the Company's registration statement on Form S-3 previously filed on December 6, 2000 with the Commission (Filed No. 333-51386) and incorporated herein by reference).
5.1	--Opinion of Testa, Hurwitz & Thibeault, LLP.
10.1	--Loan and Security Agreement, dated October 22, 2001, by and between the Company and Citizens Bank of Massachusetts
23.1	--Consent of PricewaterhouseCoopers LLP
23.2	--Consent of Testa, Hurwitz & Thibeault, LLP (included in Exhibit 5.1)
24.1	--Power of Attorney (included on signature page)

</TABLE>

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\* To be filed by amendment.

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December 5, 2001

SeaChange International, Inc.  
124 Acton Street  
Maynard, MA 01754

Re: Registration Statement on Form S-3  
-----

Ladies and Gentlemen:

We are counsel to SeaChange International, Inc., a Delaware corporation (the "Company"), and have represented the Company in connection with the preparation and filing of the Company's Registration Statement on Form S-3 (the "Registration Statement"), relating to the public offering of an aggregate of up to 3,450,000 shares of the Company's common stock, \$.01 par value per share (the "Common Stock"), of which (a) 2,790,000 shares will be issued and sold to the underwriters by the Company; (b) 210,000 shares will be sold to the underwriters by certain stockholders of the Company (the "Selling Stockholders"); and (c) 450,000 shares may be purchased by the underwriters from the Company to cover over-allotments, if any (collectively, the "Shares").

We have reviewed the corporate proceedings taken by the Board of Directors of the Company with respect to the authorization and issuance of the Shares. We have also examined and relied upon originals or copies, certified or otherwise authenticated to our satisfaction, of all corporate records, documents, agreements or other instruments of the Company and have made all investigations of law and have discussed with the Company's officers all questions of fact that we have deemed necessary or appropriate.

Based upon and subject to the foregoing, we are of the opinion that (i) the Shares to be issued and sold by the Company have been duly and validly authorized and, when sold in the manner contemplated by the underwriting agreement (the "Underwriting Agreement") substantially in the form to be filed as Exhibit 1.1 to the Registration Statement and upon receipt by the Company of payment therefor as provided in the Underwriting Agreement, will be validly issued, fully paid and non-assessable; and (ii) the Shares to be sold by the Selling Stockholders are duly and validly authorized, validly issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion as Exhibit 5.1 to the Registration Statement and to the reference to our firm in the Prospectus contained in the Registration Statement under the caption "Legal Matters."

Very truly yours,

/s/ Testa, Hurwitz & Thibault, LLP

TESTA, HURWITZ & THIBEAULT, LLP

## CITIZENS BANK OF MASSACHUSETTS

LOAN AND SECURITY AGREEMENT  
(ALL ASSETS)

October 22, 2001

1. SECURITY INTEREST. SeaChange International, Inc. a Delaware corporation (hereinafter referred to as the "Borrower"), for valuable consideration, receipt whereof is hereby acknowledged, hereby grants to Citizens Bank of Massachusetts, a Massachusetts bank, the secured party hereunder (hereinafter called the "Bank"), a continuing security interest in and to, and assigns to Bank, all property of the Borrower including the following property of the Borrower, wherever located and whether now owned or hereafter acquired:

(a) all inventory, including all goods, merchandise, raw materials, goods and work in process, finished goods, and other tangible personal property now owned or hereafter acquired and held for sale or lease or furnished or to be furnished under contracts of service or used or consumed in Borrower's business (all hereinafter called the "Inventory");

(b) all accounts (as defined in the Uniform Commercial Code, hereinafter "Accounts"), contracts, contract rights, notes, bills, drafts, acceptances, health care insurance receivables, general intangibles (including without limitation registered and unregistered tradenames, copyrights, customer lists, goodwill, computer programs, computer records, computer software, computer data, trade secrets, trademarks, patents, ledger sheets, files, records, data processing records relating to any Accounts and all tax refunds of every kind and nature to which Borrower is now or hereafter may become entitled to, no matter how arising), instruments (including promissory notes), documents, chattel paper, securities, security entitlements, security accounts, investment property, supporting obligations, software, letter of credit rights (whether or not the letter of credit is evidenced by a writing) commercial tort claims, chattel paper, whether tangible or intangible or electronic, deposit accounts, choses in action, and all other debts, obligations and liabilities in whatever form, owing to Borrower from any person, firm or corporation or any other legal entity, whether now existing or hereafter arising, now or hereafter received by or belonging or owing to Borrower, for goods sold by it or for services rendered by it, or however otherwise same may have been established or created, all guarantees and securities therefor, all right, title and interest of Borrower in the merchandise or services which gave rise thereto, including the rights of reclamation and stoppage in transit, all rights to replevy goods, and all rights of an unpaid seller of merchandise or services (all hereinafter called the "Receivables");

(c) all machinery, equipment, fixtures and other goods (as defined in Article 9 of the Uniform Commercial Code) whether now owned or hereafter acquired by the Borrower and wherever located, all replacements and substitutions therefor or accessions thereto and all proceeds thereof (all hereinafter called the "Equipment");

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(d) all proceeds and products of all of the foregoing in any form, including, without limitation, all proceeds of credit, fire or other insurance, and also including, without limitation, rents and profits resulting from the temporary use of any of the foregoing (which, with Inventory, Receivables and Equipment are all hereinafter called "Collateral").

2. OBLIGATIONS SECURED. The security interest granted hereby is to secure payment and performance of all debts, liabilities and obligations of Borrower to Bank hereunder and also any and all other debts, liabilities and obligations of Borrower to Bank of every kind and description, direct or indirect, absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising, whether or not such obligations are related to the transactions described in this Agreement, by class, or kind, or whether or not contemplated by the parties at the time of the granting of this security interest, regardless of how they arise or by what agreement or instrument they may be evidenced or whether evidenced by any agreement or instrument, and includes obligations to perform acts and refrain from taking action as well as obligations to pay money including, without limitation, all interest, fees, charges, expenses and overdrafts, and also including, without limitation, all obligations and liabilities which Bank may incur or become liable for, on account of, or as a result of, any transactions between Bank and Borrower including any which may arise out of any letter of credit, acceptance or similar instrument or obligation issued or caused to be issued pursuant to this Agreement (all hereinafter called "Obligations").

3. BORROWER'S PLACES OF BUSINESS, INVENTORY LOCATIONS AND RETURNS POLICY. Borrower warrants that Borrower has no material places of business other than that shown at the end of this Agreement, unless other places of business are listed on Schedule "A", annexed hereto, in which event Borrower represents

that it has additional places of business at those locations set forth on Schedule "A".

Borrower's principal executive office and the office where Borrower keeps its records concerning its accounts, contract rights and other property, is that shown at the end of this Agreement. With the exception of Inventory at customers' sites as described in the Borrower's books and records (the "Offsite Inventory"), all Inventory presently owned by Borrower is stored at the locations set forth on Schedule "A".

Borrower will promptly notify Bank in writing of any change in the location of any place of business or the location of any Inventory or the establishment of any new place of business or location of Inventory or office where its records are kept which would be shown in this Agreement if it were executed after such change.

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4. BORROWER'S ADDITIONAL REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants that:

(a) Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and shall hereafter remain in good standing as a corporation in that state, and is duly qualified and in good standing in every other state in which it is doing business, and shall hereafter remain duly qualified and in good standing in every other state in which the failure to qualify or become licensed could have a material adverse effect on the financial condition, business or operations of the Borrower.

(b) Borrower's exact legal name is as set forth in this Agreement and Borrower will not undertake or commit to undertake any act which will result in a change of Borrower's legal name, without giving Bank at least thirty (30) days' prior written notice of the same.

(c) The execution, delivery and performance of this Agreement, and any other document executed in connection herewith, are within the Borrower's corporate powers, have been duly authorized, are not in contravention of law or the terms of the Borrower's charter, bylaws or other incorporation papers, or of any indenture, agreement or undertaking to which the Borrower is a party or by which it or any of its properties may be bound.

(d) All Certificates of Incorporation and all amendments thereto of Borrower have been duly filed and are in proper order. All capital stock issued by Borrower and outstanding was and is properly issued and all books and records of Borrower, including but not limited to its minute books, bylaws and books of account, are accurate and up to date and will be so maintained.

(e) Borrower owns all of the assets reflected in the most recent of Borrower's financial statements provided to Bank, except assets sold or otherwise disposed of in the ordinary course of business since the date thereof, and such assets together with any assets acquired since such date, including without limitation the Collateral, are free and clear of any lien, pledge, security interest, charge, mortgage or encumbrance of any nature whatsoever, except (i) the security interests and other encumbrances (if any) listed on Schedule "B" annexed hereto, (ii) those leases described on Schedule "C" annexed hereto, (iii) those liens permitted pursuant to Section 14(h) of this Agreement, or (iv) liens and security interests in favor of Bank.

(f) Borrower has made or filed all tax returns, reports and declarations relating to any material tax liability required by any jurisdiction to which it is subject (any tax liability which may result in a lien on any Collateral being hereby deemed material); has paid all taxes shown or determined to be due thereon except those being contested in good faith and which Borrower has, prior to the date of such contest, identified in writing to Bank as being contested; and has made adequate provision for the payment of all taxes so contested, so that no lien will encumber any Collateral, and in respect of subsequent periods.

(g) Borrower (i) is subject to no charter, corporate or other legal restriction, or any judgment, award, decree, order, governmental rule or regulation or contractual restriction

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which could have a material adverse effect on its financial condition or business, and (ii) is in compliance with its charter documents and bylaws, all contractual requirements by which it or any of its properties may be bound and all applicable laws, rules and regulations (including without limitation those relating to environmental protection) other than laws, rules or regulations the validity or applicability of which it is contesting in good faith or provisions of any of the foregoing the failure to comply with which cannot reasonably be expected to materially adversely affect its financial condition or business.

(h) There is no action, suit, proceeding or investigation pending or, to Borrower's knowledge, threatened against or affecting it or any of its assets before or by any court or other governmental authority which, if determined adversely to it, would have a material adverse effect on its financial condition or business.

(i) Borrower is in compliance with ERISA; no Reportable Event has occurred and is continuing with respect to any Plan; and it has no unfunded vested liability under any Plan. The word "Plan" as used in this Agreement means any employee plan subject to Title IV of the Employee Retirement Income Security Act of 1974 ("ERISA") maintained for employees of Borrower, any subsidiary of Borrower or any other trade or business under common control with Borrower within the meaning of Section 414(c) of the Internal Revenue Code of 1986 or any regulations thereunder.

#### 5. LOANS AND OTHER FINANCIAL ACCOMMODATIONS.

(a) From time to time upon Borrower's request, so long as the sum of the aggregate principal amount of all loans outstanding and the requested loan does not exceed the lesser of (i) the Borrowing Base (as defined below), or (ii) the Credit Limit (as defined below), Bank shall make such requested loan, provided that there has not occurred and is existing an Event of Default or an event which, with notice or the lapse of time or both, would constitute an Event of Default.

(b) All loans shall bear interest and at the option of the Bank shall be evidenced by and repayable in accordance with a revolving note drawn to the order of Bank substantially the form of Exhibit 1 hereto (the "Note"), as the same may hereafter be amended, supplemented or restated from time to time and any note or notes issued in substitution therefor, but in the absence of the Note shall be presumptively evidenced by Bank's records of loans and repayments.

Interest will be charged to Borrower at a fluctuating rate which is the daily equivalent to a rate equal to the per annum rate equal to the Prime Rate or at such other rate agreed on from time to time by the parties, upon any balance owing to Bank at the close of each day and shall be payable (i) on the first day of each month in arrears; (ii) on termination of this Agreement pursuant to Section 19 hereof; (iii) on acceleration of the time for payment of the Obligations pursuant to Section 15 hereof; and (iv) on the date the Obligations are paid in full. The rate of interest payable by Borrower shall be changed effective as of that date in which a change in the Prime Rate becomes effective. Interest shall be computed on the basis of the actual number of days elapsed over a year of three hundred sixty (360) days. The term "Prime Rate"

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as used herein and in any supplement and amendment hereto shall mean the per annum rate of interest announced from time to time by Bank at its offices in Boston, Massachusetts, as its Prime Rate (or if Bank ceases to announce a rate so designated, any similar successor rate designated by Bank), it being understood that such rate is a reference rate and not necessarily the lowest rate of interest charged by Bank. Interest shall be payable in lawful money of the United States of America to Bank, or as Bank shall direct, without set-off, deduction or counterclaim monthly, in arrears, on the first day of each month, commencing on the first day of the month next succeeding the date hereof.

(c) The term "Borrowing Base" as used herein shall mean the sum of the following:

(i) eighty (80%) percent of the unpaid face amount of Qualified Accounts (as defined below), PLUS

(ii) seventy (70%) percent of the unpaid face amount of Investment Grade Qualified Accounts (as defined below) or such other percentage thereof as may from time to time be fixed by Bank upon notice to Borrower, if Bank determines in its reasonable judgment that there has been a change in circumstances relating to any or all of such Accounts from those circumstances in existence on or prior to the date hereof, PLUS

(iii) the lesser of: (I) Three Million Five Hundred Thousand Dollars (\$3,500,000.00), and (II) eighteen (18%) percent (to be recalculated no earlier than annually upon the Bank or the Borrower's request by an updated appraisal of the Borrower's Inventory at the Borrower's expense) of the value (as determined by the Bank) of the Borrower's Eligible Raw Material Inventory (as defined below), finished Inventory and logistics Inventory located in Maynard, Massachusetts and Greenville, New Hampshire, MINUS

(iv) one hundred (100%) percent of the aggregate amount then undrawn on all letters of credit and acceptances issued pursuant to this Agreement for the account of the Borrower;

but in no event shall the sum of all loans plus the sum of the aggregate amount undrawn on all letters of credit and acceptances be in excess of the Credit Limit.

(d) The term "Credit Limit" as used herein shall mean an amount equal to Ten Million (\$10,000,000.00) Dollars.

(e) Borrower hereby authorizes and directs Bank, in Bank's sole discretion (provided, however, Bank shall have no obligation to do so unless Bank has otherwise agreed): (i) to pay accrued interest as the same becomes due and payable pursuant to this Agreement or pursuant to any note or other agreement between Borrower and Bank, and to treat the same as a loan to Borrower, which shall be added to Borrower's loan balance pursuant to this Agreement; (ii) to charge any of Borrower's accounts under the control of Bank; or (iii) apply the proceeds of Collateral, including, without limitation, payments on Accounts and other payments from sales

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or lease of Inventory and any other funds to the payment of such items. Bank shall promptly notify Borrower of any such charges or applications.

(f) The Borrowing Base formula set forth above is intended solely for monitoring purposes. The making of loans, advances, and credits by Bank to the Borrower in excess of the above described Borrowing Base formula is for the benefit of the Borrower and does not affect the obligations of Borrower hereunder; all such loans constitute Obligations and must be repaid by Borrower in accordance with the terms of this Agreement.

(g) At the request of the Borrower, and upon the execution of letter of credit documentation satisfactory to Bank, Bank, within the limits of the Letter of Credit Limit and Borrowing Base, as then computed and also within the limits of the Credit Limit as then computed, shall issue letters of credit from time to time by Bank for the account of the Borrower (collectively "Letters of Credit"). The Letters of Credit shall be on terms mutually acceptable to Bank and the Borrower, and no Letter of Credit shall have an expiration date later than the sooner to occur of (i) twelve (12) months from the date of issuance of the subject Letter of Credit, or (ii) the termination date of this Agreement. A loan in an amount equal to any amount paid by Bank under a Letter of Credit shall be deemed made to Borrower, without request therefor, immediately upon any payment by Bank on such Letter of Credit. In connection with the issuance of any Letter of Credit, Borrower shall pay to Bank 1.5% of the face amount of such Letter of Credit plus transaction fees at the customary rates charged by Bank and all other normal and customary fees charged by Bank. Borrower hereby authorizes and directs Bank, in Bank's sole discretion (provided, however, Bank shall have no obligation to do so) to pay all such fees and costs as the same become due and payable and to treat the same as a loan to Borrower, which shall be added to Borrower's loan balance pursuant to this Agreement. The term "Letter of Credit Limit" as used herein shall mean an amount equal to Two Million (\$2,000,000.00) Dollars. For purposes of computing the Credit Limit, all Letters of Credit and acceptances shall be deemed to be loans.

(h) Borrower shall pay to Bank the principal amount of all loans as follows:

(i) Borrowing Base Exceeded. Whenever the outstanding principal

balance of all loans exceed the Borrowing Base, Borrower shall immediately pay to Bank the excess of the outstanding principal balance of the loans over the Borrowing Base.

(ii) Payment in Full on Termination. On termination of this Agreement,

pursuant to Section 19 or acceleration of the obligations pursuant to Section 15, Borrower shall pay to Bank the entire outstanding principal balance of all loans and shall deliver to Bank cash collateral in an amount equal to the aggregate of (A) amounts then undrawn on all outstanding Letters of Credit issued pursuant to this Agreement for the account of the Borrower, and (B) the amount of all outstanding acceptances issued pursuant to this Agreement.

(i) Intentionally Deleted.

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(j) It is the intention of the parties hereto to comply strictly with applicable usury laws, if any; accordingly, notwithstanding any provisions to the contrary in this Agreement or any other documents or instruments executed in connection herewith, in no event shall this Agreement or such documents or instruments require or permit the payment, taking, reserving, receiving, collecting or charging of any sums constituting interest under applicable laws which exceed the maximum amount permitted by such laws. If any such excess interest is called for, contracted for, charged, paid, taken, reserved, collected or received in connection with the Obligations or in any communication by Bank or any other person to the Borrower or any other person, or in the event all or part of the principal of the Obligations or interest thereon shall be

prepaid or accelerated, so that under any of such circumstances or under any other circumstance whatsoever the amount of interest contracted for, charged, taken, collected, reserved, or received on the amount of principal actually outstanding from time to time under this Agreement shall exceed the maximum amount of interest permitted by applicable usury laws, if any, then in any such event it is agreed as follows: (i) the provisions of this paragraph shall govern and control, (ii) neither the Borrower nor any other person or entity now or hereafter liable for the payment of the Obligations shall be obligated to pay the amount of such interest to the extent such interest is in excess of the maximum amount of interest permitted by applicable usury laws, if any, (iii) any such excess which is or has been received notwithstanding this paragraph shall be credited against the then unpaid principal balance hereof or, if the Obligations have been or would be paid in full by such credit, refunded to the Borrower, and (iv) the provisions of this Agreement and the other documents or instruments executed in connection herewith, and any communication to the Borrower, shall immediately be deemed reformed and such excess interest reduced, without the necessity of executing any other document, to the maximum lawful rate allowed under applicable laws as now or hereafter construed by courts having jurisdiction hereof or thereof. Without limiting the foregoing, all calculations of the rate of interest contracted for, charged, taken, collected, reserved, or received in connection herewith which are made for the purpose of determining whether such rate exceeds the maximum lawful rate shall be made to the extent permitted by applicable laws by amortizing, prorating, allocating and spreading during the period of the full term of the Obligations, including all prior and subsequent renewals and extensions, all interest at any time contracted for, charged, taken, collected, reserved or received. The terms of this paragraph shall be deemed to be incorporated in every Loan Document and communication relating to the Obligations.

(k) The Borrower shall pay the Bank, quarterly in arrears, an unused fee based upon the difference between the Credit Limit and the average outstanding under the Loan (inclusive of outstanding, but undrawn Letters of Credit) during the preceding fiscal quarter multiplied by one eighth of one percent (.125%) per annum.

(l) In addition to any other charges due hereunder the Borrower shall pay the Bank a late charge equal to five (5%) percent of any amounts not paid within ten (10) days of the date when due hereunder.

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6. DEFINITION OF QUALIFIED ACCOUNT AND ELIGIBLE EQUIPMENT. (a) The term "Qualified Account", as used herein, means an Account owing to Borrower which met the following specifications at the time it came into existence and continues to meet the same until it is collected in full:

(i) The Account is: not more than ninety (90) days from the date of the earlier of shipment or invoice thereof.

(ii) The Account arose from the performance of services or an outright sale of goods by Borrower, such goods have been shipped to the account debtor, and Borrower has possession of, or has delivered to Bank, shipping and delivery receipts evidencing such shipment.

(iii) The Account is not subject to any prior assignment, claim, lien, or security interest, and Borrower will not make any further assignment thereof or create any further security interest therein, nor permit Borrower's rights therein to be reached by attachment, levy, garnishment or other judicial process.

(iv) Except as set forth below, the Account is not subject to setoff, credit, allowance or adjustment by the account debtor, except discount allowed for prompt payment and the account debtor has not complained as to his liability thereon and has not returned any of the goods from the sale of which the Account arose.

(v) The Account arose in the ordinary course of Borrower's business and except as set forth below, did not arise from the performance of services or a sale of goods to a supplier or employee of the Borrower.

(vi) No notice of bankruptcy or insolvency of the account debtor has been received by or is known to the Borrower.

(vii) The Account is not owed by an account debtor whose principal place of business is outside the United States of America unless supported by a satisfactory letter of credit or credit insurance in favor of the Bank.

(viii) Account is not owed by an entity which is a parent, brother/sister, subsidiary or affiliate of Borrower.

(ix) The account debtor is not located in the State of New Jersey or in the State of Minnesota, unless Borrower has filed and shall file all legally required Notice of Business Activities Reports with the New Jersey Division of Taxation or the Minnesota Department of Revenue, as the case may be.

(x) The Account when aggregated with all of the Accounts of that account debtor does not exceed thirty five (35%) percent or fifty (50%) percent if pre-approved by the Bank of the then aggregate of Qualified Accounts, provided, however, this subsection shall not apply to investment-grade customers, customers whose accounts are covered by satisfactory

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credit insurance in favor of the Bank, or supported by a satisfactory letter of credit in favor of the Bank and for the purposes of this subsection the Bank shall treat the separate divisions of AOL Time Warner, AT&T Broadband Cable, Comcast, Cox, and Cablevision as separate customers.

(xi) The Account is not evidenced by a promissory note.

(xii) The Account did not arise out of any sale made on a bill and hold, dating of more than thirty (30) days or delayed shipment basis.

(xiii) The Account does not arise out of a progress billing prior to completion of the order therefor.

(xiv) The Account does not arise out of contracts with the United States or any department, agency, or instrumentality thereof, unless the Borrower has taken any steps required by Bank in order that all monies due and to become due under such contracts shall be assigned to Bank and notice thereof given to the Government under the Federal Assignment of Claims Act.

(xv) Bank, in accordance with its normal credit policies, has not provided notice to the Borrower that it has deemed the Account to be unacceptable for any reason.

PROVIDED THAT if at any time fifty (50%) percent or more of the aggregate amount of the Accounts due from any account debtor are unpaid in whole or in part more than ninety (90) days from the respective earlier dates of shipment or invoice, from and after such time none of the Accounts (then existing or hereafter arising) due from such account debtor shall be deemed to be Qualified Accounts until such time as at least sixty (60%) percent of all Accounts due from such account debtor are (as a result of actual payments received thereon) no more than ninety (90) days from the earlier date of shipment or invoice; Accounts payable by Borrower to an account debtor shall be netted against Accounts due from such account debtor and the difference (if positive) shall constitute Qualified Accounts from such account debtor for purposes of determining the Borrowing Base (notwithstanding paragraphs (iv) or (v) above); characterization of any Account due from an account debtor as a Qualified Account shall not be deemed a determination by Bank as to its actual value nor in any way obligate Bank to accept any Account subsequently arising from such account debtor to be, or to continue to deem such Account to be, a Qualified Account; it is Borrower's responsibility to determine the creditworthiness of account debtors and all risks concerning the same and collection of Accounts are with Borrower; and all Accounts whether or not Qualified Accounts constitute Collateral.

(b) The term "Investment Grade Qualified Accounts" shall mean such Qualified Accounts from non United States based account debtors which carry public debt ratings of BBB -- from Standard and Poors or Bbb3 from Moody's or better.

(c) The term "Eligible Raw Material Inventory" shall mean such Inventory of the Borrower consisting of components and assemblies per the Borrower's financial statements, but which the Bank deems acceptable, excluding finished goods and work-in-process Inventory, consigned Inventory, and bill and hold Inventory.

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7. BANK'S REPORTS. After the end of each month, Bank will render to Borrower a statement of Borrower's loan account with Bank hereunder, showing all applicable credits and debits. Each statement shall be considered correct and to have been accepted by Borrower and shall be conclusively binding upon Borrower in respect of all charges, debits and credits of whatsoever nature contained therein under or pursuant to this Agreement, and the closing balance shown therein, unless Borrower notifies Bank in writing of any discrepancy within twenty (20) days from the mailing by Bank to Borrower of any such monthly statement.

#### 8. CONDITIONS OF LENDING.

(a) The obligation of Bank to make the initial loan hereunder or issuing or causing to be issued any Letter of Credit hereunder shall be subject to the condition precedent that Bank shall have received all of the following, each in form and substance satisfactory to Bank:

(i) This Agreement, properly executed on behalf of Borrower.



(ii) The Note drawn to the order of Bank in the face amount of the Credit Limit.

(iii) a Mortgage, Security Agreement and Assignment from the Borrower granting a third mortgage, assignment of leases and rents, contracts and permits on the property located at 32 Mill Street, Greenville, New Hampshire, subject only to the existing first and second liens in favor of Bank of New Hampshire and other associated mortgage documents.

(iv) A true and correct copy of any and all leases pursuant to which Borrower is leasing any real property, together with a landlord's consent and waiver with respect to such real property. If Borrower is unable to obtain a landlord's consent and waiver for any real property prior to closing then the Borrower shall use all reasonable efforts to obtain same after the closing of the Loan.

(v) Current searches of appropriate filing offices showing that (A) no state or federal tax liens have been filed and remain in effect against Borrower, (B) no financing statements have been filed and remain in effect against Borrower, except those financing statements relating to liens set forth on Schedule "B", the liens of the secured lender to be paid with the proceeds of the initial loan and those financing statements filed by the Bank, and (C) the Bank has duly filed all financing statements necessary to perfect the security interests granted hereunder, to the extent the security interests are capable of being perfected by filing.

(vi) A certificate of the Secretary or an Assistant Secretary of the Borrower, certifying as to (A) the resolutions of the directors and, if required, the shareholders of Borrower, authorizing the execution, delivery and performance of this Agreement and related documents, (B) the Certificate of Incorporation and By-Laws of Borrower, and (C) the signatures of the officers or agents of Borrower authorized to

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execute and deliver this Agreement and other instruments, agreements and certificates, including loan requests, on behalf of Borrower.

(vii) A current certificate issued by the Secretary of State of the state of the Borrower's incorporation, certifying that Borrower is in compliance with all corporate organizational requirements of such state.

(viii) Evidence that Borrower is duly licensed or qualified to transact business in all jurisdictions where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary.

(ix) An opinion of counsel to the Borrower, addressed to Bank.

(x) Certificates of the insurance required hereunder, with all hazard insurance containing a lender's loss payable endorsement in favor of Bank.

(xi) Intentionally Deleted.

(xii) Payment of the fees due through the date of the initial loan and expenses incurred by Bank through such date required to be paid by Borrower pursuant to this Agreement for which invoices have previously been delivered to the Borrower.

(xiii) A Borrowing Base Certificate (including an accounts receivable aging) which indicates that the Borrower has the necessary loan availability to pay all existing secured lenders which are to be paid as of such date.

(xiv) A Covenant Compliance Certificate in the form of Exhibit 2 indicating that the Borrower is in compliance with this Agreement.

(xv) Receipt and satisfactory review by Bank of management prepared balance sheet of Borrower for period ending August 31, 2001.

(xvi) Receipt and satisfactory review by the Bank of an appraisal of the Borrower's Inventory.

(xvii) Receipt of the origination and commitment fee.

(xviii) Such other documents, instruments and agreements as Bank may reasonably request.

(b) The obligation of Bank to make each loan shall be subject to the further conditions precedent on such date:

(i) the representations and warranties contained in Sections 3 and 4 hereof are correct in all material respects on and as of the date of such loan or the issuance of a Letter of Credit, as the case may be, as though made on and as of such date,

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except to the extent that such representations and warranties relate solely to an earlier date; and

(ii) no event has occurred and is continuing, or would result from such loan or issuance of such Letter of Credit, as the case may be, which constitutes an Event of Default or which, with notice or the passage of time or both, would constitute an Event of Default.

#### 9. CAPITAL ADEQUACY.

(a) If Bank shall determine that, after the date hereof, the adoption of any applicable future law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Bank or its parent corporation with any requirement or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

(i) shall subject Bank or its parent corporation to any tax, duty or other similar charge with respect to any Letter of Credit, the loans or the Note or shall change the basis of taxation of payments to Bank or its parent corporation of the Obligations or reimbursement obligations of Letters of Credit or the principal of or interest on the loans or of any other amounts due under this Agreement in respect of any Letter of Credit, the loans or the Note (except for any change in respect of any tax imposed on the overall income of Bank or its parent corporation); or

(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System) against assets of, deposits with or for the account of, or credit extended by, Bank or its parent corporation or shall impose on Bank or its parent corporation any other condition affecting any Letter of Credit, the loans or the Note;

add the result of any of the foregoing is to increase the cost to Bank or its parent corporation of issuing or maintaining any Letter of Credit or of making or maintaining any loans, or to reduce the amount of any sum received or receivable by Bank or its parent corporation under the application and agreement pursuant to which the Letter of Credit was issued, this Agreement or the Note with respect thereto, by an amount reasonably deemed by Bank or its parent corporation to be material, then upon demand by Bank made promptly after Bank becomes aware of such circumstances, Borrower shall pay to Bank such additional amount or amounts as will compensate Bank or its parent corporation for such increased cost or reduction.

(b) If Bank shall determine that the adoption after the date hereof of any applicable law, rule or regulation regarding capital adequacy, or any change therein after the date hereof, any change after the date hereof in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank or its parent corporation with any guideline or

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request issued after the date hereof regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Bank's or the Bank's parent corporation's capital as a consequence of any Letters of Credit, the loans or the Bank's obligations hereunder to a level below that which the Bank or its parent corporation could have achieved but for such adoption, change or compliance (taking into consideration the Bank's policies with respect to capital adequacy and those of the Bank's parent corporation) by an amount reasonably deemed to the Bank or its parent corporation to be material, then from time to time on demand by the Bank, made promptly after Bank becomes aware of such circumstances, the Borrower shall pay to the Bank such additional amount or amounts as will compensate the Bank or its parent corporation for such reduction.

(c) Bank shall allocate such cost increases or reductions in its returns among its customers reasonably and in good faith and on an equitable basis. Notwithstanding anything to the contrary contained herein, the Borrower shall not have any obligation to pay to the Bank amounts owing under this section unless, at the time it requests such compensation, it is the policy or general practice of the Bank to request compensation for comparable costs in similar circumstances under other comparable loan agreements. Certificates of

the Bank sent to the Borrower from time to time claiming compensation under this section, stating the reason therefor and setting forth in reasonable detail the calculation of the additional amount or amounts to be paid to the Bank hereunder shall be conclusive absent manifest error. In determining such amounts, the Bank or its parent corporation may use any reasonable averaging and attribution methods consistent with the other provisions of this section.

10. COLLECTIONS; SET OFF; NOTICE OF ASSIGNMENT; EXPENSES; POWER OF ATTORNEY.

(a) Borrower will immediately, upon receipt of all checks, drafts, cash and other remittances in payment of any Inventory sold or in payment or on account of Borrower's accounts, contracts, contract rights, notes, bills, drafts, acceptances, general intangibles, choses in action and all other forms of obligations, deliver the same to Bank accompanied by a remittance report in form specified by Bank. Said proceeds shall be delivered to Bank in the same form received except for the endorsement of Borrower where necessary to permit collection of items, which endorsement Borrower agrees to make. While an Event of Default does not exist, upon the request of the Borrower, or while an Event of Default does exist at the Bank's option, Bank will credit (conditional upon final collection) all such payments against the principal or interest of any loans secured hereby. The order and method of such application shall be in the sole discretion of Bank and any portion of such funds which Bank elects not to so apply shall be paid over from time to time by Bank to Borrower. Bank will at all times have the right to require Borrower (i) to enter into a lockbox arrangement with Bank for the collection of such remittances and payments, or (ii) to maintain its deposit accounts at Bank, or, in the alternative, at another financial institution which has agreed to accept drafts drawn on it by Bank under a written depository transfer agreement with Bank and to block Borrower's account and waive its rights as against such account.

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(b) Borrower hereby grants to Bank a lien, security interest and right of setoff as security for all liabilities and Obligations to Bank, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity in the control of Citizens Financial Group, Inc., or in transit to any of them. At any time, without demand or notice, Bank may set off the same or any part thereof and apply the same to any Obligation of Borrower or any guarantor even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

(c) Bank may at any time, after the occurrence and during the continuation of an Event of Default, notify account debtors that Collateral has been assigned to Bank and that payments shall be made directly to or as directed by Bank. Upon request of Bank at any such time, Borrower will so notify such account debtors and will indicate on all billings to such account debtors that their Accounts must be paid directly to or as directed by Bank. At any such time, Bank shall have full power to collect, compromise, endorse, sell or otherwise deal with the Collateral or proceeds thereof in its own name or in the name of Borrower.

(d) Borrower shall pay to Bank on demand any and all reasonable counsel fees and other expenses incurred by Bank in connection with the preparation, enforcement, or amendment of this Agreement, or of any documents relating thereto, and any and all expenses, including, but not limited to, a collection charge on all Accounts collected, all attorneys' fees and expenses, and all other expenses of like or unlike nature which may be reasonably expended by Bank to obtain or enforce payment of any Account either as against the account debtor, at any time during the existence of an Event of Default or Borrower, or in the prosecution or defense of any action or concerning any matter growing out of or connected with the subject matter of this Agreement, the Obligations or the Collateral or any of Bank's rights or interests therein or thereto, including, without limiting the generality of the foregoing, any counsel fees or expenses reasonably incurred in any bankruptcy or insolvency proceedings and all costs and expenses reasonably incurred or paid by Bank in connection with the administration, supervision, protection or realization on any security held by Bank for the debt secured hereby, whether such security was granted by Borrower or by any other person primarily or secondarily liable (with or without recourse) with respect to such debt, and all costs and expenses reasonably incurred by Bank in connection with the defense, settlement or satisfaction of any action, claim or demand asserted against Bank in connection with the debt secured hereby, all of which amounts shall be considered advances to protect Bank's security, and shall be secured hereby. At its option, and without limiting any other rights or remedies, Bank may at any time pay or discharge any taxes, liens, security interests or other encumbrances at any time levied against or placed on any of the Collateral, and may procure and pay any premiums on any insurance required to be carried by Borrower, and provide for the maintenance and preservation of any of the Collateral, and otherwise take

any action reasonably deemed necessary to Bank to protect its security, and all amounts reasonably expended by Bank in connection with any of the foregoing matters,

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including reasonable attorneys' fees, shall be considered obligations of Borrower and shall be secured hereby.

(e) Borrower does hereby make, constitute and appoint any officer or agent of Bank as Borrower's true and lawful attorney-in-fact, with power during the existence of an Event of Default to endorse the name of Borrower or any of Borrower's officers or agents upon any notes, checks, drafts, money orders, or other instruments of payment (including payments payable under any policy of insurance on the Collateral) or Collateral that may come into possession of Bank in full or part payment of any amounts owing to Bank; to sign and endorse the name of Borrower or any of Borrower's officers or agents upon any invoice, freight or express bill, bill of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with Accounts, and any instrument or documents relating thereto or to Borrower's rights therein; to give written notice to such office and officials of the United States Post Office to effect such change or changes of address so that all mail addressed to Borrower may be delivered directly to Bank; granting upon Borrower's said attorney full power to do any and all things necessary to be done in and about the premises as fully and effectually as Borrower might or could do. Neither Bank nor the attorney shall be liable for any acts or omissions nor for any error of judgment or mistake, except for their gross negligence or willful misconduct. This power of attorney shall be irrevocable for the term of this Agreement and all transactions hereunder and thereafter as long as Borrower may be indebted to Bank.

11. FINANCING STATEMENTS. At the request of Bank, Borrower will join with Bank in executing one or more Financing Statements pursuant to the Uniform Commercial Code or other notices appropriate under applicable law in form satisfactory to Bank and will pay the cost of filing the same in all public offices wherever filing is deemed by Bank to be necessary or desirable. A legible carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement. The Borrower authorizes the Bank to file a financing statement describing the Collateral.

12. BORROWER'S REPORTS.

(a) Borrower shall deliver to Bank, monthly, an invoice register describing the invoices issued by Borrower since the last schedule submitted to Bank. The invoice register to be provided under this subsection are solely for the convenience of Bank in administering this Agreement and maintaining records of the Collateral. Borrower's failure to provide Bank with any such invoice register shall not affect the security interest of Bank in such Accounts.

(b) Borrower shall cause all of its invoices, including the copies thereof, to be printed and to bear consecutive numbers and shall prepare and issue its invoices in such consecutive numerical order. If requested by Bank, all copies of invoices not previously delivered to Bank shall be delivered to Bank with each schedule of Accounts. Copies of all invoices which are voided or canceled or which for any other reason do not evidence an Account shall be included in such delivery. If any invoice or copy thereof is lost, destroyed or otherwise unavailable, Borrower shall account in writing, in form satisfactory to Bank, for such missing invoice.

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(c) Within fifteen (15) calendar days after the end of each month, or on such other more frequent basis as may be reasonably requested by Bank upon reasonable notice to the Borrower from time to time during the existence of an Event of Default, Borrower shall submit to Bank an aging report in form satisfactory to Bank showing the amounts due and owing on all Accounts according to Borrower's records as of the close of such month, or such shorter period as may be reasonably requested by Bank upon reasonable notice to the Borrower from time to time during the existence of an Event of Default, together with such other information as Bank may reasonably request. If Borrower's monthly aging reports are prepared by an accounting service or other agent, Borrower hereby authorizes such service or agent to deliver the final approved version of such aging reports and any other related documents to Bank.

(d) Within thirty (30) calendar days after the end of each month, or on such other basis as may be reasonably requested by Bank upon reasonable notice to the Borrower from time to time during the existence of an Event of Default, Borrower shall submit to Bank an accounts payable aging report in form satisfactory to Bank showing the amounts due and owing on all accounts payable according to Borrower's records as of the close of such month, or such shorter period as may be reasonably requested by Bank upon reasonable notice to the Borrower from time to time during the existence of an Event of Default, together with such other information as Bank may reasonably request. Borrower's monthly

accounts payable aging reports are prepared by an accounting service or other agent, Borrower hereby authorizes such service or agent to deliver the final approved version of such accounts payable aging reports and any other related documents to Bank.

(e) Borrower shall deliver to Bank all documents, as frequently as indicated below, or at such other times as Bank may upon reasonable notice to the Borrower request during the existence of an Event of Default, and all other documents and information requested by Bank:

<TABLE>

<CAPTION>

	DOCUMENT	FREQUENCY DUE
<S>	<C>	<C>
(i)	A Borrowing Base Certificate, in the form of Exhibit Borrowing Base annexed hereto prior to the execution hereof and incorporated by reference herein.	Monthly within fifteen (15) days after the end of each calendar month.
(ii)	List of names and addresses of account debtors to whom Borrower has made sales during the previous fiscal year	Annually, within sixty (60) days after the end of each fiscal year of Borrower
(iii)	Reconciliation report, in form satisfactory to Bank, showing all accounts, collections, payments, credits, and extensions since the preceding report	Monthly within thirty (30) days after the end of each calendar month.
(iv)	Projections of Borrower's balance sheet, statement of profit and loss and cash flow for the next succeeding fiscal year broken down on a quarterly basis	Annually, within thirty (30) days after the end of each fiscal year of the Borrower
(v)	A listing of the names and addresses of all	Annually within sixty (60) after the

</TABLE>

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<TABLE>

<S> <C>

<C>

	suppliers and vendors from whom Borrower has made purchases during the previous fiscal year.	end of each fiscal year of Borrower
(vi)	Notice of noncompliance with the covenants of this Agreement	Immediately upon learning of such noncompliance.
(vii)	Compliance Certificate in the form annexed hereto as Exhibit 2	As soon as available and in any event within sixty (60) days after the close of each quarterly period of Borrower's fiscal year
(viii)	List of Offsite Inventory	Quarterly within thirty (30) days after the end of each calendar quarter.

</TABLE>

(f) Borrower will furnish Bank as soon as available, and in any event within thirty (30) days after the close of each calendar month period of its fiscal year, a balance sheet as of the end of such period, and a statement of income and retained earnings for the period commencing at the end of the previous fiscal year and ending with the end of such period, and a statement of cash flows (on a quarterly basis only) of the Borrower for the portion of the fiscal year ended with the last day of such period, all in reasonable detail and stating in comparative form the respective figures for the corresponding date and period in the previous fiscal year, and all prepared in accordance with generally accepted accounting principles consistently applied, certified by the chief financial officer of the Borrower (subject to year end adjustment).

(g) Borrower will furnish Bank as soon as available, and in any event within forty five (45) days after the close of each quarterly period of its fiscal year, a copy of its Securities and Exchange Commission 10-Q report.

(h) Borrower will furnish Bank, annually, as soon as available, and in any event within one hundred and five (105) days after the end of each fiscal year of Borrower, a balance sheet as of the end of such fiscal year, and a statement of income and retained earnings for such fiscal year, and a statement

of cash flows for such fiscal year, all in reasonable detail and stating in comparative form the respective figures for the prior fiscal year, and all prepared in accordance with generally accepted accounting principles consistently applied, accompanied by an opinion thereon reasonably acceptable to Bank by independent public accountants selected by the Borrower and reasonably acceptable to Bank.

(i) Borrower will promptly, upon receipt thereof, deliver to Bank, copies of any reports submitted to the Borrower by Borrower's independent public accountants in connection with the examination of the financial statements of the Borrower made by such accountants (the so-called "Management Letter").

(j) In addition to the foregoing, the Borrower promptly shall provide Bank with such other and additional information concerning the Borrower, the Collateral, the operation of the Borrower's business, and the Borrower's financial condition, including financial reports and statements, as Bank may from time to time reasonably request from the Borrower. All financial information provided Bank by the Borrower shall be prepared in accordance with

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generally accepted accounting or auditing principles (as applicable) applied consistently in the preparation thereof and with prior periods to fairly reflect the financial conditions of the Borrower at the close of, and its results of operations for, the periods in question (subject, in the case of unaudited information, to year-end adjustments and the absence of footnotes).

(k) Field examinations at the Borrower's expense, may be performed by the Bank semi-annually if the average outstanding balance of the Loan is greater than \$7,500,000.00 for any calendar quarter, annually if the average outstanding remains less than \$7,500,000.00, or at any time while an Event of Default exists.

### 13. GENERAL AGREEMENTS OF BORROWER.

(a) Borrower agrees to keep all the Collateral insured with coverage and in amounts not less than that usually carried by one engaged in a like business and in any event not less than that reasonably requested by Bank with loss payable to Bank and Borrower, as their interests may appear, hereby appointing Bank as attorney for Borrower during the existence of an Event of Default in obtaining, adjusting, settling and canceling such insurance and endorsing any drafts. As further assurance for the payment and performance of the Obligations, Borrower hereby assigns to Bank all sums, including returns of unearned premiums, which may become payable under any policy of insurance on the Collateral and Borrower hereby directs each insurance company issuing any such policy to make payment of such sums directly to Bank provided, however as long as; (i) no Event of Default exists, and (ii) no Obligations are outstanding, or if Obligations are outstanding the insurance proceeds are not in excess of \$500,000.00, then such sums shall be paid to the Borrower.

(b) Bank or its agents have the right to inspect the Collateral and all records pertaining thereto during the Borrower's regular business hours and upon reasonable prior notice as long as no Event of Default exists and without prior notice while an Event of Default exists.

(c) Intentionally Deleted.

(d) Borrower will at all times keep accurate and complete records of Borrower's Inventory, Accounts and other Collateral, and Bank, or any of its agents, shall have the right to call at Borrower's place or places of business during the Borrower's regular business hours and upon reasonable prior notice as long as no Event of Default exists and without prior notice while an Event of Default exists, to inspect, audit, check, and make extracts from any copies of the books, records, journals, orders, receipts, correspondence which relate to Borrower's Accounts, and other Collateral or other transactions, between the parties thereto and the general financial condition of Borrower and Bank may make copies of any of such records. During the existence of an Event of Default, Borrower shall pay to Bank all reasonable audit and field examination fees plus all travel and other expenses incurred in connection with any such audit.

(e) Intentionally Deleted.

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(f) Borrower will maintain its corporate existence in good standing and comply with all laws and regulations of the United States or of any state or states thereof or of any political subdivision thereof, or of any governmental authority which may be applicable to it or to its business.

(g) Borrower will pay all real and personal property taxes, assessments and charges and all franchises, income, unemployment, old age benefits, withholding, sales and other taxes assessed against it, or payable by it at such times and in such manner as to prevent any penalty from accruing or

any lien or charge from attaching to its property.

(h) Bank may in its own name or in the name of others communicate with account debtors in order to verify with them to Bank's satisfaction the existence, amount and terms of any Accounts, provided, however, while an Event of Default does not exist such verification shall be by mail and not in the Bank's own name.

(i) Intentionally Deleted.

(j) Intentionally Deleted.

(k) If any of Borrower's Accounts should be evidenced by promissory notes, trade acceptances, or other instruments for the payment of money, Borrower will immediately deliver same to Bank, appropriately endorsed to Bank's order and, regardless of the form of such endorsement, Borrower hereby waives presentment, demand, notice of dishonor, protest and notice of protest and all other notices with respect thereto.

(l) Intentionally Deleted.

(m) Borrower will promptly notify Bank upon receipt of notification of any potential or known release or threat of release of hazardous materials, hazardous waste, hazardous or toxic substance or oil from any site operated by Borrower or of the incurrence of any expense or loss in connection therewith or with the Borrower's obtaining knowledge of any investigation, action or the incurrence of any expense or loss by any governmental authority in connection with the assessment, containment or removal of any hazardous material or oil for which expense or loss the Borrower may be liable. As used herein, the terms "hazardous waste," "hazardous or toxic substance," "hazardous material" or "oil" shall have the same meanings as defined and used in any of the following (the "Acts"): the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 USC Sections 9601-9657, as amended by the Superfund Accounts and Reauthorization Act of 1986; the Federal Resource Conservation and Recovery Act, 42 USC Sections 6901 et seq.; the Hazardous Materials Transportation Act, -----  
49 USC Sections 1801 et seq.; the Toxic Substances Control Act, 15 USC Sections -----  
2601 et seq.; the Federal Water Pollution Control Act, 33 USC Sections 1251 et -----  
seq.; the Clean Air Act, 42 USC Sections 741 et seq.; the Clean Water Act, 33 -----  
USC Section 701; the Safe Drinking Water Act, 42 USC Sections 300(f)- 300(j); M.G.L.A. c. 21E (Massachusetts Oil and Hazardous Material Release Prevention Act); M.G.L.A. c. 21C (Massachusetts Hazardous Waste Management Act); and/or the regulations adopted and publications promulgated pursuant to any of the Acts, as the same may be amended from time to time.

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(n) Except for Bank's gross negligence or willful misconduct, Borrower will indemnify and save Bank harmless from all loss, costs, damage, liability or expenses (including, without limitation, court costs and reasonable attorneys' fees) that Bank may sustain or incur by reason of defending or protecting this security interest or the priority thereof or enforcing the Obligations, or in the prosecution or defense of any action or proceeding concerning any matter growing out of or in connection with this Agreement and/or any other documents now or hereafter executed in connection with this Agreement and/or the Obligations and/or the Collateral. This indemnity shall survive the repayment of the Obligations and the termination of Bank's agreement to make loans available to Borrower and the termination of this Agreement.

(o) At the reasonable request of Bank during the existence of an Event of Default, Borrower will furnish to Bank, from time to time, within five (5) days after the accrual in accordance with applicable law of Borrower's obligation to make deposits for F.I.C.A. and withholding taxes and/or sales taxes, proof satisfactory to Bank that such deposits have been made as required.

(p) Should Borrower, during the existence of an Event of Default, fail to make any of such deposits or furnish such proof then Bank may, in its sole and absolute discretion, (a) make any of such deposits or any part thereof, (b) pay such taxes, or any part thereof, or (c) setup such reserves as Bank, in its reasonable judgment, shall deem necessary to satisfy the liability for such taxes. Each amount so deposited or paid shall constitute an advance under the terms hereof, repayable on demand with interest, as provided herein, and secured by all Collateral and any other property at any time pledged by Borrower with Bank. Nothing herein shall be deemed to obligate Bank to make any such deposit or payment or setup such reserve and the making of one or more of such deposits or payments or the setting-up of such reserve shall not constitute (i) an agreement on Bank's part to take any further or similar action, or (ii) a waiver of any default by Borrower under the terms hereof.

(q) All advances by Bank to Borrower under this Agreement and under any other agreement constitute one general revolving fluctuating loan, and all

indebtedness of Borrower to Bank under this and under any other agreement constitute one general Obligation. Each advance to Borrower hereunder or otherwise shall be made upon the security of all of the Collateral held and to be held by Bank. It is distinctly understood and agreed that all of the rights and obligations of Bank contained in this Agreement shall likewise apply, insofar as applicable, to any modification of or supplement to this Agreement and to any other agreements between Bank and Borrower. Any default of this Agreement by Borrower shall constitute, likewise, a default by Borrower of any other existing agreement with Bank, and any default by Borrower of any other agreement with Bank shall constitute a default of this Agreement. The entire Obligation of Borrower to Bank shall become due and payable upon termination of this Agreement.

(r) Borrower hereby grants to Bank for a term to commence on the date of this Agreement and continuing thereafter until all debts and Obligations of any kind or character owing from Borrower to Bank are fully paid and discharged, the right to use all premises or places of business which Borrower presently owns or may hereafter acquire and where any of the

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Collateral may be located, at a total rental for the entire period of \$1.00. Bank agrees not to exercise the rights granted in this paragraph unless and until Bank determines to exercise its rights against the Collateral in accordance with Section 15 hereof.

(s) Borrower will, at its expense, upon request of Bank promptly and duly execute and deliver such documents and assurances and take such actions as may be necessary or desirable or as Bank may reasonably request in order to correct any defect, error or omission which may at any time be discovered or to more effectively carry out the intent and purpose of this Agreement and to establish, perfect and protect Bank's security interest, rights and remedies created or intended to be created hereunder. Without limiting the generality of the above, Borrower will join with Bank in executing financing and continuation statements pursuant to the Uniform Commercial Code or other notices appropriate under applicable Federal or state law in form satisfactory to Bank and filing the same in all public offices and jurisdictions wherever and whenever requested by Bank.

(t) Borrower shall perform any and all further steps reasonably requested by Bank to perfect Bank's security interest in Inventory, such as leasing warehouses to Bank or its designee, placing and maintaining signs, appointing custodians, maintaining stock records and transferring Inventory to warehouses. A physical listing of all Inventory, wherever located, shall be taken by Borrower at least annually and whenever reasonably requested by Bank if one or more of the Events of Default exist.

(u) Borrower hereby grants to Bank for a term to commence on the date of this Agreement and continuing thereafter until all debts and Obligations of any kind or character owed to Bank are fully paid and discharged, a non-exclusive irrevocable royalty-free license in connection with Bank's exercise of its rights in accordance with Section 15 hereof, to use, apply or affix any trademark, trade name logo or the like and to use any patents, in which the Borrower now or hereafter has rights, which license may be used by Bank during the existence of any one or more of the Events of Default, provided, however, that such use by Bank shall be suspended if such Events of Default are cured. This license shall be in addition to, and not in lieu of, the inclusion of all of Borrower's trademarks, servicemarks, tradenames, logos, goodwill, patents, franchises and licenses in the Collateral; in addition to the right to use said Collateral as provided in this paragraph, Bank shall have full right during the existence of an Event of Default to exercise any and all of its other rights regarding Collateral with respect to such trademarks, servicemarks, tradenames, logos, goodwill, patents, franchises and licenses.

(v) Borrower shall notify the Bank if the Borrower shall acquire a Commercial Tort Claim and grant to the Bank a security interest therein and in the proceeds thereof.

(w) Intentionally Deleted.

(x) Borrower shall at any time and from time to time, take such steps as the Bank may reasonably request for the Bank (a) to obtain an acknowledgment, in form and substance satisfactory to the Bank, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for the Bank, (b) to obtain "control" of any letter-of-credit rights

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or electronic Chattel Paper (as such terms are defined in sections 9-104, 9-105, 9-106 Bank and 9-107 of the Uniform Commercial Code relating to what constitutes "control" for such items of Collateral), with any agreements establishing control to be in form and substance satisfactory to the Bank, and (c) otherwise to insure the continued perfection of the Bank's security interest in any of the



Collateral with the priority described in this Agreement and of the preservation of its rights therein.

(y) The Borrower shall maintain its operating accounts at the Bank.

14. BORROWER'S NEGATIVE COVENANTS. Borrower will not at the closing or at any time:

(a) (Capital Base) permit its senior indebtedness to be more than 0.9 times the amount of its tangible capital base tested quarterly.

(b) (Fixed Charge Coverage) permit, for the twelve-month period ending on the last day of any fiscal quarter, the ratio of cash flow to fixed charges to be less than 1.5 to 1 tested quarterly;

(c) (Capital Expenditures) for the quarter ending January 31, 2002, make, directly or indirectly, capital expenditures in an aggregate amount greater than \$750,000.00, and for any fiscal year thereafter \$4,000,000.00 tested annually.

(d) (Current Ratio) permit the ratio of current assets to be less than 1.5 times its current liabilities tested quarterly.

(e) (Minimum EBITDA) commencing with the quarter at or near October 31, 2001, permit EBITDA to be less than \$4,500,000.00 and thereafter \$7,000,000.00 on a trailing twelve (12) month basis, to be tested quarterly.

(f) (Net Loss) commencing with the Borrower's fiscal year ending January 31, 2003, permit any annual net loss;

(g) (Disposition of Collateral) sell, assign, exchange or otherwise dispose of more than \$100,000.00 of the Collateral, other than Inventory consisting of (i) scrap, waste, defective goods and the like; (ii) obsolete goods; (iii) finished goods sold in the ordinary course of business or any interest therein to any individual, partnership, trust or other corporation; and (iv) Equipment which is no longer required or deemed necessary for the conduct of Borrower's business;

(h) (Liens) create, permit to be created or suffer to exist any lien, encumbrance or security interest of any kind ("Lien") upon any of the Collateral or any other property of Borrower, now owned or hereafter acquired, except: (i) landlords', carriers', warehousemen's, mechanics' and other similar liens arising by operation of law in the ordinary course of Borrower's business; (ii) arising out of pledge or deposits under worker's compensation, unemployment insurance, old age pension, social security retirement benefits or

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other similar legislation; (iii) purchase money Liens arising in the ordinary course of business (so long as the indebtedness secured thereby does not exceed the lesser of the cost or fair market value of the property subject thereto, and such Lien extends to no other property); (iv) Liens which total more than \$1,000,000.00 in aggregate other than those granted to the Bank provided such Liens are subject and subordinate to the Bank in form and substance satisfactory to the Bank; (v) Liens for unpaid taxes that are either (x) not yet due and payable, or (y) are subject of permitted protests; (vi) Liens which are the subject of permitted protests; (vii) those Liens and encumbrances set forth on Schedule "B" annexed hereto; (viii) Liens in favor of local lenders to foreign subsidiaries of the Borrower, in assets of such foreign subsidiaries and in amounts agreed upon by the Bank and the Borrower from time to time; and (xi) in favor of Bank; the term "permitted protests" as used herein means the right of the Borrower to protest any Lien (other than a Lien that secures the Obligations), tax (other than payroll taxes or taxes that are the subject of a federal or state tax lien) or rental payment, provided that (x) a reserve with respect to such liability is established on the books of the Borrower in an amount that is reasonably satisfactory to the Bank, (y) any such protest is instituted and diligently prosecuted by the Borrower in good faith, and (z) the Bank has not notified the Borrower that, while such protest is pending, there will be any material impairment of the enforceability, validity or priority of any of the Liens of the Bank in and to the Collateral;

(i) (Dividends) except for stock or stock dividends to employees of the Borrower's New Hampshire subsidiary, SeaChange Systems, Inc., pay any dividends on or make any distribution on account of any class of Borrower's capital stock in cash or in property (other than additional shares of such

stock), or redeem, purchase or otherwise acquire, directly or indirectly, any of such stock other than stock repurchased from terminated or departed employees;

(j) (Loans) make any loans or advances to any individual,

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partnership, trust or other corporation, including without limitation Borrower's directors, officers and employees, except (1) advances to officers or employees with respect to expenses incurred by them in the ordinary course of their duties which are properly reimbursable by Borrower and (2) loans to officers or employees not to exceed \$250,000 at any time;

(k) (Guarantees) assume, guaranty, endorse or otherwise become

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directly or contingently liable in respect of (including without limitation by way of agreement, contingent or otherwise, to purchase, provide funds to or otherwise invest in a debtor or otherwise to assure a creditor against loss), any indebtedness which total more than \$1,000,000.00 in the aggregate (except guarantees by endorsement of instruments for deposit or collection in the ordinary course of business and guarantees in favor of Bank) of any individual, partnership, trust or other corporation;

(l) (Investments) (i) use any loan proceeds to purchase or carry any

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"margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System) or (ii) invest in or purchase any stock or securities of any individual, partnership, trust or other corporation except (x) readily marketable direct obligations of, or obligations guaranteed by, the United States of America or any agency thereof, (y) time deposits with or certificates of deposit issued by the Bank or (z) stock of subsidiaries of the Borrower;

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(m) (Transactions with Affiliates) enter into any lease or other

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transaction (other than employee agreements or similar arrangements) with any shareholder, officer or affiliate on terms any less favorable than those which might be obtained at the time from persons who (or entities which) are not such a shareholder, officer or affiliate;

(n) (Subsidiaries) sell, transfer or otherwise dispose of any stock

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of any subsidiary of Borrower; or

(o) (Mergers, Consolidations or Sales) (a) merge or consolidate with

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or into any corporation; (b) enter into any joint venture or partnership with any person, firm or corporation; (c) convey, lease or sell all or any material portion of its property or assets or business to any other person, firm or corporation, except for the sale of Inventory in the ordinary course of its business; or (d) convey, lease or sell any of its assets to any person, firm or corporation for less than the fair market value thereof provided, however, acquisitions will be permitted without the consent of the Bank if they meet the following tests: (i) the acquired company must be in a similar or complementary line of business, (ii) the Borrower must be in pro forma compliance with all financial covenants, and (iii) the Borrower is the surviving entity (the "Permitted Acquisitions"). The Borrower with the prior consent of the Bank may make non Permitted Acquisitions.

For purposes of this section: "affiliate" shall mean any person or entity (i) which directly or indirectly controls, or is controlled by or is under common control with the Borrower or a subsidiary, (ii) which directly or indirectly beneficially holds or owns twenty (20%) percent or more of any class of voting stock of the Borrower or any subsidiary, or (iii) five (5%) percent or more of the voting stock of which is directly or indirectly beneficially owned or held by the Borrower or a subsidiary; "capital assets" shall mean assets that, in accordance with generally accepted accounting principles, are required or permitted to be depreciated or amortized on the Borrower's balance sheet; "capital expenditures" shall mean but not be limited to amounts paid during such fiscal year for capital assets or capital leases and shall include, in the case of a purchase, the entire purchase price and, in the case of a capital lease (but not an operating lease), the entire rental for the term; "capital leases" shall mean capital leases, conditional sales contracts and other title retention agreements relating to the purchase or acquisition of capital assets; "cash equivalents" shall mean bonds, stocks, or other marketable securities approved by the Bank "cash flow" shall mean EBITDA, plus new cash equity, minus capital expenditures, minus taxes actually paid; "CMLTD" shall mean the current maturity of long term indebtedness paid during the applicable period, including but not limited to, amounts required to be paid during such period under capital leases; "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of any person or entity, whether through the ownership of voting securities, by contract or otherwise; "current assets" shall mean cash, accounts receivable and inventory; "current liabilities" shall mean current liabilities as determined in accordance with GAAP; "distributions" shall mean all payment or distributions to

shareholders in cash or in property other than reasonable salaries, bonuses and expense reimbursements; "EBITDA" shall mean, for the applicable period, income from continuing operations before the payment of interest and taxes, plus depreciation and amortization, determined in accordance with generally accepted accounting principles; "fixed

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charges" shall mean interest, plus CMLTD; "indebtedness" shall mean (i) all liabilities for borrowed money, for the deferred purchase price of property or services, and under leases which are or should be, under generally accepted accounting principles, recorded as capital leases, in respect of which a person or entity is directly or indirectly, absolutely or contingently liable as obligor, guarantor, endorser or otherwise, or in respect of which such person or entity otherwise assures a creditor against loss, (ii) all liabilities of the type described in (i) above which are secured by (or for which the holder has an existing right, contingent or otherwise, to be secured by) any lien upon property owned by such person or entity, whether or not such person or entity has assumed or become liable for the payment thereof, and (iii) all other liabilities or obligations which would, in accordance with generally accepted accounting principles, be classified as liabilities of such person or entity; "interest" shall mean, for the applicable period, all interest paid or payable, including, but not limited to, interest paid or payable on indebtedness and on capital leases, determined in accordance with generally accepted accounting principles; operating income shall mean income from operations before depreciation, amortization, stock based compensation, interest income, interest expense and taxes "senior indebtedness" shall mean any indebtedness which is not subordinated indebtedness; "subordinated indebtedness" shall mean indebtedness which is expressly stated to be subordinated or junior in right of payment to Borrower's Obligations to Bank in a manner and in a form which is satisfactory to Bank; "tangible capital base" shall mean Borrower's tangible net worth plus its subordinated indebtedness; "tangible net worth" shall mean Borrower's stockholders' equity determined in accordance with generally accepted accounting principles, consistently applied, subtracting therefrom (i) intangibles (as

determined in accordance with such principles so applied) and (ii) accounts and indebtedness owing to Borrower from any employee or parent, subsidiary or other affiliate of Borrower; and "unfinanced capital expenditures" shall mean capital expenditures, minus long term indebtedness issued during the applicable period for the acquisition of capital assets.

#### 15. DEFAULT; RIGHTS AND REMEDIES UPON DEFAULT.

(a) During the existence of any one or more of the following events (herein, "Events of Default"), Bank may decline to make any or all further loans hereunder or under any other agreements with Borrower, any and all Obligations of the Borrower to Bank shall become immediately due and payable, at the option of Bank without notice or demand. The occurrence of any such Event of Default shall also constitute, without notice or demand, a default under all other agreements between Bank and the Borrower and instruments and papers given Bank by the Borrower, whether such agreements, instruments, or papers now exist or hereafter arise, namely:

(i) The failure by the Borrower to pay when due any principal, interest, fees, costs, and expenses due pursuant to this Agreement.

(ii) The failure by the Borrower to pay, when due, any other Obligations.

(iii) Default by the Borrower in the observance or performance of any of the covenants or agreements of the Borrower contained in Sections 10(a) or 14 of this Agreement.

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(iv) The failure by the Borrower to promptly, punctually and faithfully perform, or observe any term, covenant or agreement on its part to be performed or observed pursuant to any of the provisions of this Agreement, other than those described in Sections 5(b), 5(h), 5(i), 10(a), 10(d), 14, or in any other agreement with Bank which is not remedied within the earlier of ten (10) days after (i) notice thereof by Bank to Borrower, or (ii) the date Borrower was required to give notice to Bank pursuant to Section 12 hereof.

(v) Any representation or warranty heretofore, now or hereafter made by the Borrower to Bank, in any documents, instrument, agreement, or paper was not true or accurate when given in any material respect.

(vi) The occurrence of any event such that any indebtedness of the Borrower in excess of \$500,000.00 from any lender other than Bank could be accelerated, notwithstanding that such acceleration has not taken place.

(vii) The occurrence of any event which would cause a lien creditor, as that term is defined in Section 9-301 of the Code, to take priority over advances made by Bank.

(viii) A filing against or relating to the Borrower of (A) a federal tax lien in favor of the United States of America or any political subdivision of the United States of America, or (B) a state tax lien in favor of any state of the United States of America or any political subdivision of any such state which is not dismissed or stayed with thirty (30) days or for claims under \$100,000.00 being diligently contested by the Borrower.

(ix) The occurrence of any event of default under any agreement between Bank and the Borrower or instrument or paper given Bank by the Borrower, whether such agreement, instrument, or paper now exists or hereafter arises (notwithstanding that Bank may not have exercised its rights upon default under any such other agreement, instrument or paper).

(x) Any act by, against, or relating to the Borrower, or its property or assets, which act constitutes the application for, consent to, or sufferance of the appointment of a receiver, trustee or other person, pursuant to court action or otherwise, over all, or any part of the Borrower's property.

(xi) The granting of any trust mortgage or execution of an assignment for the benefit of the creditors of the Borrower, or the occurrence of any other voluntary or involuntary liquidation or extension of debt agreement for the Borrower; the failure by the Borrower to generally pay the debts of the Borrower as they mature; adjudication of bankruptcy or insolvency relative to the Borrower; the entry of an order for relief or similar order with respect to the Borrower in any proceeding pursuant to Title 11 of the United States Code entitled "Bankruptcy" (hereinafter the "Bankruptcy Code") or any other federal bankruptcy law; the filing of any complaint, application, or petition by or

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against the Borrower initiating any matter in which the Borrower is or may be granted any relief from the debts of the Borrower pursuant to the Bankruptcy Code or any other insolvency statute or procedure; the calling or sufferance of a meeting of creditors of the Borrower; the meeting by the Borrower of a formal or informal creditor's committee; the offering by or entering into by the Borrower of any composition, extension or any other arrangement seeking relief or extension for the debts of the Borrower, or the initiation of any other judicial or non-judicial proceeding or agreement by, against or including the Borrower which seeks or intends to accomplish a reorganization or arrangement with creditors.

(xii) The entry of any judgment in excess of \$100,000.00 against Borrower, which judgment is not satisfied or appealed from (with execution or similar process stayed) within fifteen (15) days of its entry.

(xiii) Intentionally Deleted.

(xiv) The entry of any court order which enjoins, restrains or in any way prevents the Borrower from conducting all or any material portion of its business affairs in the ordinary course of business.

(xv) The service of any process upon Bank seeking to attach by trustee process any funds of the Borrower on deposit with Bank.

(xvi) If all of William Styslinger, Bruce Mann, and William Fiedler cease to be executive officers of the Borrower.

(xvii) The occurrence of any material uninsured loss, theft, damage or destruction to any material asset(s) of the Borrower.

(xviii) Any act by or against, or relating to the Borrower or its assets pursuant to which any creditor of the Borrower seeks to reclaim or repossess or reclaims or repossesses all or a material portion of the Borrower's assets.

(xix) The termination of existence, dissolution, or liquidation of the Borrower, or the ceasing to carry on actively any substantial part of Borrower's current business.

(xx) This Agreement shall, at any time after its execution and delivery and for any reason, cease (A) to create a valid and perfected first priority security interest in and to the property purported to be subject to this Agreement; or (B) to be in full force and effect or shall be declared null and void, or the validity or enforceability hereof shall be contested by the Borrower or any guarantor of the Borrower denies it has any further liability or obligation hereunder.

(xxi) Any of the following events occur or exist with respect to the Borrower or any ERISA affiliate: (A) any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Internal Revenue Code) involving any Plan; (B) any

"reportable event" (as defined in Section 4043 of ERISA and the regulations issued under such Section) shall occur with respect to any Plan; (C) The filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan; (D) any event or circumstance exists which might constitute grounds entitling the Pension Benefit Guaranty Corporation (PBGC) to institute proceedings under Section 4042 of ERISA for the termination of, or for the appointment of a trustee to administer, any Plan, or the institution by the PBGC of any such proceedings; (E) or partial withdrawal under Section 4201 or 4204 of ERISA from a Multiemployer Plan or the reorganization, insolvency, or termination of any Multiemployer Plan; and in each case above, such event or condition, together with all other events or conditions, if any, could in the opinion of Bank subject the Borrower to any tax, penalty, or other liability to a Plan, a Multiemployer Plan, the PBGC, or otherwise.

(xxii) The occurrence of (A) any of the Events of Default described in Sections 15(vi), 15(viii), 15(xi), 15(xii), or 15(xix), with respect to any guarantor to Bank of the Obligations, as if such guarantor were the "Borrower" described therein, or (B) the failure by any guarantor to Bank of the Obligations to perform in accordance with the terms of any agreement between such guarantor and the Bank.

(xxiii) The termination of any guaranty by any guarantor of the Obligations.

During the existence of an Event of Default, Bank may declare any obligation Bank may have hereunder to be canceled, declare all Obligations of Borrower to be due and payable and proceed to enforce payment of the Obligations and to exercise any and all of the rights and remedies afforded to Bank by the Uniform Commercial Code or under the terms of this Agreement or otherwise. In addition, during the existence of an Event of Default, if Bank proceeds to enforce payment of the Obligations, Borrower shall be obligated to deliver to Bank cash collateral in an amount equal to the aggregate amounts then undrawn on all outstanding Letters of Credit or acceptances issued or guaranteed by Bank for the account of Borrower, and Bank may proceed to enforce payment of the same and to exercise all rights and remedies afforded to Bank by the Uniform Commercial Code or under the terms of this Agreement or otherwise. During the existence of an Event of Default, the Borrower, as additional compensation to the Bank for its increased credit risk, promises to pay interest on all Obligations (including, without limitation, principal, whether or not past due, past due interest and any other amounts past due under this Agreement) at a per annum rate of four (4%) percent greater than the rate of interest then specified in Section 5 of this Agreement.

(b) Upon the filing of any complaint, application, or petition by or against the Borrower initiating any matter in which the Borrower is or may be granted any relief from the debts of the Borrower pursuant to the Bankruptcy Code, Bank's obligation hereunder shall be canceled immediately, automatically, and without notice, and all Obligations of the Borrower then outstanding shall become immediately due and payable without presentation, demand, or notice of any kind to the Borrower.

(c) Any sale or other disposition of the Collateral by Bank during the existence of an Event of Default may be at public or private sale upon such terms and in such manner as the Bank deems advisable, having due regard to compliance with any statute or regulation which might affect, limit or apply to the Bank's disposition of the Collateral. The Bank may conduct any such sale or other disposition of the Collateral upon the Borrower's premises. Unless the Collateral is perishable or threatens to decline speedily in value, or is of a type customarily sold on a recognized market (in which event the Bank shall provide the Borrower with such notice as may be practicable under the circumstances), the Bank shall give the Borrower at least the greater of the minimum notice required by law or ten (10) days prior written notice of the date, time and place of any proposed public sale, and of the date after which any private sale or other disposition of the Collateral may be made. The Bank may purchase the Collateral, or any portion of it at any public sale.

(d) The Bank may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

(e) In connection with the Bank's exercise of the Bank's rights during the existence of an Event of Default, the Bank may enter upon, occupy and use any premises owned or occupied by the Borrower, and may exclude the Borrower from such premises or portion thereof as may have been so entered upon, occupied, or used by the Bank. The Bank shall not be required to remove any of the Collateral from any such premises upon the Bank's taking possession thereof, and may render any Collateral unusable to the Borrower. In no event shall the

Bank be liable to the Borrower for use or occupancy by the Bank of any premises pursuant to this Agreement other than as a result of Bank's gross negligence or willful misconduct.

(f) During the existence of any Event of Default, the Bank may require the Borrower to assemble the Collateral and make it available to the Bank at the Borrower's sole risk and expense at a place or places which are reasonably convenient to both the Bank and the Borrower.

16. PROCESSING AND SALES OF INVENTORY. So long as Borrower is not in default hereunder, Borrower shall have the right, in the regular course of business, to process and sell Borrower's Inventory. A sale in the ordinary course of business shall not include a transfer in total or partial satisfaction of a debt.

17. WAIVER OF JURY TRIAL. BORROWER AND BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE OR HEREAFTER HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT. Borrower hereby certifies that neither Bank nor any of its representatives, agents or counsel has represented, expressly or otherwise, that Bank would not, in the event of any such suit, action or proceeding, seek to enforce this waiver of right to trial by jury. Borrower acknowledges that Bank has been induced to enter into this Agreement by, among other things, this waiver. Borrower acknowledges that it has read the provisions of this Agreement and in particular, this section; has consulted legal counsel; understands the right it is granting in this

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Agreement and is waiving in this section in particular; and makes the above waiver knowingly, voluntarily and intentionally.

18. CONSENT TO JURISDICTION. Borrower and Bank agree that any action or proceeding to enforce or arising out of this Agreement may be commenced in any court of the Commonwealth of Massachusetts sitting in the county of Suffolk, or in the District Court of the United States for the District of Massachusetts, and Borrower waives personal service of process and agrees that a summons and complaint commencing an action or proceeding in any such court shall be properly served and confer personal jurisdiction if served by registered or certified mail to Borrower, or as otherwise provided by the laws of the Commonwealth of Massachusetts or the United States of America.

#### 19. TERMINATION

(a) Unless renewed in writing, this Agreement shall terminate on October 22, 2003 (the "Termination Date"), and all Obligations shall be due and payable in full without presentation, demand, or further notice of any kind, whether or not all or any part of the Obligations is otherwise due and payable pursuant to the agreement or instrument evidencing same. Bank may terminate this Agreement immediately and without notice upon the occurrence of an Event of Default. Notwithstanding the foregoing or anything in this Agreement or elsewhere to the contrary, the security interest, Bank's rights and remedies hereunder and Borrower's obligations and liabilities hereunder shall survive any termination of this Agreement and shall remain in full force and effect until all of the Obligations outstanding, or contracted or committed for (whether or not outstanding), before the receipt of such notice by Bank, and any extensions or renewals thereof (whether made before or after receipt of such notice), together with interest accruing thereon after such notice, shall be finally and irrevocably paid in full. No Collateral shall be released or financing statement terminated until such final and irrevocable payment in full of the Obligations, as described in the preceding sentence.

(b) In the event that Bank continues to make loans hereunder after the Termination Date without a written extension of the Termination Date, all such loans: (i) shall be made in the sole and absolute discretion of Bank; and (ii) shall, together with all other Obligations, be payable thereafter ON DEMAND.

#### 20. MISCELLANEOUS.

(a) No delay or omission on the part of Bank in exercising any rights shall operate as a waiver of such right or any other right. Waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. All Bank's rights and remedies, whether evidenced hereby or by any other agreement, instrument or paper, shall be cumulative and may be exercised singularly or concurrently.

(b) Bank is authorized to make loans under the terms of this Agreement upon the request, either written or oral, in the name of Borrower or any authorized person whose name appears at the end of this Agreement or of any of the following named person, or persons, from

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time to time, holding the following offices of Borrower, President, Treasurer



deemed received on the earlier of the date of actual receipt or three (3) days after the deposit thereof in the mail.

(h) Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Bank or Borrower, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

(i) Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

(j) This Agreement, together with the other documents and instruments executed concurrently herewith represent the entire and final understanding of the parties with

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respect to the transactions contemplated hereby and shall not be contradicted or qualified by evidence of any prior, contemporaneous or subsequent other agreement, oral or written, before the date hereof.

(k) This Agreement can only be amended by a writing signed by both Bank and Borrower.

(l) The laws of Massachusetts shall govern the construction of this Agreement and the rights and duties of the parties hereto. This Agreement shall take effect as a sealed instrument.

Witnessed by: SEACHANGE INTERNATIONAL, INC.  
/s/ ALYSSA V. ADAMS By: /s/ WILLIAM L. FIEDLER  
-----

Address:

CITIZENS BANK OF MASSACHUSETTS

By: /s/ RALPH L LETNER  
-----  
RALPH L LETNER

Address: 53 State Street  
Boston, Massachusetts 02109

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SCHEDULES

The following Schedules to the within Loan and Security Agreement (All Assets) are respectively described in the section indicated. Those Schedules in which no information has been inserted shall be deemed to read "None".

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EXHIBIT 1  
-----

CITIZENS BANK OF MASSACHUSETTS

REVOLVING NOTE  
-----

\$10,000,000.00 Boston, Massachusetts  
October 22, 2001

For value received, the undersigned, SeaChange International, Inc. a Delaware corporation (the "Borrower"), hereby promises to pay on October 22, 2003 to the order of Citizens Bank of Massachusetts (the "Bank"), at its main office in Boston, Massachusetts, or at any other place designated at any time by the holder hereof, in lawful money of the United States of America and in immediately available funds, the principal sum of Ten Million (\$10,000,000.00) Dollars, or, if less, the aggregate unpaid principal amount of all loans made by the Bank to the Borrower under the Loan Agreement (defined below) together with interest on the principal amount hereunder remaining unpaid from time to time, computed on the basis of the actual number of days elapsed and a 360-day year, from the date hereof until this Note is fully paid at the rate from time to time in effect under the Loan and Security Agreement (All Assets) of even date herewith (the "Loan Agreement") by and between the Bank and the Borrower. The principal hereof and interest accruing thereon shall be due and payable as provided in the Loan Agreement. This Note may be prepaid only in accordance with the Loan Agreement.



This Note is issued pursuant, and is subject, to the Loan Agreement, which provides, among other things, for acceleration hereof. This Note is the "Note" referred to in the Loan Agreement.

This Note is secured, among other things, pursuant to the Loan Agreement, and may now or hereafter be secured by one or more other security agreements or other instruments or agreements.

The Borrower hereby agrees to pay all costs of collection, including reasonable attorneys' fees and legal expenses in the event this Note is not paid when due, whether or not legal proceedings are commenced.

Presentment or other demand for payment, notice of dishonor and protest are expressly waived.

All rights and obligations hereunder shall be governed by the laws of the Commonwealth of Massachusetts and this Note shall be deemed to be under seal.

SEACHANGE INTERNATIONAL, INC.

By: \_\_\_\_\_

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EXHIBIT 2  
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COMPLIANCE CERTIFICATE  
-----

SeaChange International, Inc. ("Borrower") hereby certifies to Citizens Bank of Massachusetts ("Bank"), pursuant to the Loan and Security Agreement (All Assets) between Borrower and Bank dated October 22, 2001 as may be amended from time to time ("Loan Agreement"), that:

A. General  
-----

1. Capitalized terms not defined herein shall have the meanings set forth in the Loan Agreement.

2. The Borrower has complied with all the terms, covenants and conditions to be performed or observed by the Borrower contained in the Loan Agreement and other documents required to be executed by the Borrower in connection with the Loan Agreement.

3. Neither on the date hereof nor, if applicable, after giving effect to the loan made on the date hereof, does there exist an Event of Default or an event which would with notice or the lapse of time, or both, constitute an Event of Default.

4. The representations and warranties contained in the Loan Agreement and in any certificate, document or financial or other statement furnished at any time thereunder are true, correct and complete in all material respects with the same effect as though such representations and warranties had been made on the date hereof, except to the extent that any such representation and warranty relates solely to an earlier date (in which case such representation and warranty shall be true, correct and complete on and as of such earlier date).

B. Financial Covenants  
-----

As of the date hereof or, for such period as may be designated below, the computations, ratios and calculations as set forth below in accordance with Section 14 of the Loan Agreement are true and correct:

Capital Base - Section 14(a).

The rate of senior indebtedness to tangible capital base of the Borrower as of \_\_\_\_\_ 200\_ was equal to:

A. Senior Indebtedness \$ \_\_\_\_\_  
B. Tangible Capital Base \$ \_\_\_\_\_  
A: B = \_\_\_\_\_

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Required: Not more than 0.9 times

Fixed Charge Coverage- Section 14(b).

The rate of cash flow to fixed charges of the Borrower as of \_\_\_\_\_ 200\_, was \_\_\_\_\_ and was computed as follows:

A. Cash Flow \$ \_\_\_\_\_  
 B. Fixed Charges \$ \_\_\_\_\_  
 A:B= \_\_\_\_\_

Required: At least 1.5 times

Capital Expenditures- Section 14(c)

The Capital Expenditures for the preceding twelve-month period was equal to \_\_\_\_\_

Required: Not more than \$750,000.00 tested quarterly ending January 31, 2002; thereafter \$4,000,000.00 annually.

Current Ratio-- Section 14(d)

The ratio of current assets to current liabilities of the Borrower as of \_\_\_\_\_ 200\_ was \_\_\_\_\_ and was computed as follows:

A. Current Assets \$ \_\_\_\_\_  
 B. Current Liabilities: \$ \_\_\_\_\_  
 A:B= \_\_\_\_\_

Required: At least 1.5 times

Minimum EBITDA-- Section 14(e)

The EBITDA for the preceding three month period was equal to \$ \_\_\_\_\_

Required: \$4,500,000.00 through October 31, 2001 quarterly, thereafter \$7,000,000.00 each quarter thereafter.

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Net Loss-- Section 14(f)

The annual net loss was equal to \$ \_\_\_\_\_

Required: No annual net loss

IN WITNESS WHEREOF, the undersigned, a duly authorized officer of Borrower, has executed and delivered this Certificate in the name and on behalf of the Borrower on \_\_\_\_\_, 200\_.

SEACHANGE INTERNATIONAL, INC.

By: \_\_\_\_\_

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SCHEDULE A  
 -----

Borrower's Places of Business ((S)3)

Address	Property Located at Such Address
----- 124 Acton Street Maynard MA	----- 105,000 sq. ft. of manufacturing and office space
32 Mill Street Greenville New Hampshire	100,000 sq. ft. of manufacturing and office space
15, 45 and 47 Main Street Greenville New Hampshire	50,000 sq. ft. of office space
316 Business Center, Building D Gwinett County, GA	5,000 sq. ft. of manufacturing and office space
1075 Virginia Drive Fort Washington PA	5,000 sq. ft. of office space
710 North Second Street St. Louis, MO	1,200 sq. ft. of office space
6050 S. Greenwood Blvd. Englewood, CO	1,200 sq. ft. of office space
10 Tannery Lane, Singapore	1,000 sq. ft. of office space
Centre International DE	10,000 sq. ft. of manufacturing and office

Sophia Antipolis, France	space
Ventures House Prince Street Bristol UK	1,200 sq. ft. of office space
4-8-11 Takanawa, Minatu-ku Tokyo Japan	500 sq. ft. of office space
38 Bellchase Court Baltimore MD	200 sq. ft. of office space

SCHEDULE B

Other Encumbrances and Liens (s4(e)(i))

<TABLE>  
<CAPTION>

Secured Party or Mortgagee -----	Description of Collateral -----	Filing # -----	Filing location -----	Filing Date -----
<S> Bank of New Hampshire	<C> All fixtures, machinery, furniture and all other tangible personal property	<C> 753830	<C> MA SOS	<C> 11/2/00
Arrow Electronics, Inc.	Specified products	630773	MA SOS	5/11/99
Paramount Financial Corporation	Specified equipment	590156	MA SOS	11/21/98
Paramount Financial Corporation	Specified equipment	588294	MA SOS	11/03/98
AT&T Credit Corp.	Specified equipment	494205	MA SOS	9/2/97
Xerox Corporation	Specified equipment	420118	MA SOS	10/1/96
Wyle Electronics	Specified equipment	497186	NH SOS	10/9/97
Bank of New Hampshire	All fixtures, machinery, furniture and all other tangible personal property	569945	NH SOS	11/1/00
De Lage Landen Financial Services Inc.	Specified equipment	294355	PA-- Montgomery County	1/26/01

</TABLE>

SCHEDULE C

Leases ((S)4(e)(ii))

Equipment Leases  
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Lessor Payable -----	Description of Property -----
Ikon Office Solutions	Canon copiers
AT&T Credit Corp.	AT&T/Lucent Definity Generic 3SI Comm. System
Microspace Communications Group	Transponder Lease Agreement
Paramount Financial Corporation	Movie Systems & TV Sets
Lily Transport	Company Truck
Silicon Valley Bank	TV Sets

Property Leases  
-----

Lessor Payable/Landlord -----	Description of Property/Property Address -----
Alden T. Greenwood 773 Greenville Road	15, 42 and 47 Main Street, #1 Mill

Mason, NH 03048  
(603) 878-2485

Greenville, NH 03048  
(603) 878-5055

Ira Goldfarb  
38 Bellchase Court  
Baltimore, MD 21208  
(410) 653-7175

38 Bellchase Court  
Baltimore, MD 21208  
(410) 653-7175

Arch Equities II, LLC  
St. Louis, MO 63102319 No. Fourth Street  
Suite 300  
St. Louis, MO 63102

710 North Second Street  
Suite 350S  
St. Louis, MO 63102  
(314) 436-8989

Bet Investments  
2660 Philmont Avenue  
Suite 212  
Huntingdon Valley, PA 19006

1075 Virginia Drive  
Fort Washington, PA 19034

Axis Commercial Realty

6050 S. Greenwood Blvd.  
Suite 150  
Englewood, CO 80111  
(303) 694-0900

316 BC, LLC  
316 Business Center  
Gwinnett County, GA

100 Hurricane Shoals Rd NE  
D-1200  
Lawrenceville, GA 30043

Kashima Construction 1-2-7 Akasaka  
Minato-ku Tokyo Japan

4-8-11 Takanawa, Minato-ku Tokyo  
Japan

Ventures House Prince Street  
Bristol UK  
IPC Corporation  
Singapore

Prince Street  
Bristol UK  
10 Tannery Lane  
#03-02, Singapore 347773

Monsieur Alain ANDRE.  
C.I.COM. Organisation, S.A.R.L.  
06560 Valbonne 2229  
401 432 059 (France)

Centre International DE  
Communication Avancee De Sophia  
Antipolis (C.I.C.A.)  
FRANCE

Maynard Industrial Properties Association  
124 Acton Street  
Maynard, MA 01754

124 Acton Street  
Maynard, MA 01754

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-3 of our reports dated March 5, 2001, except for the information presented in Note 12 for which the date is June 12, 2001, relating to the financial statements and financial statement schedule of SeaChange International, Inc., which appear in such Registration Statement. We also consent to the references to us under the headings "Summary Consolidated Financial Data" and "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP  
Boston, Massachusetts  
December 4, 2001