

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

Commission File Number: 0-21393

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

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

124 Acton Street, Maynard, MA 01754
(Address of principal executive offices, including zip code)

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

Securities Registered Pursuant To Section 12(b) Of The Act: None

Securities Registered Pursuant To Section 12(g) Of The Act:

Common Stock, \$.01 par value

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

As of March 5, 1999 the aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price for the registrant's Common Stock on the Nasdaq National Market on such date was \$48,774,090. The number of shares of the registrant's Common Stock outstanding as of the close of business on March 5, 1999 was 13,748,412.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement in connection with the Annual Meeting of Stockholders to be held on or about June 17, 1999 to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Form 10-K.

PART I

This Annual Report on Form 10-K includes certain statements of a forward-looking nature which reflect the Company's current views relating to future events or the future financial performance of the Company. These forward-looking statements are only predictions and are subject to risks and uncertainties, particularly the matters set forth in "Certain Risk Factors" below, which could cause actual events or results to differ materially from historical results or those indicated by such forward-looking statements.

ITEM 1. Business

SeaChange International, Inc. ("SeaChange" or the "Company") develops, markets and supports products to manage, store and distribute digital video for television operators, broadcast and telecommunications companies. The Company's products utilize its proprietary distributed application software and standard industry components to automate the management and distribution of short- and long-form video streams including advertisements, movies, news updates and other video programming requiring precise, accurate and continuous execution. The Company's digital video products with their state-of-the-art electronic storage and retrieval capabilities are designed to provide higher image quality and to be more reliable, easier to use and less expensive than analog tape-based systems. In addition, SeaChange's products enable its customers to increase revenues by offering more targeted services such as geography-specific spot advertising and video-on-demand movies.

SeaChange's products address a number of specific markets. The SeaChange SPOT System is the leading digital advertisement and other short-form video insertion system for the multichannel television market in terms of installations in the United States, based on currently available industry

sources and the Company's internal data. A majority of SeaChange's customers consist of major cable television operators and telecommunications companies in the United States. The SeaChange SPOT System converts analog video forms such as advertisements and news updates to digital video forms. It stores them in remote or local digital libraries, and inserts them automatically into television network streams. The SPOT System provides high run-rate accuracy and video image quality, permits geographic and demographic specificity of advertisements and reduces operating costs. The SeaChange Advertising Management Software operates in conjunction with the SeaChange SPOT System to automate and simplify complex sales, scheduling and billing processes for the multichannel television market.

The Company has two existing movie products and one video-on-demand (VOD) product all for the movie markets. The Company sells the SeaChange Movie System which provides long-form video storage and delivery for the pay-per-view movie markets and the SeaChange GuestServe System for delivering video-on-demand and other guest services, internet access and PC games in a hotel environment for cable television and telecommunications companies. The Company also sells its video server, which is designed to store and distribute video streams of various lengths, and MediaCluster, SeaChange's proprietary software technology that enables multiple video servers to operate together as an integrated video server.

The Company introduced its Broadcast MediaCluster product in 1998, offering play to air capability for commercials and syndicated or other programming for broadcast television companies. During 1998, the Company installed broadcast systems at customer locations including network affiliates in the United States and broadcast companies internationally.

Finally, SeaChange has developed the SeaChange ITV (Interactive Television) MediaCluster to provide residential video-on-demand and other interactive services for cable television operators and telecommunications companies. During 1998, SeaChange entered into agreements with several cable companies to provide SeaChange's ITV System for demonstration and testing of their video-on-demand systems. The Company also has agreements with certain developers of digital set-top boxes to test and integrate their products with SeaChange's ITV System.

The Company was incorporated in Delaware in July 1993.

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Industry Background

Television operators, the largest users of professional quality video, historically have relied on videotape technology such as reel-to-reel technology and tape cassettes for the storage and distribution of video streams. These systems, which use video tape as the primary mechanism for the storage and distribution of video, have substantial limitations. Video tapes and their associated recording playback mechanisms are subject to mechanical failure and generational loss of video quality. Tape-based systems also require significant manual intervention, which makes them expensive and cumbersome to operate and limits their flexibility for programming and schedule changes. Finally, video tapes are bulky and have limited storage capacity.

Over the past decade, the limitations of video tape-based systems have become increasingly apparent. Changes in government regulation and increased competition have forced television operators, to seek new revenue sources and reduce costs. In addition, television operators, to be competitive in the widening home-entertainment market, must find and offer new and enhanced video services while simultaneously improving the efficiency of their operations. While video tape-based systems are sufficient for some traditional applications, they do not meet the performance and cost requirements of these new, targeted applications.

Cable Television Operators & Telecommunications Companies

According to industry sources, there are approximately 12,000 cable systems currently in the United States, serving over 70 million households. In 1998, 96% of all cable systems provided over 30 channels of programming to their subscribers. Because cable television programming is sent over broadband lines, operators can segment and target their programming to viewers in selected geographies. In addition, the 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, allow advertisers to target viewers in selected demographic profiles.

Despite this advantage over television broadcasters, cable television operators historically have not realized advertising revenues in proportion to their share of television viewers. According to industry sources, in 1998, 48% of all television viewers were watching cable networks, yet cable television advertising revenue accounted for only 24% of the total television advertising revenue. In addition, advertising represents the major source of revenue for television broadcasters, while most cable television operators derive less than 5% of their gross revenue from advertising. The limitations of video tape-based technology are a major factor which has prevented cable television operators from historically exploiting their advantages over television broadcasters. These systems are difficult to manage in multichannel and multi-zone environments, resulting in relatively poor video insertion accuracy and high operating costs.

Video-on-demand represents a new opportunity for cable television operators. Increased channel capacity through the installation of fiber optic

cables is providing many cable television operators with the capacity to offer video-on-demand to hotel and apartments using existing analog set-top boxes. The addition of two way connectivity, and digital set-top boxes are providing many cable television operators with the capacity to offer video-on-demand programming capability throughout their subscriber base.

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The recent deregulation of the United States telecommunications industry has lowered the legal barriers to entry for telecommunications companies to enter the multichannel video delivery market. Telecommunications companies are attempting to capitalize on the new growth opportunities by acquiring existing cable television operators and by leveraging their existing telephony networks to establish new multichannel video delivery operations. However, telecommunications companies face the same limitations as cable television operators in offering targeted, value-added services with analog tape-based systems on a cost effective basis.

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

Television Broadcasters

The more than 1,500 broadcast stations in the United States, including network affiliates and independent stations, face many of the same technological issues as cable television operators. Additionally, television broadcasters rely on advertising for nearly all of their revenue and require high advertisement run-rate reliability and image quality. To date, television broadcasters have utilized 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 video tapes in these systems need to be replaced frequently due to repeated use.

In addition, many broadcasters are contemplating the use of the recently available digital bandwidth to originate multiple program streams. If this application develops, television operators will require video storage and delivery systems that can effectively manage and deliver these multiple television signals.

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The SeaChange Solution

SeaChange develops, markets and supports digital video solutions designed to enhance its customers' ability to store, retrieve, manage and distribute short-and long-form video streams, including advertisements, movies, news updates and other video programming requiring precise, accurate and continuous execution. The Company's solutions are based on five core areas of functionality: (i) real-time conversion of analog video into digital video format; (ii) storage and retrieval of video content to and from digital libraries; (iii) scheduled distribution of video streams between digital libraries via local and wide area data networks; (iv) delivery of video streams over single and multiple channels; and (v) management of video sales, scheduling, billing and execution of related business transactions.

SeaChange uses these core capabilities to provide solutions to a number of commercial markets. The Company's products are designed to provide a consistent set of features and benefits, including:

Viewer Targeting. The Company's digital video products enable television operators to efficiently target viewers in specific demographic or geographic groups. The ability to target selected viewers enables television operators to increase revenues by offering more targeted services. The SeaChange SPOT System offers this capability to television operators, the Broadcast MediaCluster product offers this capability to broadcast companies while the SeaChange Guestserve and ITV MediaCluster Systems make it possible for television operators to offer video-on-demand movies to individual hotel rooms or residences.

Cost Reduction. The Company's products are designed to provide its customers operating cost reductions as compared to analog tape-based systems due to, among other things, the elimination of video tapes and their storage and lower operating personnel requirements. The Company is also able to price its products on a competitive basis by using standard operating systems and components. The Company believes that the combination of competitive pricing of its products and reductions in the operating costs of its customers results in attractive pay-back periods on customers' initial capital outlay for the Company's products.

Scalability. The Company's products are scalable to the needs of a particular cable television operator or television broadcaster whether operating in a single channel system concentrated in one specific zone or a system with hundreds of channels serving multiple zones and

markets. Moreover, the Company's proprietary storage technology enables the scalability of storage of digital video from a few minutes to hundreds of hours of video.

Reliability. The Company's products eliminate the need for traditional mechanical tape-based systems, thereby reducing the likelihood of breakdowns. Furthermore, through the use of redundant components and proprietary storage technology and application software, SeaChange's products are designed to be fault resilient, providing the high reliability required for television operations.

Scheduling Flexibility. The digitizing and storage of video streams allows advertisements, news updates and movies to be inserted on channels in local communities and allows cable television operators to insert or delete video content rapidly. This flexibility enables the provision of services such as video-on-demand movies and provides advertisers and television broadcasters the opportunity to insert new video content on short notice.

Video Image Quality. Because digital video streams do not degrade with playback, image content and quality remain at the original professional level even after multiple airings.

Ease of Use. The Company's products are simple to learn, require less maintenance, and are less personnel intensive than analog systems. Due to their innovative architecture, the Company's products offer a number of features that simplify their use, including remote monitoring and service and automated short- and long-form video distribution.

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Strategy

SeaChange's objective is to be the leader in the emerging market for the storage, management and distribution of professional quality digital video. The key elements of the Company's strategy are to:

Develop Long-Term Customer Relationships. The Company is focusing its product development, marketing and direct sales efforts on developing long-term customer relationships with cable television operators, telecommunications companies and television broadcasters in the United States and internationally. The Company has formed its customer relationships by providing digital video solutions to address customers' immediate problems, such as advertisement and other short-form video insertion. The Company intends to continue to leverage its customer relationships to offer new, compatible products to meet evolving market needs, such as video-on-demand programming. The Company believes that the fundamental shift from analog to digital video and the growing emphasis on interactive technologies will continue to present opportunities for the Company to develop, market and support its products to both its existing customer base and to customers in additional markets.

Offer Complete Solutions. SeaChange's customers operate complex networks that require the delivery and management of video programming across multiple channels and target zones. SeaChange believes television operators desire complete solutions that integrate all steps of digital video delivery from scheduling to post-air verification and billing. To address these needs, SeaChange provides integrated applications and support services which are more valuable to customers than individual functional products not specifically designed to work together. The Company believes that providing complete solutions has been a significant factor in its success and will be an increasingly important competitive advantage.

Establish and Maintain Technological Leadership Through Software. SeaChange believes its competitive position is dependent in a large part on the features and performance of its application and network and storage software. As a result, the Company focuses a majority of its research and development efforts on introducing new software applications and improving its current software. The Company seeks to use standard hardware components wherever possible to maintain its focus on software development.

Provide Superior Customer Service and Support. The Company's products operate in environments where continuous operation is critical. As a result, the Company believes that providing a high level of service and support gives it a competitive advantage and is a differentiating factor in developing key customer relationships. The Company's in-depth industry and application knowledge allows it to better understand the service needs of its customers. As of December 31, 1998 more than 34% of the Company's employees were dedicated to customer service and support, including project design and implementation, installation and training. In addition, using remote diagnostic and communications features embedded in the Company's 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.

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Products

SeaChange develops digital video products and related applications for the television industry. Its products are marketed to cable television operators,

telecommunication companies, television broadcasters, systems integrators and VARs.

SeaChange SPOT System

The SeaChange SPOT System automates the complex process of advertisement and other video insertion across multiple channels and geographic zones for cable television operators and telecommunications companies. Through its proprietary software, the SeaChange SPOT System allows cable television 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.

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

- Encoding: The process begins with the SeaChange Encoding Station, which is based on SeaChange's proprietary encoding software, where analog-based short- and long-form video is digitized and compressed in real-time using standard MPEG-2 hardware.
- Storage: Digital video is then stored in a disk-based video library, capable of storing thousands of spots, where the SeaChange SPOT System organizes, manages and stores these video streams.
- Scheduling: SeaChange's 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: SeaChange's strategic digital video software then copies the video streams from the master video library and distributes them over the operator's data network to headends, where they are stored in video servers for future play.
- Insertion: Following a network cue, the SeaChange video switch module automatically initiates the conversion of video streams to analog and inserts them into the network feed, where they are then seen by television viewers.
- Verification: After the video streams run, SeaChange's proprietary software and hardware verifies the content, accuracy, timing and placement of such video streams to facilitate proper customer billing.

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SeaChange has developed two additional product offerings, the SeaChange SPOT Long Form System ("the SeaChange SPOT LF System") and the SeaChange SPOT PRO System, that are based on the SeaChange SPOT System technology. The SeaChange SPOT LF System, which employs the same underlying technology and basic functionality of the SeaChange SPOT System, is designed to be a platform for the delivery of the long-form video streams in a multichannel environment. The SeaChange SPOT LF System is designed to permit television operators to store, manage and distribute long-form video streams, such as movies, infomercials and other local origination programming. The SeaChange SPOT PRO System, also employs the same underlying technology and basic functionality of the SeaChange SPOT System and is designed to be a platform for the delivery of advertising and other video content in a small to mid-sized television broadcast environment. The selling price for the SeaChange SPOT Systems ranges from under \$100,000 to several million dollars with an average system selling price of approximately \$250,000.

SeaChange Advertising Management Software

The SeaChange Advertising Management Software (formerly Traffic and Billing Software) is designed to permit television operators to manage advertising sales, scheduling, packaging and billing operations. This product provides advertising sales executives with: (i) management performance reports; (ii) inventory tracking; and (iii) order entry, billing and accounts receivable management. Advertising Management Software can be integrated with the SeaChange SPOT System and is also compatible with many other advertisement insertion systems currently in use.

Movie and Interactive Products

SeaChange Guestserve System. The SeaChange Guestserve System is a platform for the storage and delivery of long-form video streams, particularly movies on demand and interactive guest services such as hotel checkout, internet access and PC games. The integrated system is designed to permit viewers in hotels and apartments to choose particular movies on demand and also offers a variety of ancillary programming services. SeaChange is marketing the SeaChange Guestserve system to cable television operators. The cable television operators can package

full scale video-on-demand systems for hotels and apartments.

The integrated system consists of user interfaces and application hardware and software, including set-top boxes and remote control devices, and SeaChange's MediaCluster technology and software architecture for the delivery and storage of movies. The video servers are installed at the cable headend and the video is delivered over a dedicated fiber optic line. The integrated system is designed to provide cable television operators with a new source of revenue and a competitive advantage over the encroaching services of direct broadcast satellite companies.

SeaChange Movie System. The SeaChange Movie System provides cable television operators, pay-per-view (PPV) movie service providers and Direct-to-Home (DTH) providers with capability to originate multiple PPV movie channels or any other scheduled video programming. The Movie System includes SeaChange's MediaCluster technology for storage and delivery of the video programming as well as an MPEG-2 encoder for capturing movies from video tape, and scheduling software and hardware to enable creating programming schedules for the PPV channels. This system includes fault resiliency in both the video server technology and scheduling technology so as to ensure the highest levels of up time.

SeaChange ITV MediaCluster System. The Company has developed and is testing its ITV MediaCluster system. This system will be sold to cable television operators and other telecommunications companies and is intended to enable them to offer movies on demand and other interactive services to their subscribers who have digital set-top

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boxes and access two way cable plants. This system comprises MediaCluster servers which will reside at headends or nodes in the cable system, control software to manage and control the system, and interfaces to digital headend modulators and control systems and subscriber management systems.

Broadcast Television Products

SeaChange Broadcast MediaCluster System. The SeaChange Broadcast MediaCluster System is designed to provide high quality, MPEG-2 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 from video tape cart systems and, in some cases, to replace the cart systems themselves. The SeaChange Broadcast MediaCluster System is designed for customers in larger broadcast television markets which use station automation systems or to smaller markets using control software included in the system.

The SeaChange Broadcast MediaCluster System is designed to simultaneously record, encode, store to a disk and play video content using SeaChange designed MPEG-2 4:2:2 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.

OEM Products

Video Server 100 (and variants). The Video Server 100, which is the Company's second generation video server, is designed to store and distribute video streams of various lengths. The Video Server 100 together with the MediaCluster provides the base technology for all of SeaChange's digital video products. The Video Server 100 is offered to systems integrators and VARs as a platform for the storage and delivery of primarily short-form video in a wide range of applications.

The Video Server 100 provides custom power and packaging for software use in professional video applications. It incorporates RAID technology and a redundant power supply to enable the continuous uninterrupted airing of video. The Video Server 100 uses industry standard components, which differentiates it from various video servers based on proprietary processors and specialized hardware components and operating systems.

MediaCluster. MediaCluster is SeaChange's proprietary software technology that enables multiple Video Server 100s to operate together as an integrated video server. While the Video Server 100 is the base technology for short-form video applications, MediaCluster serves as the base technology for primarily long-form video applications.

Through its software architecture, MediaCluster can join multiple SeaChange Video Server 100s to support large-scale applications by storing large amounts of video data and delivering multiple video streams, with no single point of failure in the system. The Company has a patent for its MediaCluster technology.

The Company established a subsidiary, SeaChange Systems, at its Greenville, New Hampshire location for the manufacture, development and OEM sale of the Video Server 100 and MediaCluster products in 1997. Certain employees of the Company or the subsidiary have been granted options and may be granted options to acquire up to a 20% interest over time in the subsidiary.

The Company installs, maintains and supports its products in North America, Asia, South America and Europe. Annual maintenance contracts are generally required for the first year of a customer's use of the Company's products. The maintenance contracts are renewable on an annual basis. The Company also offers basic and

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advanced formal on-site training for customer employees at the time of product installation. The Company currently provides installation, maintenance and support to international customers and also provides movie content in conjunction with sales of SeaChange GuestServe System. The Company offers technical support to customers, agents and distributors on a 24-hour, seven-day a week basis.

Customers

The Company currently sells its products primarily to cable television operators, broadcast and telecommunications companies.

The Company's 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 the Company's revenues in any given fiscal period have been derived from substantial orders placed by these large organizations. In 1996, 1997 and 1998, revenues from the Company's five largest customers represented approximately 76%, 68% and 54%, respectively, of the Company's total revenues. Customers accounting for more than 10% of total revenues consisted of Tele-Communications, Inc. (29%), U.S. West Media Group (17%), Comcast Corporation (13%) and Time Warner, Inc. (12%) in 1996; Tele-Communications, Inc. (24%), Time Warner, Inc. (18%) and Comcast Corporation (10%) in 1997; Tele-Communications, Inc. (24%) and Time Warner, Inc. (15%) in 1998. The Company expects that it will continue to be dependent upon a limited number of customers for a significant portion of its revenues in future periods. As a result of this customer concentration, the Company's 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.

The Company believes that its backlog at any particular time is not meaningful as an indicator of its future level of sales for any particular period. Because of the nature of the Company's products and its use of standard components, substantially all of the backlog at the end of a quarter can be manufactured by the Company and is intended to be shipped by the end of the following quarter. However, because of the requirements of particular customers and, in respect to certain sales, the acceptance criteria necessary for revenue recognition, such backlog may not be shipped or, if shipped, the related revenues may not be recognized in such quarter. Therefore, there is no direct correlation between the backlog at the end of any quarter and the Company's total sales for the following quarter or other periods.

Selling and Marketing

The Company sells and markets its products in the United States primarily through a direct field sales organization and internationally primarily through independent agents and distributors, complemented by a coordinated marketing effort of the Company's marketing group. Direct sales activities in the United States are conducted from the Company's Massachusetts headquarters and seven field offices. In October 1996, the Company entered into an exclusive sales and marketing services agreement with a private Italian company to provide such services throughout continental Europe. The Company also markets certain of its products, namely the Video Server 100 and MediaCluster, to systems integrators and VARs. As of December 31, 1998, the Company's selling and marketing organization consisted of 32 people.

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

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The Company uses several marketing programs focused on the Company's targeted markets to support the sale and distribution of its products. The Company uses exhibitions at a limited number of prominent industry trade shows and conferences and presentations at technology seminars to promote awareness of the Company and its products. The Company also publishes technical articles in trade and technical journals and promotional product literature.

Research and Product Development

Management believes that the Company's success will depend to a substantial

degree upon its ability to develop and introduce in a timely fashion new products and enhancements to its existing products that meet changing customer requirements in the Company's current and new markets. The Company has in the past made, and intends to continue to make, substantial investments in product and technological development. Through its direct sales process the Company monitors changing customer needs, changes in the marketplace and emerging industry standards, and is therefore better able to focus its research and development efforts to address such evolving industry requirements.

The Company's research and development expenditures totaled approximately \$5.4 million, \$11.8 million and \$15.8 million for the years ended December 31, 1996, 1997 and 1998, respectively. At December 31, 1998, 102 employees were engaged in research and product development. The Company believes that the experience of its product development personnel is an important factor in the Company's success. The Company performs its research and product development activities at its headquarters and in offices in Greenville, New Hampshire, Atlanta, Georgia and Novato, California. The Company has historically expensed its direct research and development costs as incurred.

The Company has a variety of new products being developed and tested, including interactive television products for cable television operators and telecommunications companies, digital play-to-air systems for television broadcasters and the next version of its MediaCluster software. There can be no assurance that the Company will be able to successfully develop and market such products, or to identify, develop, manufacture, market or support other new products or enhancements to its existing products successfully or on a timely basis, that new Company products will gain market acceptance, or that the Company will be able to respond effectively to product announcements by competitors or technological changes.

Acquired In-Process Research and Development

In 1997, in connection with the acquisition of IPC, \$5,290,000 of the purchase price, based upon an independent appraisal, was allocated to in-process research and development, resulting in an immediate charge to the Company's operations as of the date of acquisition. The amount allocated to in-process research and development represented technology which had not reached technological feasibility and did not have an alternative future use. The Company was continuing development of the software applications and hardware design of this in-process development as of December 31, 1998. Management estimates the development of this in-process development to be completed during 1999 and for some features in 2000.

Manufacturing

The Company's 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. The Company's 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. The Company relies on independent contractors to manufacture components and subassemblies to the Company's specifications. Each of the Company's products undergoes testing and quality inspection at the final assembly stage.

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The Company attempts to use standard parts and components available from multiple vendors. Certain components used in the Company's products, however, are currently purchased from a single source, including a computer chassis manufactured by Trimm Technologic Inc., a disk controller manufactured by Mylex Corporation, an MPEG-2 decoder card manufactured by Vela Research, Inc. and an MPEG-2 encoder manufactured by Optivision, Inc. While the Company believes that there are alternative suppliers available for these components, the Company believes that the procurement of such components from alternative suppliers would take anywhere from 45-120 days. There can be no assurance that such alternative components would be functionally equivalent or would be available on a timely basis or on similar terms. The Company purchases several other components from a single supplier, although the Company believes that alternative suppliers for such components are readily available on a timely basis. The Company generally purchases sole source or other components pursuant to purchase orders placed from time to time in the ordinary course of business and has no written agreements or guaranteed supply arrangements with its sole source suppliers. The Company has experienced quality control problems and supply shortages for sole source components in the past and there can be no assurance that the Company will not experience significant quality control problems or supply shortages for these components in the future. However, any interruption in the supply of such single source components could have a material adverse effect on the Company's business, financial condition and results of operations. Because of the Company's reliance on these vendors, the Company may also be subject to increases in component costs which could adversely affect the Company's business, financial condition and results of operations.

Competition

The markets in which the Company competes are characterized by intense competition, with a large number of suppliers providing different types of

products to different segments of the markets. The Company currently competes principally on the basis of: (i) the breadth of its products' features and benefits, including the ability to precisely target viewers in specific geographic or demographic groups, and the flexibility, scalability, professional quality, ease of use, reliability and cost effectiveness of its products; and (ii) the Company's reputation and the depth of its expertise, customer service and support. While the Company believes that it currently competes favorably overall with respect to these factors and that its ability to provide solutions to manage, store and distribute digital video differentiates the Company from its competitors, there can be no assurance that the Company will be able to continue to compete successfully with respect to such factors.

In the digital advertisement insertion market, the Company generally competes only with SkyConnect, Inc. In the market for long-form video products, the Company competes with various computer companies offering video server platforms such as Hewlett-Packard Company and Silicon Graphics, Inc., and more traditional movie application providers like The Ascent Entertainment Group, Panasonic Company, and Lodgenet Entertainment. In addition, the SeaChange 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., Visiontel, Inc. and various suppliers of sales, scheduling and billing software products. In the television broadcast market, the Company competes against Tektronix, Inc., Hewlett-Packard Company, Sony Corporation, and ASC Incorporated. The Company expects the competition in each of these markets to intensify in the future.

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Many of the Company's current and prospective competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources than the Company. As a result, these competitors may be able to devote greater resources to the development, promotion, sale and support of their products than the Company. Moreover, these companies may introduce additional products that are competitive with those of the Company or enter into strategic relationships to offer complete solutions, and there can be no assurance that the Company's products would compete effectively with such products.

Although the Company believes that it has certain technological and other advantages over its competitors, maintaining such advantages will require continued investment by the Company in research and development, selling and marketing and customer service and support. In addition, as the Company enters new markets, distribution channels, technical requirements and competition levels may be different than those in the Company's current markets. There can be no assurance that the Company will be able to compete successfully against either current or potential competitors in the future.

Proprietary Rights

The Company's success and its ability to compete is dependent, in part, upon its proprietary rights. The Company has been granted one U.S. patent for its MediaCluster technology and has filed a foreign patent application for the same technology. In addition, the Company has other patent applications in process for other technologies. In addition, the Company relies on a combination of contractual rights, trademark laws, trade secrets and copyright laws to establish and protect its proprietary rights in its products. There can be no assurance that all of these patents will be issued or that, if issued, the validity of such patents would be upheld. Nor can there be any assurance that the steps taken by the Company to protect its intellectual property will be adequate to prevent misappropriation of its technology or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technology. In addition, the laws of some foreign countries in which the Company's products are or may be distributed do not protect the Company's proprietary rights to the same extent as do the laws of the United States.

The Company is also subject to the risk of adverse claims and litigation alleging infringement of intellectual property rights of others. The Company attempts to ensure that its products do not infringe any existing proprietary rights of others.

A version of the SeaChange Advertising and Management Software in limited distribution was based on software the Company licensed from Summit Software Systems, Inc. of Boulder, Colorado in May 1996. The Company has been granted a perpetual, nonexclusive license to such software in return for the payment of an up-front license fee and royalties for sales occurring prior to June 1998.

Employees

As of December 31, 1998, the Company employed 310 persons, including 102 in research and development, 107 in customer service and support, 32 in selling and marketing, 42 in manufacturing and 27 in finance and administration. One of the Company's employees is represented by a collective bargaining arrangement. The Company believes that its relations with its employees are good.

CERTAIN RISK FACTORS

Limited Operating History and Operating Results. The Company was founded in

July 1993 and commenced shipment of its initial products in the third quarter of 1994. Accordingly, the Company has only a limited operating

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history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets. To address these risks, the Company must, among other things, respond to competitive developments, continue to attract, retain and motivate qualified persons, and continue to upgrade its technologies and commercialize products and services incorporating such technologies. There can be no assurance that the Company will be successful in addressing such risks.

Fluctuations in Quarterly Operating Results. The Company's quarterly operating results have in the past varied and in the future will be affected by factors such as: (i) the timing and recognition of revenue from significant orders, (ii) the seasonality of the placement of customer orders, (iii) the success of the Company's products, (iv) increased competition, (v) changes in the Company's pricing policies or those of its competitors, (vi) the financial stability of major customers, (vii) new product introductions or enhancements by competitors, (viii) delays in the introduction of products or product enhancements by the Company, (ix) customer order deferrals in anticipation of upgrades and new products, (x) the ability to access a sufficient supply of sole source and third party components, (xi) the quality and market acceptance of new products, (xii) the timing and nature of selling and marketing expenses (such as trade shows and other promotions), (xiii) personnel changes, (xiv) the risks associated with international sales as the Company expands its markets, and (xv) economic conditions affecting the Company's customers. Any significant cancellation or deferral of purchases of the Company's products could have a material adverse effect on the Company's business, financial condition and results of operations in any particular quarter, and to the extent significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected. The Company's expense levels are based, in part, on its expectations as to future revenues, and the Company may be unable to adjust spending in a timely manner to compensate for any revenue shortfall. If revenues are below expectations, operating results are likely to be adversely affected and net income may be disproportionately affected because a significant portion of the Company's expenses do not vary with revenues.

Because of these factors, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, in some future quarter the Company's operating results may be below the expectations of public market analysts and investors.

Seasonality. The Company has experienced significant variations in the revenue, expenses and operating results from quarter to quarter and such variations are likely to continue. The Company believes that fluctuations in the number of orders being placed from quarter to quarter is principally attributable to the buying patterns and budgeting cycles of television operators and broadcast companies, the primary buyers of the digital advertising systems and broadcast systems, respectively. The Company expects that there will continue to be fluctuations in the number and value of orders received. As a result, the Company's results of operations have in the past and likely will, at least in the near future, fluctuate in accordance with such purchasing activity. Operating expenses also vary with the number, timing and significance of new product and product enhancement introductions by the Company and its competitors, increased competition, the gain or loss of significant customers, the hiring of new personnel and general economic conditions. All of the above factors are difficult for the Company to forecast, and these or other factors may materially adversely affect the Company's business, financial condition and results of operations for one quarter or a series of quarters. Only a small portion of the Company's expenses vary with revenues in the short-term and there would likely be a material adverse effect on the operating results of the Company if future revenues are lower than expectations.

Management of Growth. The Company has experienced fluctuation in revenues and expansion of its operations which have placed significant demands on the Company's management, administrative and operational resources. The Company believes that further improvements in management and operational controls are needed, and would continue to be needed to manage any future growth. Continued growth will also require the Company to hire more customer service and administrative personnel, expand manufacturing and customer service capabilities, and update or expand management information systems. There can be no assurance that the Company will be able to attract and retain the necessary personnel to accomplish its growth strategies or that it will not experience

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constraints that will adversely affect its ability to satisfy customer demand in a timely fashion or to satisfactorily support its customers and operations. Also, the Company may in the future acquire complementary service or product lines, technologies or businesses, although the Company has no present understandings, commitments or agreements with respect to any significant acquisitions. If the Company's management is unable to manage growth effectively or integrate any acquisition into the Company's operations successfully, the Company's business, financial condition and results of operations could be materially and adversely affected.

Product Concentration. Sales of the SeaChange SPOT System have historically

accounted for a large percentage of the Company's revenues, and this product and related enhancements are expected to continue to account for a significant portion of the Company's revenues in 1999. The Company's success depends in part on continued sales of the SeaChange SPOT System. A decline in demand or average selling prices for the SeaChange SPOT System product line, 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 the Company's business, financial condition and results of operations.

Highly Competitive Markets. The market for digital video, movie and broadcast products is highly competitive. The Company currently competes against suppliers of both analog tape-based and digital systems in the digital advertisement insertion market and against both computer companies offering video server platforms and more traditional movie application providers in the movie system market. In the television broadcast market, the Company competes against various computer companies offering video server platforms and television equipment manufacturers. Due to the rapidly evolving markets in which the Company competes, 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 the Company's business, financial condition and results of operations. Many of the Company's current and potential competitors have greater financial, selling and marketing, technical and other resources than the Company. Moreover, the Company's competitors may also foresee the course of market developments more accurately than the Company. Although the Company believes it has certain technological and other advantages over its competitors, realizing and maintaining such advantages will require a continued high level of investment by the Company in research and product development, marketing and customer service and support. There can be no assurance that the Company will have sufficient resources to continue to make such investments or that the Company will be able to make the technological advances necessary to compete successfully with its existing competitors or with new competitors.

Dependence on Emerging Digital Video Market. Cable television operators and television broadcasters have historically relied on traditional analog technology for video management, storage and distribution. Digital video technology is still a relatively new technology and requires a significant initial investment of capital. The Company's future growth will depend both on the rate at which television operators convert to digital video systems and the rate at which digital video technology expands to additional market segments. There can be no assurance that the use of digital video technology will expand among television operators or into additional markets. Any failure by the market to accept digital video technology will have a material adverse effect on the Company's business, financial condition and results of operations.

Risks Associated with Expansion into New Markets. To date the Company's products have been purchased primarily by cable television operators and telecommunications companies. The Company's success depends in part on the penetration of new markets. In particular, the Company introduced broadcast products during the quarter ended June 30, 1998 for use by television broadcasters. These broadcast products will be directed toward a market that the Company has not significantly addressed. There can be no assurance that the Company will be successful in marketing and selling broadcast products to customers in the broadcast television market. Any inability of the Company to penetrate this new market would have a material adverse effect on the Company's business, financial condition and results of operations.

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Risk of New Product Introductions. The Company's future success requires that it develop and market additional products that achieve significant market acceptance and enhance its current products. The Company has recently introduced its Guestserve and Broadcast MediaCluster Products and is developing its ITV MediaCluster product for introduction. There can be no assurance that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these and other new products and enhancements, or that its new products and enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. Announcements of currently planned or other new product offerings may cause customers to defer purchasing existing Company products. Moreover, there can be no assurance that, despite testing by the Company, and by current and potential customers, errors or failures will not be found in the Company's products, or, if discovered, successfully corrected in a timely manner. Such errors or failures could cause delays in product introductions and shipments, or require design modifications that could adversely affect the Company's competitive position. The Company's inability to develop on a timely basis new products, enhancements to existing products or error corrections, or the failure of such new products or enhancements to achieve market acceptance could have a material adverse effect on the Company's business, financial condition and results of operations.

Rapid Technological Change. The markets for the Company's 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 the Company or reduce the cost of existing products or services, any of which could enable the Company's existing or potential customers to fulfill their video needs better and more cost efficiently than with the Company's products.

The Company's future success will depend on its ability to enhance its existing digital video products, including the development of new applications for its technology and to develop and introduce new products to meet and adapt to changing customer requirements and emerging technologies. There can be no assurance that the Company will be successful in enhancing its digital video products or developing, manufacturing and marketing new products which satisfy customer needs or achieve market acceptance. In addition, there can be no assurance that services, products or technologies developed by others will not render the Company's products or technologies uncompetitive, unmarketable or obsolete, or that announcements of currently planned or other new product offerings by either the Company or its competitors will not cause customers to defer or fail to purchase existing Company solutions. The failure of the Company to respond to rapidly changing technologies related to digital video could have a material adverse effect on the Company's business, financial condition and results of operations.

Significant Concentration of Customers. The Company's 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 the Company's revenues in any year. In 1996, 1997 and 1998, revenues from the Company's five largest customers represented approximately 76%, 68% and 54%, respectively, of the Company's total revenues. In 1996, 1997 and 1998 four, three and two customers, respectively, each accounted for more than 10% of the Company's revenues. The same two customers accounted for more than 10% of the Company's revenues in each 1996, 1997 and 1998. The Company generally does not have written continuing purchase agreements with its customers and does not have any written agreements that require customers to purchase fixed minimum quantities of the Company's products. The Company's sales to specific customers tend to vary significantly from year to year depending upon such customers' budgets for capital expenditures and new product introductions. In addition, the Company derives a substantial portion of its revenues from products that have a selling price in excess of \$200,000. The Company believes that revenue derived from current and future large customers will continue to represent a significant proportion of its total revenues. The loss of, or reduced demand for products or related services from, any of the Company's major customers could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Sole Source Suppliers and Third Party Manufacturers. Certain key components of the Company's products are currently purchased from a sole supplier, including a computer chassis manufactured by Trimm Technologic Inc., a disk controller manufactured by Mylex Corporation, an MPEG-2 decoder card manufactured by Vela Research, Inc. and an MPEG-2 encoder manufactured by

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Optivision, Inc. The Company has in the past experienced quality control problems, where products did not meet specifications or were damaged in shipping, and delays in the receipt of such components. These problems were generally of short duration and did not have a material adverse effect on the Company. However, the Company may in the future experience similar types of problems which could be more severe or more prolonged. 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 the Company's business, financial condition and results of operations. Moreover, the Company relies on a limited number of third parties who manufacture certain components used in the Company's products. While to date there has been suitable third party manufacturing capacity readily available at acceptable quality levels, there can be no assurance that such manufacturers will be able to meet the Company's future volume or quality requirements or that such services will continue to be available to the Company at favorable prices. Any financial, operational, production or quality assurance difficulties experienced by such third party manufacturers that result in a reduction or interruption in supply to the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

Regulation of Telecommunications and Television Industries. The telecommunications and television industries are subject to extensive regulation in the United States and other countries. The Company's business is dependent upon the continued growth of such industries in the United States and internationally. Although recent legislation has lowered the legal barriers to entry for telecommunications companies into the United States multichannel television market, there can be no assurance that such telecommunications companies will successfully enter this or related markets. Moreover, the growth of the Company's business internationally is dependent in part on similar deregulation of the telecommunications industry abroad and there can be no assurance that such deregulation will occur. Television operators are also subject to extensive government regulation by the Federal Communications Commission ("FCC") and other federal and state regulatory agencies. These regulations could have the effect of limiting capital expenditures by television operators and thus could have a material adverse effect on the Company's 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 the Company's customers, and thereby materially adversely affect the Company's business, financial condition and results of operations.

Lengthy Sales Cycle. 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 such 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 the Company's digital video, movie and broadcast products are typically lengthy and subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews, over which the Company has little or no control. Based upon all of the foregoing, the Company believes that the Company's quarterly revenues, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of its results of operations are not necessarily meaningful and that, in any event, such comparisons should not be relied upon as indications of future performance.

Dependence on Key Personnel and Hiring of Additional Personnel. The Company's success depends to a significant degree upon the continued contributions of its key management, engineering, selling and marketing and manufacturing personnel, many of whom would be difficult to replace. The Company does not have employment contracts with its key personnel. The Company believes its future success will also depend in large part upon its ability to attract and retain highly skilled managerial, engineering, selling and marketing, finance and manufacturing personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be successful in attracting and retaining such personnel. 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 the Company's business, financial condition and results of operations.

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Dependence on Proprietary Rights. The Company's success and its ability to compete is dependent, in part, upon its proprietary rights. The Company relies primarily on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual provisions to protect its proprietary rights. There can be no assurance that such measures will be adequate to protect the Company's proprietary rights. The Company attempts to ensure that its products and technology do not infringe the proprietary rights of third parties. However, there can be no assurance that third parties will not assert infringement claims against the Company in the future or that any such claims will not be successful.

Risks Associated with International Sales. International sales accounted for approximately 5%, 12% and 13% of the Company's revenues in 1996, 1997 and 1998, respectively. The Company expects that international sales will account for a significant portion of the Company's business in the future. However, there can be no assurance that the Company will be able to maintain or increase international sales of its products. International sales are subject to a variety of risks, including difficulties in establishing and managing international distribution channels, in servicing and supporting overseas products and in translating products into foreign languages. International operations are subject to difficulties in collecting accounts receivable, staffing and managing personnel and enforcing intellectual property rights. Other factors that can also adversely affect international operations include fluctuations in the value of foreign currencies and currency exchange rates, changes in import/export duties and quotas, introduction of tariff or non-tariff barriers and economic or political changes in international markets.

Concentration of Ownership. The Company's officers, directors and their affiliated entities, and other holders of 5% or more of the Company's outstanding capital stock, together beneficially owned approximately 58.9% of the outstanding shares of Common Stock of the Company as of March 5, 1999. As a result, such persons will have the ability to elect the Company's directors and to determine the outcome of corporate actions requiring stockholder approval, irrespective of how other stockholders of the Company may vote. This concentration of ownership may have the effect of delaying or preventing a change in control of the Company which may be favored by a majority of the remaining stockholders, or cause a change of control not favored by the Company's other stockholders.

Year 2000 Issue. Although the Company does not expect that the Year 2000 issue will have a material effect on the Company's results of operations or financial condition, the Company is potentially exposed to Year 2000 issues with respect to internal software and external product offerings. If the Company's internal systems or its products fail to operate properly as a result of Year 2000, the Company's results of operations and financial condition will be materially and adversely impacted. The Company continues to evaluate the Year 2000 issue. For a discussion of the Company's Year 2000 readiness and risks associated with the Year 2000 issue, see "Year 2000 Issue/Readiness Disclosure Statement," particularly the subsection headed "Risks Associated with Year 2000 Issue" which appears in "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Report on Form 10-K.

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ITEM 2. Properties

The Company's corporate headquarters, which is also its principal administrative, selling, marketing, customer service and support and product development facility, is located in Maynard, Massachusetts and consists of approximately 80,000 square feet under a lease which expires on March 31, 2005 with annual base rent of \$379,000. The Company also leases approximately 29,000

square feet in a facility in Novato, California that is used for the development and manufacture of certain movie products under a lease which expires in June, 2001, with an annual base rent of \$393,000. The Company leases a facility of approximately 9,000 square feet in Greenville, New Hampshire that is used for the development and final assembly of its video servers. The Company also leases small research and development and/or sales and support offices in Atlanta, Georgia, Burlingame and San Francisco, California, Denver, Colorado, Orlando, Florida, St. Louis, Missouri and Valbonne, France.

ITEM 3. Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. The Company believes that it is not currently involved in any legal proceedings the resolution of which, individually or in the aggregate, would have a material adverse effect on the Company's business, financial condition or results of operation.

ITEM 4. Submission of Matters To A Vote Of Securities Holders

No matters were submitted during the fourth quarter of the fiscal year ended December 31, 1998 to a vote of security holders of the Company through the solicitation of proxies or otherwise.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's 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>
Year ended December 31, 1998		
First Quarter	\$ 8.500	\$ 6.625
Second Quarter	13.000	5.938
Third Quarter	11.750	5.750
Fourth Quarter	8.750	5.750
Year ended December 31, 1997		
First Quarter	30.875	14.750
Second Quarter	28.250	17.000
Third Quarter	28.750	14.500
Fourth Quarter	14.625	6.813

</TABLE>

On March 5, 1999, the last reported sale price of the Common Stock on the Nasdaq National Market was \$8.625. As of March 5, 1999, there were approximately 159 stockholders of record of the Company's Common Stock, as shown in the records of the Company's transfer agent. The Company believes that the number of beneficial holders of the Company's Common Stock exceeds 2,500. The Company has not paid any cash dividends on its capital stock since its inception, and does not expect to pay cash dividends on its Common Stock in the foreseeable future. The Company currently intends to retain all of its future earnings for use in the operation and expansion of the business.

ITEM 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with the Company's consolidated financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7. The consolidated statement of operations data for each of the five years ended December 31, 1994, 1995, 1996, 1997 and 1998 and the consolidated balance sheet data at December 31, 1994, 1995, 1996, 1997 and 1998 are detailed below.

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1994	1995	1996	1997	1998
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data:					
Revenues					
Systems.....	\$5,037	\$21,999	\$45,745	\$60,414	\$58,033
Services.....	116	1,204	3,521	7,473	13,737
Other.....	537	--	--	--	--
	-----	-----	-----	-----	-----

	5,690	23,203	49,266	67,887	71,770
Costs of revenues					
Systems.....	3,406	14,917	27,133	34,740	35,772
Services.....	176	1,641	4,030	7,607	13,241
Other.....	304	--	--	--	--
	3,886	16,558	31,163	42,347	49,013
Gross profit.....	1,804	6,645	18,103	25,540	22,757
Operating expenses:					
Research and development.....	885	2,367	5,393	11,758	15,763
Selling and marketing.....	443	1,609	4,254	6,049	8,231
General and administrative.....	273	858	2,064	3,744	5,816
Restructuring of operations.....	--	--	--	--	676
Write-off of acquired in-process research and development.....	--	--	--	5,290	--
	1,601	4,834	11,711	26,841	30,486
Income (loss) from operations.....	203	1,811	6,392	(1,301)	(7,729)
Interest income, net.....	7	113	353	657	223
Income (loss) before income taxes.....	210	1,924	6,745	(644)	(7,506)
Provision (benefit) for income taxes.....	55	713	2,483	1,776	(2,789)
Net income (loss).....	\$ 155	\$ 1,211	\$ 4,262	\$(2,420)	\$(4,717)
Basic earnings (loss) per share (1).....	\$.09	\$.33	\$.82	\$(.24)	\$(.38)
Diluted earnings (loss) per share (1).....	\$.02	\$.11	\$.36	\$(.24)	\$(.38)

</TABLE>

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<TABLE>
<CAPTION>

	December 31,				
	1994	1995	1996	1997	1998
	(in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Balance Sheet Data:					
Working capital.....	\$ 154	\$ 3,493	\$26,593	\$24,490	\$22,326
Total assets.....	3,494	13,595	46,035	51,950	55,386
Long-term liabilities.....	--	--	--	--	1,027
Deferred revenue.....	152	767	2,192	3,851	5,495
Total liabilities.....	2,977	8,644	14,205	17,468	24,733
Redeemable convertible preferred stock...	--	4,008	--	--	--
Total stockholders' equity.....	517	943	31,830	34,482	30,653

</TABLE>

(1) For an explanation of the determination of the number of shares used in computing net income (loss) per share see Notes to Consolidated Financial Statements.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes included elsewhere in this Annual Report on Form 10-K. The following discussion contains certain trend analysis and other statements of a forward-looking nature relating to future events or the future financial performance of the Company. Readers are cautioned that such statements are only predictions and that actual results or events may differ materially. In evaluating such statements, readers should specifically consider the risk factors set forth in this Annual Report on Form 10-K, particularly the matters set forth under the caption "Certain Risk Factors," in Item 1 "Business", which could cause actual results to differ materially from those indicated by such forward-looking statements.

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Overview

The Company develops, markets, licenses and sells digital advertising insertion, movie and broadcast systems and related services and movie content to television operators, telecommunications companies, the hospitality and commercial property markets and broadcast television companies. Revenues from systems sales are recognized upon shipment provided that there are no uncertainties regarding customer acceptance and collection of the related receivables is probable. If such uncertainties exist, such as performance criteria beyond the Company's standard terms and conditions, revenue is recognized upon customer acceptance. Installation and training revenue is deferred and recognized as these services are performed. Revenue from technical support and maintenance contracts is deferred and recognized ratably over the period of the related agreements, generally twelve months. Customers are billed

for installation, training and maintenance at the time of the product sale. Revenue from content fees, primarily movies, is recognized in the period earned based on noncancelable agreements.

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

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

On December 10, 1997, the Company acquired all of the outstanding capital stock of IPC Interactive Pte. Ltd. ("IPC") which was renamed to SeaChange Asia Pacific Operations Pte. Ltd. ("SC Asia"). SC Asia provides interactive television network systems to the hospitality and commercial property markets. The transaction was accounted for under the purchase method and, accordingly, the results of operations of the Company include the operating results of SC Asia from the date of acquisition.

Results of Operations

The following table sets forth for the periods indicated the percentage of total revenues represented by certain items reflected in the Company's Consolidated Statement of Operations. Gross profit shown for systems and services revenues at the bottom of the table is stated as a percentage of related revenues.

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<TABLE>
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Revenues:			
Systems			
Digital advertising insertion.....	92.4 %	82.5 %	61.4 %
Movies.....	.5	6.5	13.6
Broadcast.....	--	--	5.9
Services.....	7.1	11.0	19.1
	100.0	100.0	100.0
Cost of revenues:			
Systems			
Digital advertising insertion.....	54.6	47.7	37.0
Movies.....	.5	3.5	9.5
Broadcast.....	--	--	3.4
Services.....	8.2	11.2	18.4
	63.3	62.4	68.3
Gross profit.....	36.7	37.6	31.7
Operating expenses:			
Research and development.....	10.9	17.3	22.0
Selling and marketing.....	8.6	8.9	11.5
General and administrative.....	4.2	5.5	8.1
Restructuring of operations.....	--	--	.9
Write-off of acquired in-process research and development.....	--	7.8	--
	23.7	39.5	42.5
Income (loss) from operations.....	13.0	(2.0)	(10.8)
Interest income, net.....	.7	1.0	.3
Income (loss) before income taxes.....	13.7	(1.0)	(10.5)
Provision (benefit) for income taxes.....	5.0	2.6	(3.9)
Net income (loss).....	8.7 %	(3.6) %	(6.6) %

Gross profit:

Systems			
Digital advertising insertion.....	40.9 %	42.2 %	39.8 %
Movies.....	--	46.3 %	30.0 %
Broadcast.....	--	--	42.7 %
Services.....	(14.5)%	(1.8)%	3.6 %

Years ended December 31, 1996, 1997 and 1998

Revenues

Systems. The Company's systems revenues consist of sales of its digital video insertion, movie and broadcast system products. Systems revenues increased 32% from \$45.7 million in 1996 to \$60.4 million in 1997, and decreased 4% to \$58.0 million in 1998. The increased systems revenues in 1997 compared to 1996 resulted from the increase in the number of the Company's digital video insertion systems sold to television operators primarily in the United States and the sale of approximately \$4.4 million of movie systems compared to \$232,000 in 1996. The decreased systems revenues in 1998 compared to 1997 resulted from a decrease of approximately \$11.9 million in digital advertising insertion systems revenues, offset by an increase of \$5.3 million in movie systems revenues and an increase \$4.2 million in broadcast systems revenues. The decrease in digital advertising insertion systems revenues is primarily attributable to a decrease in the volume of digital video insertion systems sold due to a shift in spending by U.S. cable operators on these products. U.S. cable operators have shifted their spending patterns to buy expansions to existing systems and to buy smaller scale digital ad insertion systems. The increase in 1998 of movie systems revenues of approximately \$5.3 million is primarily attributable to an increase in the volume of movie systems sold as a result of the acquisition of SC Asia. The increase in 1998 of approximately \$4.2 million in broadcast systems is attributable to the initial introduction of the product during the quarter ended June 30, 1998. The Company expects future systems revenue growth, if any, to come principally from its broadcast products.

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For the years ended December 31, 1996, 1997 and 1998, certain customers accounted for more than 10% of the Company's total revenues. Individual customers accounted for 29%, 17%, 13% and 12% of total revenues in 1996; 24%, 18% and 10% of total revenues in 1997; and 24% and 15% of total revenues in 1998. The Company believes that revenues from current and future large customers will continue to represent a significant proportion of total revenues.

International sales accounted for approximately 5%, 12% and 13% of total revenues in the years ended December 31, 1996, 1997 and 1998, respectively. The Company expects that international sales will continue to increase as a percentage of the Company's business in the future. As of December 31, 1998, all sales of the Company's products were made in United States dollars. The Company does not expect to change this practice in the foreseeable future. Therefore, the Company has not experienced, nor does it expect to experience in the near term, any material impact from fluctuations in foreign currency exchange rates on its results of operations or liquidity. If this practice changes in the future, the Company will reevaluate its foreign currency exchange rate risk.

Services. The Company's services revenues consist of fees for installation, training, product maintenance, technical support services and movie content fees. The Company's services revenues increased 112% from approximately \$3.5 million in 1996 to \$7.5 million in 1997, and increased 84% to \$13.7 million in 1998. These increases in services revenues primarily resulted from the increase in product sales and renewals of maintenance and support contracts related to the growing installed base of systems and additional service revenues in the form of movie content fees as a result of the acquisition of SC Asia.

Gross Profit

Systems. Costs of systems revenues consist primarily of the cost of purchased components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses. Costs of systems revenues increased 28% from \$27.1 million in 1996 to \$34.7 million in 1997, and increased 3% to \$35.8 million in 1998. In 1996 and 1997, the increases in costs of systems revenues primarily reflect the overall growth in systems sales, partially offset by the change in product mix upon the introduction of the second generation video insertion product in January 1996 and the decreasing costs of various components. In 1998, the increases in costs of systems revenues reflect increased manufacturing labor and overhead costs incurred to support changes in the product mix, including the introduction of the broadcast products.

Systems gross profit as a percentage of systems revenues was 40.7%, 42.5% and 38.4% in 1996, 1997 and 1998, respectively. The increase in systems gross profit in 1997 in digital advertising insertion systems resulted from lower costs of certain purchased components and subassemblies for systems, the Company achieving certain manufacturing efficiencies as a result of increased volume of systems and design improvements in the second generation video insertion product. The increase in systems gross profit in movie systems is attributable to Company manufacturing and selling a greater number of movie systems, thereby achieving certain manufacturing efficiencies as a result of increased volume of systems. The decrease in systems gross profit in 1998 is attributable to a shift in the mix of system sales and higher manufacturing labor and overhead costs. The decrease in gross profit of digital advertising insertion systems is

primarily attributable to revenues including a greater percentage of smaller scale digital ad insertion systems and expansions to existing systems which have higher costs on certain purchased components and the overall higher manufacturing labor and overhead costs. The decrease in gross profit of movie systems is primarily attributable to higher costs on certain purchased components, specifically set-top boxes, and overall higher manufacturing labor and overhead costs. The gross profit of the broadcast products, introduced in 1998, offset the decreases in the gross profit of the movie and digital advertising insertion systems products. The gross profits in 1996, 1997 and 1998 were impacted by increases of approximately \$694,000, \$1.7 million and \$2.0 million, respectively, in the Company's inventory valuation allowance. The Company evaluates inventory levels and expected usage on a periodic basis and provides a valuation allowance for estimated inactive, obsolete and surplus inventory.

Services. Costs of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support services provided by the Company and costs associated with providing movie content. Costs of services revenues increased 89% from

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approximately \$4.0 million in 1996 to \$7.6 million in 1997, and increased 74% to \$13.2 million in 1998, primarily as a result of the costs associated with the Company hiring and training additional service personnel to provide worldwide support for the growing installed base of digital ad insertion, movie and broadcast systems and costs associated with providing movie content. Costs of services exceeded services revenues by 14.5% and 1.8% in 1996 and 1997, respectively. Services gross profit as a percentage of services revenue was 3.6% in 1998. Improvements in the services gross profit in 1997 and 1998, reflects the increases in the installed base of systems under service contracts. Also, the services gross profit in 1998 includes gross profit generated from the movie content fees as a result of the acquisition of SC Asia. The Company expects that it will continue to experience fluctuations in gross profit as a percentage of services revenue as a result of the timing of revenues from product and maintenance support and other services to support the growing installed base of systems and the timing of costs associated with the Company's 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 compensation of development personnel, depreciation of equipment and an allocation of related facilities expenses. Research and development expenses increased 118% from approximately \$5.4 million in 1996 to \$11.8 million in 1997, and increased 34% to \$15.8 million in 1998. The increases in the dollar amounts in 1997 and 1998 were primarily attributable to the hiring and contracting of additional development personnel which reflects the Company's continuing investment in new products and in 1998, the additional resources acquired with IPC. All internal software development costs to date have been expensed by the Company. The Company expects that research and development expenses will continue to increase in dollar amount as the Company continues its development and support of new and existing products.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses increased 42% from approximately \$4.3 million in 1996 to \$6.0 million in 1997, and increased 36% to \$8.2 million in 1998. The increases in the dollar amounts were attributable to the hiring of additional selling and marketing personnel, increased international selling efforts and expanded promotional activities to support the movie and broadcast products. In 1997, selling expenses were also higher due to an increase in commission expenses relating to the higher revenue levels.

General and Administrative. General and administrative expenses consist primarily of compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. General and administrative expenses increased 81% from \$2.1 million in 1996 to approximately \$3.7 million in 1997, and increased 55% to approximately \$5.8 million in 1998. The increases in the dollar amounts were primarily attributable to increased staffing and related costs to support the Company's expanded operations and the acquisition of SC Asia. The Company does not expect that general and administrative expenses will increase in dollar amount in the foreseeable future.

Write-off of Acquired In-Process Research and Development. In connection with the acquisition of IPC, the Company acquired certain technology that can be used with the Company's video server technology to provide interactive television network systems to the hospitality and commercial property markets. As discussed in Note 5 to the consolidated financial statements, the Company recorded a charge to operations of \$5,290,000 for the write-off of in-process research and development, the value of which was determined based upon an independent appraisal. In addition, the Company recorded intangible assets of \$1,635,000 that included approximately \$850,000 of software. Of the acquired technology, the capitalized amount reflects the allocation of the purchase price to the software technology deemed technologically feasible, including the operating system and software for the distribution of movies over the network. Acquired technology, including software to provide certain new interactive features and functions over the network, included in the in-process write-off reflects the purchase price allocated to technology currently under development and not considered technologically feasible at the time of the acquisition and with no alternative future use. The Company was continuing the development of the software applications and hardware design of this in-process development as

13,020	10,843	12,701	9,842	8,961	12,010	11,331	12,652		
-----	-----	-----	-----	-----	-----	-----	-----	-----	---
Gross profit.....	7,209	9,151	5,409	3,771	6,159	5,249	5,136		
6,213	-----	-----	-----	-----	-----	-----	-----	-----	---

Operating expenses									
Research and development.....	2,416	2,750	3,159	3,433	4,003	3,900	3,897		
3,963									
Selling and marketing.....	1,268	1,842	1,431	1,508	1,845	2,081	1,928		
2,377									
General and administrative.....	930	866	792	1,156	1,562	1,721	1,174		
1,359									
Restructuring of operations	--	--	--	--	676	--	--		
--									
Write-off of acquired in-process									
research and development.....	--	--	--	5,290	--	--	--		
--	-----	-----	-----	-----	-----	-----	-----	-----	---

7,699	4,614	5,458	5,382	11,387	8,086	7,702	6,999		
-----	-----	-----	-----	-----	-----	-----	-----	-----	---
Income (loss) from operations.....	2,595	3,693	27	(7,616)	(1,927)	(2,453)	(1,863)		
(1,486)									
Interest income, net.....	200	187	136	134	103	76	20		
24	-----	-----	-----	-----	-----	-----	-----	-----	---

Income (loss) before income taxes.....	2,795	3,880	163	(7,482)	(1,824)	(2,377)	(1,843)		
(1,462)									
Provision (benefit) for income taxes.....	1,062	1,475	61	(822)	(709)	(769)	(770)	(
541)	-----	-----	-----	-----	-----	-----	-----	-----	---

Net income (loss).....	\$ 1,733	\$ 2,405	\$ 102	\$ (6,660)	\$ (1,115)	\$ (1,608)	\$ (1,073)	\$ (
921)	=====	=====	=====	=====	=====	=====	=====	=====	
=====									
Basic earnings (loss) per share.....	\$.19	\$.24	\$.01	\$ (.61)	\$ (.10)	\$ (.13)	\$ (.08)	\$	
(.07)									
Diluted earnings (loss) per share.....	\$.13	\$.18	\$.01	\$ (.61)	\$ (.10)	\$ (.13)	\$ (.08)	\$	
(.07)									
Gross profit									
Systems.....	43.7%	45.1%	40.2%	38.4%	39.4%	37.7%	37.5%		
38.6%									
Services.....	(10.4)%	2.8%	5.3%	(6.4)%	9.5%	7.9%	(5.8)%		
3.4%									

</TABLE>

The Company has experienced significant variations in revenues, expenses and operating results from quarter to quarter and such variations are likely to continue. A significant portion of the Company's 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.

The Company has also experienced significant variations in its 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 so affects manufacturing efficiencies and, accordingly, the 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.

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Operating expenses also vary with the number, timing and significance of new product and product enhancement introductions by the Company and its competitors, increased competition, the gain or loss of significant customers, the hiring of new personnel and general economic conditions. All of the above factors are difficult for the Company to forecast, and these or other factors may materially adversely effect the Company's business, financial condition and results of operations for one quarter or a series of quarters. Only a small portion of the Company's expenses vary with revenues in the short-term and there would likely be a material adverse effect on the operating results of the Company if future revenues are lower than expectations.

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

Liquidity and Capital Resources

From inception through November 1996, the Company funded its operations primarily through cash provided by operations and the private sale of equity securities. In November 1996, in connection with the initial public offering of the Company's Common Stock, the Company received net proceeds of \$24.1 million.

Cash, cash equivalents and marketable securities decreased \$7.2 million from \$12.3 million at December 31, 1997 to \$5.1 million at December 31, 1998. Working capital decreased from approximately \$24.5 million at December 31, 1997 to approximately \$22.3 million at December 31, 1998.

Net cash used in operating activities was approximately \$1.9 million, \$9.2 million and \$7.5 million for the years ended December 31, 1996, 1997 and 1998, respectively. The net cash used in operating activities during 1998 was the result of the net loss adjusted for noncash expenses including depreciation and amortization, deferred income taxes, inventory valuation allowance and the changes in certain assets and liabilities. The significant net changes in assets and liabilities that used cash in operations include increases in accounts receivable, inventories and income taxes receivable. The net increase in accounts receivable in 1998 of approximately \$6.4 million is attributable to the increase in revenues in the fourth quarter of 1998 compared to the same period in 1997. The net increase in inventories in 1998 of approximately \$2.4 million is principally attributable to the increase in the number of product lines. Income taxes receivable is attributable to the Company carrying back the taxable loss in 1998 that results in a refund of income taxes.

Net cash used in investing activities was approximately \$3.2 million and \$10.8 million for the years ended December 31, 1996 and 1997, respectively. Net cash provided by investing activities was approximately \$5.5 million in the year ended December 31, 1998. Investment activity consisted primarily of capital expenditures related to the acquisition of computer equipment, office furniture, and other capital equipment required to support the expansion and growth of the business.

Net cash provided by financing activities was approximately \$22.3 million and \$4.1 million for the years ended December 31, 1996 and 1998, respectively. Net cash used in financing activities was approximately \$454,000 in the year ended December 31, 1997. In 1996, the cash provided by financing activities consisted primarily of net proceeds of \$24.1 million from the initial public offering of the Company's Common Stock in November 1996 offset by the purchase of \$2.0 million of treasury stock. In 1997, the cash used in financing represented repayment of IPC's line of credit of approximately \$700,000 and payment of loans to related parties of approximately \$437,000, offset by \$683,000 received in connection with the issuance common stock pursuant to the both the exercise of stock options and purchases under the employee stock purchase plan. In 1998, the cash provided by financing included \$1.2 million and \$2.0 million borrowings under the equipment line of credit and line of credit, respectively, and by \$914,000 received in connection with the issuance of common stock pursuant to both the exercise of stock options and purchases under the employee stock purchase plan.

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The Company has a \$6.0 million revolving line of credit and a \$3.0 million equipment line of credit with a bank. The revolving line of credit expires in October 1999 and the equipment line of credit expires in June 1999. Borrowings under the lines of credit are secured by substantially all of the Company's assets. Loans made under the revolving line of credit generally bear interest at a rate per annum equal to the bank's base rate plus .5% (8.25 % at December 31, 1998). Loans made under the equipment loan bear interest at a rate per annum equal to the bank's base rate plus 1.0% (8.75 % at December 31, 1998). The loan agreement relating to the lines of credit requires that the Company 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 of at least .80 to 1.0. At December 31, 1998 the Company was in compliance with all covenants. As of December 31, 1998, the Company had borrowed \$2.0 million and \$1.2 million against the line of credit and the equipment line of credit, respectively.

The Company believes that existing funds together with available borrowings under the line of credit and equipment line facility are adequate to satisfy its working capital and capital expenditure requirements for the foreseeable future.

The Company had no material capital expenditure commitments as of December 31, 1998.

Year 2000 Issue/Year 2000 Readiness Disclosure

Overview. The Company is completing its process of analyzing and addressing what is known as the Year 2000 Issue. The Year 2000 Issue has arisen because many existing computer programs use only two digits to identify a year in the data field. These programs were designed and developed without considering the impact of the upcoming change in the century and, accordingly, could misconstrue dates such as "00" as the year 1900 rather than 2000. The failure of computer programs and systems to properly recognize dates beginning in the year 2000 could adversely affect the Company's business activities.

The Company's Year 2000 Compliance Program. The Company is executing its Year 2000 Compliance Program, the purpose of which is: to identify important

systems that are not yet Year 2000 compliant; to initiate replacement or remedial action to assure that key systems will continue to operate in the Year 2000 and to test the replaced or remediated systems; to identify and contact key suppliers, vendors, customers and business partners to evaluate their ability to maintain normal operations in the Year 2000; and to develop appropriate contingency plans for dealing with foreseeable Year 2000 complications. The Company's Year 2000 Committee has made significant progress toward the completion of these goals. The Committee continues to execute the Company's Year 2000 Compliance Program and reports the results and status of the Company's Year 2000 efforts to the Board of Directors. The Company expects to substantially complete its Year 2000 Compliance Program activities by the end of 1999.

Information Technology Systems. The Company's critical internal information technology ("IT") systems consist of its Electronic Mail system, Corporate Communications system, Manufacturing database, desktop and file management systems, Software Development tools and I/S Management tools. The Company also uses a Call Center Management software tool for use in the Company's customer service department. The Company has contacted the vendors of these systems and obtained assurances that these IT systems are currently in material Year 2000 compliance. The Company continues to upgrade older versions of these systems that may not be compliant and intends to finish these upgrades to achieve material Year 2000 compliance. The Company is in the process of obtaining written statements confirming such compliance from these vendors. The Company is still in the process of evaluating other areas of its existing internal IT systems at this time and will seek further assurances from its vendors as necessary. The Company plans to test its critical IT systems during 1999. The Company intends to evaluate the need for contingency plans for these internal IT systems given the assurances of compliance the Company has received for these systems. While the Company will work diligently with all of its IT system providers, there is no guarantee that these IT system providers will meet Year 2000 compliance. The failure of any such IT system to be Year 2000 compliant could have a negative effect on the business activities of the Company.

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Non-Information Technology Systems. The Company is conducting an assessment of its non-information technology systems (such as building security, voice mail, telephone and other systems containing embedded microprocessors) and is in the process of determining the nature and extent of any work that may be required to make any non-IT systems Year 2000 compliant. The Company has made Year 2000 compliance inquiries to the vendors of these systems, and intends to track the responses to its inquiries and have the inquiry process completed during the first half of 1999.

Third Party Suppliers, Vendors and Customers. The Company's Year 2000 Compliance Program also includes an investigation of the Year 2000 compliance of its major suppliers, vendors, customers and business partners. For example, all of the Company's products and services incorporate third party software and hardware. The Company is in the process of evaluating its product components. The Company has identified and contacted most of its third party suppliers of hardware and software components regarding Year 2000 compliance and has collected compliance statements from most of these suppliers. The Company has learned that some features or functions of such third party components are not Year 2000 compliant. However, in certain cases the Company does not use such features or functions in its products and, to that extent, the Company believes the non-compliance of such features and functions will not have a negative impact on its products. In those cases where the non-compliance of third party components does affect features or functions used by the Company in its products, the Company intends to install upgrades (most of which are currently available) to achieve material compliance. In addition, the Company is completing the process of testing its application software. To date, the Company has found only a few minor problems with its application software, and has already created patches to this software. Given the number of components and the complexity of the software incorporated in the Company's products and services, the Company believes that in the course of conducting its Year 2000 Compliance Program it could reasonably discover that the Year 2000 problem may affect its software or components. However, the Company regularly develops software updates to its product offerings as a natural course of business and the Company does not expect that these Year 2000 updates will be excessively complex or expensive to implement. Still, there can be no assurances that there will be no service interruption on the part of any of the Company's third party suppliers due to the Year 2000 problem and this could have a material adverse effect on the Company.

Year 2000 Costs and Expenses. To date, the costs associated with the Year 2000 Issue and the Company's Year 2000 Compliance Program have not been material. The Company will incur costs that include internal resources, software and equipment upgrades and replacement. Based on currently available information, the Company believes that the expense associated with its ongoing efforts will not be material and will be funded through operations, but the Company has not completed its evaluation of its non-IT systems and its third party relationships. If unforeseen compliance efforts are required or if present compliance efforts are not completed on time, or if the cost of any required updating, modification or replacement of the Company's systems or equipment exceeds the Company's estimates, the Year 2000 Issue could result in material costs and have a material adverse effect on the Company.

Contingency Plans. At the present time, the Company has not felt it necessary to formulate any contingency plans for addressing problems due to the Year 2000 Issue. The Company has been assured that its critical internal IT systems are compliant by the vendors of those systems and the Company will

evaluate the need for contingency plans for internal IT systems given those assurances. The Company is currently in the process of evaluating the Year 2000 Issue with respect to its non-IT systems and with respect to its major suppliers, vendors, customers and business partners. As this evaluation process proceeds, the Company will formulate appropriate contingency plans. The Company expects that any required contingency planning will be completed no later than the end of 1999.

Risks Associated with Year 2000 Issue. Various statements in this discussion of Year 2000 are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as discussed above under "Factors That May Affect Future Results." These statements include statements of the Company's expectations, statements with regard to schedules and expected completion dates and statements regarding expected Year 2000 compliance.

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These forward-looking statements are subject to various risk factors which may materially affect the Company's efforts to achieve Year 2000 compliance. These risk factors include the inability of the Company to complete the plans and modifications that it has identified; the failure of software vendors to deliver the upgrades and repairs to which they have committed; the wide variety of information technology systems and components, both hardware and software, that must be evaluated; any inaccuracy in the assessment of the cost and financial exposure of the Company with respect to current and older versions of the Company's products; the failure of software vendors to deliver upgrades and repairs to which they have committed; and the large number of vendors and customers with which the Company interacts. The Company's assessments of the effects of Year 2000 on the Company are based, in part, upon information received from third parties and the Company's reasonable reliance on that information. Therefore, the risk that inaccurate information is supplied by third parties upon which the Company reasonably relied must be considered as a risk factor that might affect the Company's Year 2000 efforts. The Company is attempting to reduce the risks by utilizing an organized approach, extensive testing, and allowance of ample contingency time to address issues identified by tests.

Effects of Inflation

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

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ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company faces exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results. The Company's primary exposure has been related to local currency revenue and operating expenses in Europe and Asia. Historically, the Company has not hedged specific currency exposures as gains and losses on foreign currency transactions have not been material to date. At December 31, 1998, the Company had \$3,226,000 outstanding related to variable rate U.S. dollar denominated short-term 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 \$40,000.

The carrying amounts reflected in the consolidated balance sheet of cash and cash equivalents, trade receivables, and trade payables approximates fair value at December 31, 1998 due to the short maturities of these instruments.

The Company maintains investment portfolio holdings of various issuers, types, and maturities. The Company's cash and marketable securities include cash equivalents, which the Company considers investments to be purchased with original maturities of three months or less given the short maturities and investment grade quality of the portfolio holdings at December 31, 1998, a sharp rise in interest rates should not have a material adverse impact on the fair value of the Company's investment portfolio. As a result, the Company does not currently hedge these interest rate exposures.

ITEM 8. Financial Statements and Supplementary Data

The Company's Financial Statements and Schedules, together with the auditors' reports thereon, appear at pages F-1 through F-20, and S-1 through S-2, respectively, of this Form 10-K.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Information concerning the directors of the Registrant is hereby incorporated by reference from the information contained under the heading "

Election of Directors" in the Registrant's definitive proxy statement related to the Registrant's 1998 Annual Meeting of Stockholders which will be filed with the Commission within 120 days after the close of the fiscal year (the "Definitive Proxy Statement").

Certain information concerning directors and executive officers of the Registrant is hereby incorporated by reference to the information contained under the heading "Occupations of Directors and Executive Officers" in the Registrant's Definitive Proxy Statement.

Item 11. Executive Compensation

Information concerning executive compensation is hereby incorporated by reference to the information contained under the heading "Compensation and Other Information Concerning Directors and Officers" in the Definitive Proxy Statement.

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Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is hereby incorporated by reference to the information contained under the heading "Securities Ownership of Certain Beneficial Owners and Management" in the Definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is hereby incorporated by reference to the information contained under the heading "Certain Relationships and Related Transactions" in the Definitive Proxy Statement.

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ITEM 14. Exhibits and Financial Statement Schedules

PART IV

(a) (1) INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following Consolidated Financial Statements of the Registrant are filed as part of this report:

	Page
<TABLE>	----
<S>	<C>
Report of Independent Accountants	F-1
Consolidated Balance Sheet as of December 31, 1997 and 1998	F-2
Consolidated Statement of Operations for the years ended December 31, 1996, 1997 and 1998	F-3
Consolidated Statement of Stockholders' Equity for the years ended December 31, 1996, 1997 and 1998	F-4
Consolidated Statement of Cash Flows for the years ended December 31, 1996, 1997 and 1998	F-5
Notes to Consolidated Financial Statements	F-7

</TABLE>

(a) (2) INDEX TO FINANCIAL STATEMENT SCHEDULES

The following Financial Statement Schedule of the Registrant is filed as part of this report:

	Page
<TABLE>	----
<S>	<C>
Schedule I Report of Independent Accountants on Financial Statement Schedule	S-1
Schedule II - Valuation and Qualifying Accounts and Reserves	S-2

Schedules not listed above have been omitted because the information requested to be set forth therein is not applicable or is shown in the accompanying Consolidated Financial Statements or notes thereto.

(a) (3) INDEX TO EXHIBITS

See attached Exhibit Index of this Annual Report on Form 10-K.

(b) EXHIBITS

The Company hereby files as part of this Form 10-K the Exhibits listed in Item 14 (a) (3) above. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission (the "Commission"), 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices located at Seven World Trade Center, 13th Floor, New York, New York 10048, and at the Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can also be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition the Company is

required to file electronic versions of certain of these documents with the Commission through the Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system. The Commission maintains a World Wide Web site at <http://www.sec.gov> that contains the report, proxy and information statements and other information regarding registrants that file electronically with the Commission. The Common Stock of the Company is traded on the Nasdaq National Market. Reports and other information concerning the Company may be inspected at the National Association of Securities Dealers, Inc. 1801 K Street, N.W., Washington, D.C. 20006.

- (d) FINANCIAL STATEMENT SCHEDULES The Company hereby files as part of this Form 10-K the consolidated financial statements schedules listed in Item 14 (a) (2) above, which are attached hereto.

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SIGNATURES

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

Dated: MARCH 22, 1999

SEACHANGE INTERNATIONAL, INC.

by: /s/ William C. Styslinger, III

 William C. Styslinger, III
 President, Chief Executive Officer,
 Chairman of the Board and Director.

POWER OF ATTORNEY AND SIGNATURES

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William C. Styslinger, III and William L. Fiedler, jointly and severally, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<TABLE> <CAPTION>	Signature -----	Title(s) -----	Date ----
<S>	/s/ William C. Styslinger, III ----- William C. Styslinger, III	<C> President, Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)	<C> March 22, 1999
	/s/ William L. Fiedler ----- William L. Fiedler	Vice President, Finance and Administration, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 22, 1999
	/s/ Martin R. Hoffmann ----- Martin R. Hoffmann	Director	March 22, 1999
	/s/ Edward J. McGrath ----- Edward J. McGrath	Director	March 22, 1999
	/s/ Paul Saunders ----- Paul Saunders	Director	March 22, 1999
	/s/ Carmine Vona ----- Carmine Vona	Director	March 22, 1999

</TABLE>

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Exhibit Index

<TABLE> <CAPTION> Exhibit No. -----	Description -----
--	----------------------

<S>	<C>
3.1	Amended and Restated Certification of Incorporation (incorporated by reference to the Registrant's Annual Report on Form 10-K filed March 28, 1997).
3.2	Amended and Restated By-laws of the Company (incorporated by reference to the Registrant's Annual Report on Form 10-K filed March 28, 1997).
4.1 (1)	Form of Stock Restriction Agreement (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-1, Registration No. 333-12233).
4.2 (1)	Form of Stock Restriction Agreement Amendment (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-1, Registration No. 333-12233).
10.1 (1)	Amended and Restated 1995 Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1, Registration No. 333-12233).
10.2 (1)	1996 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1, Registration No. 333-12233).
10.3 *	Lease Agreement dated May 28, 1998 between Robert Quirk, Trustee of Maynard Industrial Properties Associates Trust and the Company.
10.4 *	Sublease agreement dated June 20, 1996 between Harding Lawson Associates, Inc. and the Company.
10.5 *	Loan and Security Agreement dated November 10, 1990 between Silicon Valley Bank and the Company.
10.7	License Agreement dated May 30, 1996 between Summit Software Systems, Inc. and the Company (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-1, Registration No. 333-12233).
10.8	Stock Purchase Agreement, dated December 10, 1997, by and among the Company, IPC Interactive Pte. Ltd. and the shareholders of IPC Interactive Pte. Ltd. (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed March 31, 1998.)
10.9	Registration Rights Agreement, dated December 10, 1997, by and among the Company, IPC Interactive Pte. Ltd. and the shareholders of IPC Interactive Pte. Ltd. (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed March 31, 1998.)
10.10	Escrow Agreement, dated December 10, 1997, by and among the Company, IPC Interactive Pte. Ltd. and the shareholders of IPC Interactive Pte. Ltd. and State Street Bank and Trust Company (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K filed March 31, 1998.)
21.1*	List of Significant Subsidiaries
23.1*	Consent of PricewaterhouseCoopers LLP.
27.1*	Financial Data Schedule (For SEC Edgar Filing Only; Intentionally Omitted).

* Filed herewith.

</TABLE>

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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 statements 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, 1997 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 financial statements in accordance with generally accepted auditing standards 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 the opinion expressed above.

/s/PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
January 29, 1999

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

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
	----	----
<S>	<C>	<C>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,973	\$ 5,115
Marketable securities	9,310	--
Accounts receivable, net of allowance for doubtful accounts of \$559 at December 31, 1997 and \$870 at December 31, 1998	12,535	18,975
Inventories	13,713	16,157
Income taxes receivable	1,131	2,117
Prepaid expenses	1,205	1,701
Deferred income taxes	1,091	1,967

Total current assets	41,958	46,032
Property and equipment, net	8,303	7,981
Other assets	81	176
Goodwill and intangibles, net	1,608	1,197
	<u>\$51,950</u>	<u>\$55,386</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Line of credit	\$ --	\$ 2,000
Current portion of equipment line of credit and obligations under capital lease	--	555
Accounts payable	8,765	10,103
Accrued expenses	2,718	3,374
Customer deposits	2,049	1,704
Deferred revenue	3,851	5,495
Income taxes payable	85	475
Total current liabilities	<u>17,468</u>	<u>23,706</u>
Long-term equipment line of credit and obligations under capital lease	--	1,027
Commitments (Note 11)		
Stockholders' Equity		
Common stock, \$.01 par value; 50,000,000 shares authorized; 13,593,594 shares and 13,736,892 shares issued at December 31, 1997 and 1998, respectively		
	136	138
Additional paid-in capital	31,218	32,177
Retained earnings (accumulated deficit)	3,114	(1,603)
Treasury stock, 9,000 shares	--	--
Cumulative translation adjustment	14	(59)
Total stockholders' equity	<u>34,482</u>	<u>30,653</u>
	<u>\$51,950</u>	<u>\$55,386</u>

</TABLE>

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

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

<TABLE>
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Revenues			
Systems	\$ 45,745	\$ 60,414	\$ 58,033
Services	3,521	7,473	13,737
	<u>49,266</u>	<u>67,887</u>	<u>71,770</u>
Costs of revenues			
Systems	27,133	34,740	35,772
Services	4,030	7,607	13,241
	<u>31,163</u>	<u>42,347</u>	<u>49,013</u>
Gross profit	<u>18,103</u>	<u>25,540</u>	<u>22,757</u>
Operating expenses			
Research and development	5,393	11,758	15,763
Selling and marketing	4,254	6,049	8,231
General and administrative	2,064	3,744	5,816
Restructuring of operations	--	--	676
Write-off of acquired in-process research and development	--	5,290	--
	<u>11,711</u>	<u>26,841</u>	<u>30,486</u>
Income (loss) from operations	<u>6,392</u>	<u>(1,301)</u>	<u>(7,729)</u>
Interest income, net	<u>353</u>	<u>657</u>	<u>223</u>

Income (loss) before income taxes	6,745	(644)	(7,506)
Provision (benefit) for income taxes	2,483	1,776	(2,789)

Net income (loss)	\$ 4,262	\$ (2,420)	\$ (4,717)
	=====		
Basic earnings (loss) per share	\$.82	\$ (.24)	\$ (.38)
	=====		
Diluted earnings (loss) per share	\$.36	\$ (.24)	\$ (.38)
	=====		
Shares used in calculating:			
Basic earnings per share	5,187,993	10,276,711	12,420,397
	=====		
Diluted earnings per share	11,745,866	10,276,711	12,420,397
	=====		

</TABLE>

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

F-3

SeaChange International, Inc.
Consolidated Statement of Stockholders' Equity
(in thousands, except share data)

<TABLE>

<CAPTION>

	Series A convertible preferred stock		Common Stock			Retained earnings (accumulated deficit)
	Number of shares	Amount	Number of shares	Par value	Additional paid-in capital	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	11,808	\$ --	9,625,740	96	\$ 374	\$ 1,272
Purchase of treasury stock	--	--	--	--	--	--
Sale of common stock, net of issuance costs	--	--	1,810,000	18	24,052	--
Conversion of preferred stock into common stock	(11,808)	--	2,260,856	23	3,985	--
Issuance of common stock pursuant to exercise of stock options	--	--	9,223	--	9	--
Compensation expense associated with stock issuance	--	--	--	--	126	--
Issuance of common stock pursuant to purchased research and development	--	--	9,615	--	144	--
Retirement of treasury stock	--	--	(856,200)	(8)	(2,523)	--
Net income	--	--	--	--	--	4,262

Comprehensive income						
Balance at December 31, 1996	--	--	12,859,234	129	26,167	5,534
Purchase of treasury stock	--	--	(9,000)	--	--	--
Compensation expense associated with stock issuance	--	--	--	--	45	--
Issuance of common stock pursuant to exercise of stock options	--	--	88,999	1	203	--
Issuance of common stock in connection with employee stock purchase plan	--	--	29,361	--	479	--
Issuance of common stock in connection with acquisition of IPC Interactive, Pte. Ltd.	--	--	625,000	6	4,324	--
Translation adjustment	--	--	--	--	--	--
Net loss	--	--	--	--	--	(2,420)

Comprehensive loss						
Balance at December 31, 1997	--	--	13,593,594	136	31,218	3,114
Issuance of common stock						

pursuant to exercise of stock options	--	--	90,527	2	506	--
Issuance of common stock in connection with employee stock purchase plan	--	--	52,771	--	406	--
Compensation expense associated with stock issuance	--	--	--	--	47	--
Translation adjustment	--	--	--	--	--	--
Net loss	--	--	--	--	--	(4,717)

Comprehensive loss

Balance at December 31, 1998	--	\$ --	13,736,892	\$138	\$32,177	\$ (1,603)
------------------------------	----	-------	------------	-------	----------	------------

</TABLE>
<TABLE>
<CAPTION>

	Cumulative translation Adjustment	Treasury stock	Notes receivable from stockholders	Total stockholders' equity	Comprehensive income (loss)
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	\$ --	\$ (4)	\$ (795)	\$ 943	
Purchase of treasury stock	--	(2,527)	795	(1,732)	
Sale of common stock, net of issuance costs	--	--	--	24,070	
Conversion of preferred stock into common stock	--	--	--	4,008	
Issuance of common stock pursuant to exercise of stock options	--	--	--	9	
Compensation expense associated with stock issuance	--	--	--	126	
Issuance of common stock pursuant to purchased research and development	--	--	--	144	
Retirement of treasury stock	--	2,531	--	--	
Net income	--	--	--	4,262	\$ 4,262

Comprehensive income 4,262

Balance at December 31, 1996	--	--	--	31,830	
Purchase of treasury stock	--	--	--	--	
Compensation expense associated with stock issuance	--	--	--	45	
Issuance of common stock pursuant to exercise of stock options	--	--	--	204	
Issuance of common stock in connection with employee stock purchase plan	--	--	--	479	
Issuance of common stock in connection with acquisition of IPC Interactive, Pte. Ltd.	--	--	--	4,330	
Translation adjustment	14	--	--	14	14
Net loss	--	--	--	(2,420)	(2,420)

Comprehensive loss (2,406)

Balance at December 31, 1997	14	--	--	34,482	
Issuance of common stock pursuant to exercise of stock options	--	--	--	508	
Issuance of common stock					

in connection with employee stock purchase plan	--	--	--	406	
Compensation expense associated with stock issuance	--	--	--	47	
Translation adjustment	(73)	--	--	(73)	(73)
Net loss	--	--	--	(4,717)	(4,717)

Comprehensive loss					(4,790)
=====					
Balance at December 31, 1998	\$(59)	\$ --	\$ --	\$30,653	\$(4,790)
=====					

The accompanying notes are an integral part of these Consolidated Financial Statements.
</TABLE>

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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,		
	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities			
Net income (loss)	\$ 4,262	\$ (2,420)	\$ (4,717)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	1,436	2,802	4,789
Inventory valuation allowance	694	1,730	2,016
Compensation expense associated with stock and stock options	126	45	47
Write-off of acquired in-process research and development	--	5,290	--
Research and development expense associated with common stock issuance	144	--	--
Deferred income taxes	(424)	(516)	(876)
Changes in assets and liabilities, net of the effect of the acquisition of IPC Interactive Pte. Ltd. in 1997:			
Accounts receivable	(4,091)	(4,381)	(6,440)
Inventories	(9,134)	(7,069)	(4,376)
Income taxes receivable	--	(1,131)	(986)
Prepaid expenses and other assets	(468)	(339)	(591)
Accounts payable	4,165	(1,164)	1,265
Accrued expenses	(126)	(109)	656
Customer deposits	817	(3,260)	(345)
Deferred revenue	1,425	1,273	1,644
Income taxes payable	(720)	85	390
	-----	-----	-----
Net cash used in operating activities	(1,894)	(9,164)	(7,524)
	-----	-----	-----
Cash flows from investing activities			
Purchase of software	(450)	--	--
Purchases of property and equipment	(2,792)	(2,158)	(3,766)
Proceeds from sale and maturity of marketable securities	--	8,966	10,212
Purchases of marketable securities	--	(18,276)	(902)
Cash acquired related to the acquisition of IPC Interactive Pte. Ltd., net of transaction costs	--	665	--
	-----	-----	-----
Net cash provided by (used in) investing activities	(3,242)	(10,803)	5,544
	-----	-----	-----
Cash flows from financing activities			
Proceeds from borrowings under equipment line of credit	--	--	1,226
Proceeds from borrowings under line of credit	--	--	2,000
Repayment of line of credit	--	(700)	--
Repayment of obligation under capital lease	--	--	(18)
Proceeds from sale of common stock, net	24,079	683	914
Purchase of treasury stock	(2,023)	--	--
Notes payable to related parties	--	(437)	--
Repayments of loans from stockholders	290	--	--
	-----	-----	-----
Net cash provided by (used in) financing activities	22,346	(454)	4,122
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	17,210	(20,421)	2,142
Cash and cash equivalents, beginning of year	6,184	23,394	2,973
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 23,394	\$ 2,973	\$ 5,115
	=====	=====	=====

</TABLE>

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

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

<TABLE>
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Supplemental disclosure of cash flow information:			
Income taxes paid	\$ 3,854	\$ 1,691	\$ 132
Interest paid	\$ --	\$ --	\$ 35
Supplemental disclosure of noncash activity:			
Transfer of items originally classified as inventories to fixed assets	\$ 1,726	\$ 1,829	\$ 584
Transfer of items originally classified as fixed assets to inventories	\$ --	\$ --	\$ 668
Purchase of treasury stock in lieu of cash payment of notes receivable from stockholders	\$ 505	\$ --	\$ --
Equipment acquired under capital lease	\$ --	\$ --	\$ 374
Acquisition of all of the outstanding shares of IPC Interactive Pte. Ltd. (Note 5):			
Fair value of assets acquired (including intangible assets and in-process research and development)	--	\$ 12,396	--
Fair value of common shares issued	--	(4,330)	--
Transaction costs	--	(475)	--
	-----	-----	-----
Liabilities assumed	--	\$ 7,591	--
	=====	=====	=====

</TABLE>

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

SeaChange International, Inc.
Notes to Consolidated Financial Statements

1. Nature of Business

The Company develops computer systems to digitally manage, store and distribute video. Through December 31, 1998, substantially all of the Company's revenues were derived from the sale of digital video insertion, movie and broadcast systems and related services and content to cable television operators, broadcast and telecommunications companies in the United States and internationally.

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 the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

Revenues from the sales of systems are recognized upon shipment provided that there are no uncertainties regarding customer acceptance and collection of the related receivables is probable. If such uncertainties exist, such as performance criteria beyond the Company's standard terms and conditions, revenue is recognized upon customer acceptance. Installation and training revenue is deferred and recognized as these services are performed. Revenue from technical support and maintenance contracts is deferred, if billed in advance, and recognized ratably over the period of the related agreements, generally twelve months. Revenue from content fees, primarily movies, is recognized in the period earned based on noncancelable agreements. Customer deposits represent advance payments from customers for systems.

Concentration of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk include trade accounts receivable and marketable securities. To minimize this risk, the Company evaluates customers' financial condition, requires advance payments from certain of its customers and maintains reserves for potential credit losses. At December 31, 1997 and 1998, the Company had an allowance for doubtful accounts of \$559,000 and \$870,000, respectively, to provide for potential credit losses and such losses to date have not exceeded management's expectations. The Company invests its excess cash in marketable securities, such as money market funds and municipal

securities with strong credit ratings.

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 and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. The Company invests its excess cash in money market funds, municipal securities and corporate debt securities that are subject to minimal credit and market risk. Cash equivalents 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.

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SeaChange International, Inc. Notes to Consolidated Financial Statements (continued)

Property and Equipment

Property and equipment consist of office and computer equipment, leasehold improvements, demonstration equipment, deployed assets and spare components and assemblies used to service the Company's installed base. Demonstration equipment consists of systems manufactured by the Company 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 consist primarily of hardware owned and operated by the Company and installed at customer locations. 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. Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimize this risk, the Company evaluates inventory levels and expected usage on a periodic basis and records valuation allowances as required.

The Company 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, the Company 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 the Company'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 Company reviews goodwill and intangible assets for any impairment in accordance with Statement of Financial Accounting Standards No. 121, Accounting for Impairment of Long-Lived Assets to be Disposed Of, ("SFAS 121").

Research and Development and Software Development Costs

Costs incurred in the research and development of the Company'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 the Company'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 the Company's 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. The Company provides the disclosure requirements of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, ("SFAS 123") and related interpretations. Nonemployee stock awards are accounted for in accordance with Emerging Issues Task Force Issue No. 96-18.

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

Foreign Currency Translation

The Company 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.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising costs were \$328,000, \$659,000 and \$624,000 for the years ended December 31, 1996, 1997 and 1998, 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 years ended December 31, 1997 and 1998, 468,311 and 240,644 common shares issuable upon the exercise of stock options, respectively, and 2,661,825 and 1,194,488 shares of unvested restricted common stock, respectively, are antidilutive because the Company recorded a net loss for the years and, therefore, have been excluded from the diluted earnings per share computations.

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

<TABLE>
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Weighted average number of shares outstanding	5,187,993	10,276,711	12,420,397
Shares attributable to series A redeemable convertible preferred stock	1,476,000	-	-
Shares attributable to series B redeemable convertible preferred stock	568,607	-	-
Shares attributable to unvested restricted common stock	4,109,925	-	-
Dilutive stock options	403,341	-	-
	-----	-----	-----
Shares used in calculating diluted earnings per share	11,745,866	10,276,711	12,420,397
	=====	=====	=====

</TABLE>

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, ("SFAS 133"). SFAS 133 will become effective in January 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income,

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. To date the Company has not utilized derivative instruments or hedging activities and, therefore, the adoption of SFAS 133 is not expected to have a material impact on the Company's financial position or results of operations.

3. Consolidated Balance Sheet Detail

Cash, cash equivalents and marketable securities consist of the following:

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
<S>	<C>	<C>
Cash and cash equivalents:		
Cash	\$ 917,000	\$2,090,000
Money market funds	506,000	2,005,000
Municipal securities	1,550,000	1,020,000
	2,973,000	5,115,000
Marketable securities:		
Municipal securities	9,310,000	--
	\$12,283,000	\$5,115,000
	=====	=====

</TABLE>

Marketable securities are classified as available-for-sale securities and are carried at fair market value, which approximates amortized cost. The contractual maturities of all available-for-sale securities classified as cash equivalents are less than three months. Gross unrealized gains and losses on securities for the years ended December 31, 1996, 1997 and 1998, the cost of which is based upon the specific identification method, were not significant.

<TABLE>
<CAPTION>

Inventories consist of the following:

	December 31,	
	1997	1998
<S>	<C>	<C>
Components and assemblies	\$11,932,000	\$14,592,000
Finished products	1,781,000	1,565,000
	\$13,713,000	\$16,157,000
	=====	=====

<CAPTION>

Property and equipment consist of the following:

	Estimated useful life (years)	December 31,	
		1997	1998
<S>	<C>	<C>	<C>
Office furniture and equipment	5	\$ 1,332,000	\$ 1,565,000
Computer and demonstration equipment	3	8,140,000	9,089,000
Deployed assets	3-7	497,000	1,788,000
Service and spare components	5	2,000,000	2,584,000
Leasehold improvements	1-7	304,000	758,000
		12,273,000	15,784,000
Less -- Accumulated depreciation and amortization		3,970,000	7,803,000
		\$ 8,303,000	\$ 7,981,000
		=====	=====

</TABLE>

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

Depreciation expense was \$1,246,000, \$2,515,000 and \$3,833,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

<TABLE>
<CAPTION>

Accrued expenses consist of the following:

	December 31,	
	1997	1998
<S>	<C>	<C>
Accrued software license fees	\$ 630,000	\$1,206,000
Accrued sales and use taxes	338,000	733,000

Other accrued expenses	1,750,000	1,435,000
	-----	-----
	\$2,718,000	\$3,374,000
	=====	=====

</TABLE>

4. Segment Information

The Company has four reportable segments: digital advertising insertion, movies and broadcast systems and services. The digital advertising insertion systems segment provides products to digitally manage, store and distribute digital video for television operators and telecommunications companies. The movie systems segment comprises products to provide long-form video storage and delivery for the pay-per-view markets for the hospitality and commercial property markets. 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 the above systems and content which is distributed by the movie product segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company does not measure the assets allocated to the segments. The Company measures results of the segments based on the respective gross profits. There were no intersegment sales or transfers. Long-lived assets are principally located in the United States. The following summarizes the revenues and cost of revenues by reportable segment:

<TABLE>
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues			
Digital advertising insertion	\$45,513	\$55,977	\$44,088
Movies	232	4,437	9,722
Broadcast	-	-	4,223
Services	3,521	7,473	13,737
	-----	-----	-----
	\$49,266	\$67,887	\$71,770
	-----	-----	-----
Costs of revenues			
Digital advertising insertion	\$26,901	\$32,356	\$26,551
Movies	232	2,384	6,801
Broadcast	-	-	2,420
Services	4,030	7,607	13,241
	-----	-----	-----
	\$31,163	\$42,347	\$49,013
	-----	-----	-----

</TABLE>

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

The following summarizes revenues by geographic locations:

<TABLE>
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues			
United States	\$46,875	\$59,855	\$62,343
Canada and South America	-	2,696	691
Europe	2,391	4,481	4,272
Rest of world	-	855	4,464
	-----	-----	-----
	\$49,266	\$67,887	\$71,770
	=====	=====	=====

</TABLE>

For the years ended December 31, 1996, 1997 and 1998, certain customers accounted for more than 10% of the Company's revenues. Individual customers accounted for 29%, 17%, 13% and 12% of revenues in 1996; 24%, 18% and 10% in 1997; and 24% and 15% in 1998.

5. Acquisition and Restructuring of Operations

Acquisition

On December 10, 1997, the Company exchanged 625,000 shares of its common stock for all of the outstanding capital stock of IPC Interactive Pte. Ltd.

("IPC") which was renamed to SeaChange Asia Pacific Operations Pte. Ltd. ("SC Asia"). SC Asia provides interactive television network systems to the hospitality and commercial property markets. The total purchase price, including transaction costs, was \$4,805,000. The acquisition was accounted for under the purchase method. Accordingly, the purchase price was allocated to the estimated fair value of the acquired assets and liabilities based upon an independent appraisal. A portion of the purchase price was allocated to in-process research and development, resulting in an immediate charge to the Company's operations of \$5,290,000 at the date of acquisition. The amount allocated to in-process research and development represented technology which had not reached technological feasibility and had no alternative future use. The appraisal also valued intangibles, including assembled workforce and software. Goodwill and intangibles, net of related accumulated amortization totaled \$1,608,000 and \$1,197,000 at December 31, 1997 and 1998, respectively. Amortization expense was \$27,000 and \$411,000 for the years ended December 31, 1997 and 1998, respectively. The consolidated results of operations include the operating results of IPC from the date of acquisition.

The purchase price was allocated to the acquired assets and liabilities as follows:

<TABLE>	
<CAPTION>	
<S>	<C>
Tangible assets	\$ 5,471,000
Assumed liabilities	(7,591,000)
Intangible assets:	
In-process research and development	5,290,000
Software	850,000
Assembled workforce	280,000
Goodwill	505,000

	\$ 4,805,000
	=====

</TABLE>

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

Included in assumed liabilities were a line of credit of \$700,000 and notes payable to related parties of \$437,000. The notes payable to related parties were due to two companies owned by new shareholders of the Company as a result of the acquisition. The Company paid these assumed liabilities in full and canceled the line of credit prior to December 31, 1997.

The following unaudited pro forma data summarizes the consolidated results of the Company and IPC as if the acquisition had occurred on February 1, 1996 (inception of IPC) and excludes the \$5,290,000 charge for in-process research and development. The unaudited pro forma information is not necessarily indicative either of results of operations that would have occurred had the purchase been made at the beginning of the periods presented, or of future results of operations of the combined companies.

<TABLE>		
<CAPTION>		
	Pro forma for the year ended December 31,	

	1996	1997
	-----	-----
	(unaudited)	(unaudited)
<S>	<C>	<C>
Revenues	\$60,372,000	\$75,573,000
Net income (loss)	\$ 1,085,000	\$ (3,403,000)
Basic earnings (loss) per share	\$.19	\$ (.31)
Diluted earnings (loss) per share	\$.09	\$ (.31)

</TABLE>

Restructuring of Operations

In March 1998, the Company 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, the Company had notified all terminated employees. All restructuring charges were paid as of December 31, 1998.

6. Lines of Credit

The Company has a \$6.0 million revolving line of credit and a \$3.0 million equipment line of credit with a bank. The revolving line of credit expires in October 1999 and the equipment line of credit expires in June 1999. Borrowings under the lines of credit are secured by substantially all of the Company's assets. Loans made under the revolving line of credit generally bear interest at a rate per annum equal to the bank's base rate plus .5% (8.25 % at December 31, 1998). Loans made under the equipment loan bear

interest at a rate per annum equal to the bank's base rate plus 1.0% (8.75% at December 31, 1998). The loan agreement relating to the lines of credit requires that the Company 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 of at least .80 to 1.0. At December 31, 1998 the Company was in compliance with all covenants. As of December 31, 1998, borrowings against the line of credit were \$2.0 million. As of December 31, 1998, borrowings against the equipment line of credit were \$1,226,000. Maturities of the equipment line of credit are \$491,000, \$491,000 and \$244,000 in 1999, 2000 and 2001, respectively.

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

7. Income Taxes

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

<TABLE>
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Current provision (benefit):			
Federal	\$2,346,000	\$1,920,000	\$(1,913,000)
State	561,000	371,000	-
	2,907,000	2,291,000	(1,913,000)
Deferred benefit:			
Federal	(324,000)	(394,000)	(124,000)
State	(100,000)	(121,000)	(752,000)
	(424,000)	(515,000)	(876,000)
	\$2,483,000	\$1,776,000	\$(2,789,000)

</TABLE>

The components of deferred income taxes are as follows:

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
<S>	<C>	<C>
Deferred tax assets:		
Inventories	\$ 769,000	\$ 1,299,000
Allowance for doubtful accounts	209,000	320,000
Deferred revenue	96,000	126,000
Software	176,000	111,000
Accrued expenses	-	153,000
State net operating loss carryforwards	-	398,000
Acquired net operating loss carryforwards and basis differences	3,361,000	3,361,000
	4,611,000	5,768,000
Valuation allowance	(3,361,000)	(3,361,000)
Total deferred tax assets	1,250,000	2,407,000
Deferred tax liabilities:		
Property and equipment	157,000	430,000
Other	2,000	10,000
Total deferred tax liabilities	159,000	440,000
Net deferred income taxes	\$ 1,091,000	\$ 1,967,000

</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 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, 1997 and 1998 relates to net operating loss carryforwards and tax basis differences acquired in the Company'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 are subject to

Internal Revenue Code change in ownership rules which may limit the amount that can be utilized to offset future taxable income. The Company 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.

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

Based on the weight of available evidence, the Company believes its remaining deferred tax assets will be realizable. The amount of the deferred tax asset considered realizable is subject to change based on future events. The Company will assess the need for the valuation allowance at each balance sheet date based on all available evidence.

At December 31, 1998, the Company had federal and state net operating loss carryforwards of approximately \$11,278,000 which expire at various dates through 2013 and foreign net operating loss carryforwards of approximately \$1,436,000 which do not expire.

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

<TABLE>
<CAPTION>

	Year ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Statutory U.S. federal tax rate	\$2,293,000	\$ (91,000)	\$(2,552,000)
State taxes, net of federal tax benefits	304,000	165,000	(496,000)
Other	-	145,000	355,000
Research and development tax credits	(135,000)	(334,000)	(316,000)
Foreign Sales Corporation exempt income	(20,000)	-	-
Nondeductible expenses, including write-off of acquired in-process research and development in 1997	41,000	1,891,000	220,000
	-----	-----	-----
	\$2,483,000	\$1,776,000	\$(2,789,000)
	=====	=====	=====

</TABLE>

The Company's effective tax rate was 36.8% in 1996. The Company's effective tax rate for 1997 was significantly impacted by the write-off of acquired in-process research and development which, due to the tax-free nature of the transaction to IPC stockholders, is not deductible for tax purposes by the Company. Accordingly, in 1997 the Company recorded a tax provision of \$1,776,000 despite a book pre-tax operating loss. The Company's effective tax benefit rate was 37.2% in 1998.

8. Common Stock

Initial Public Offering

On November 5, 1996, the Company sold 1,810,000 shares of common stock to the public in the Company's initial public offering at a price of \$15.00 per share. Proceeds to the Company, net of offering expenses, amounted to \$24,070,000. Upon the closing of the initial public offering all outstanding convertible preferred stock of the Company automatically converted into a total of 2,260,856 shares of common stock of the Company.

Stock Split

On September 6, 1996, the Board of Directors authorized a 3-for-2 stock split of the Company's common stock, which became effective on October 30, 1996. 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 1996.

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

Restriction Agreements

Certain common shares are subject to stock restriction and repurchase agreements under which the Company may repurchase unvested common shares at the original issuance price and vested common shares at fair value upon termination of a business relationship with the Company. Common shares subject to these agreements vest ratably over a five-year period and, at December 31, 1998, 652,500 of such shares are unvested.

Treasury Stock

In January 1996, the Company repurchased 431,250 shares of its common stock and 1,286 shares of Series A Stock from certain employees and directors of the Company. Of the common stock repurchased, 21,750 shares were held by the stockholders for less than six months from the time the shares became vested. Accordingly, compensation expense was recorded for the difference between the repurchase price and the original purchase price paid by the stockholders. Compensation expense recorded as a result of this transaction was \$91,000. In December 1996, the Board of Directors voted to retire all shares of treasury stock held at December 31, 1996.

In 1997, the Company repurchased 9,000 shares of its common stock from an employee of the Company. The shares were held for less than six months from the time the shares became vested. Accordingly, compensation expense was recorded for the difference between the repurchase price and the original purchase price paid by the stockholder. Compensation expense recorded in 1997 as a result of this transaction was \$45,000.

Reserved Shares

At December 31, 1998, the Company had 2,008,895 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.

9. Convertible 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. Stock Plans

Employee Stock Purchase Plan

In September 1996, the Company'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 300,000 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 the Company's stock and directors who are not employees of the Company 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 1997 and 1998, 29,361 and 52,771 shares of common stock, respectively, were issued under the Stock Purchase Plan.

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

1995 Stock Option Plan

The 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 1,950,000 shares of the Company's common stock by officers, employees, consultants and directors of the Company. 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. The Company 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 the Company'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 the Company'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 the Company's voting stock).

Director Stock Option Plan

In June 1996, the Company'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 the Company to purchase a maximum of 30,000 shares of common stock under the Director Option Plan. Under the Director Option Plan, participating directors

receive an option to purchase 3,375 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 3,375 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.

Transactions under the 1995 Stock Option Plan and the Director Option Plan during the years ended December 31, 1996, 1997 and 1998 are summarized as follows:

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

<TABLE>
<CAPTION>

	Year ended December 31,					
	1996		1997		1998	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of period	327,120	\$.92	739,334	\$ 5.87	1,143,057	\$11.40
Granted	472,510	8.79	585,536	18.03	889,729	7.43
Exercised	(9,223)	.85	(88,999)	2.30	(90,752)	5.56
Cancelled	(51,073)	2.22	(92,814)	17.81	(532,818)	14.98
	=====		=====		=====	
Outstanding at period end	739,334	\$5.87	1,143,057	\$11.40	1,409,216	\$ 8.01
	=====		=====		=====	
Options exercisable at period end	115,224		205,198		315,643	
Weighted average fair value of options granted during the period		\$4.33		\$11.00		\$ 9.72

</TABLE>

The following table summarizes information about employee and director stock options outstanding at December 31, 1998:

<TABLE>
<CAPTION>

	Options outstanding at December 31, 1998		
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price
	<C>	<C>	<C>
<S>			
Range of exercise prices			
\$.50	59,328	6.65	\$ 0.50
1.23 to 1.36	101,121	3.88	1.31
4.20 to 6.00	415,513	9.51	5.76
6.67 to 9.38	643,382	8.92	8.24
10.19 to 15.00	105,683	8.56	11.51
15.50 to 21.50	22,314	8.30	19.33
28.75 to 33.75	61,875	7.75	28.96
	=====		
	1,409,216		
	=====		

</TABLE>

<TABLE>
<CAPTION>

	Options exercisable at December 31, 1998	
	Number exercisable	Weighted average exercise price
	<C>	<C>
<S>		
Range of exercise prices		
\$0.50	31,621	\$ 0.50
1.23 to 1.36	57,651	1.31

4.20 to 6.00	41,849	4.96
6.67 to 9.38	127,986	7.92
10.19 to 15.00	27,516	11.34
15.50 to 21.50	6,833	19.32
28.75 to 33.75	22,187	28.95

	315,643	
	=====	

</TABLE>

Fair Value Disclosures

The Company applies APB 25 in accounting for employee stock awards. Compensation expense of \$126,000, \$45,000 and \$47,000 has been recorded for the years ended December 31, 1996, 1997 and 1998, respectively. Had compensation expense for the Company's employee stock plans been determined based on the fair value at the grant dates, as prescribed in SFAS 123, the Company's net income (loss) and earnings (loss) per share would have been as follows:

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SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

<TABLE>

<CAPTION>

	Year ended December 31,		
	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Net income (loss)			
As reported	\$4,262,000	\$(2,420,000)	\$(4,717,000)
Pro forma	\$4,205,000	\$(3,290,000)	\$(6,601,000)
Basic earnings (loss) per share			
As reported	\$.82	\$ (.24)	\$ (.38)
Pro forma	\$.81	\$ (.32)	\$ (.53)
Diluted earnings (loss) per share			
As reported	\$.36	\$ (.24)	\$ (.38)
Pro forma	\$.36	\$ (.32)	\$ (.53)

</TABLE>

For options granted prior to the Company's initial filing of its Registration Statement on Form S-1 on September 18, 1996, the fair value of each option grant was estimated on the date of grant using the minimum value method. The fair value of each option granted subsequent to the initial filing was estimated on the date of grant assuming a weighted average volatility factor of 67%. Additional weighted average assumptions used for grants during the years ended December 31, 1996, 1997 and 1998 included: dividend yield of 0.0% for all periods; risk-free interest rates of 5.36% to 6.49% for options granted during the year ended December 31, 1996, 5.70% to 6.75% for options granted during the year ended December 31, 1997 and 6.00% for options granted during the year ended December 31, 1998; and an expected option term of 5 years for all periods.

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

Stock Option Repricing

On January 23, 1998, the Compensation and Option Committee of the Board of Directors of the Company ("Committee") determined that, because certain stock options held by employees of the Company had an exercise price significantly higher than the fair market value of the Company's common stock, such stock options were not providing the desired incentive to employees. Accordingly, the Committee granted those employees whose options were between \$15.00 and \$24.63 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 \$24.63 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 212,779 shares of common stock and the average exercise price of such options was reduced from \$22.19 per share to \$8.25 per share, the fair market value of the Company's common stock at the close of the market on January 22, 1998. With the exception of one executive officer, the Company's directors and executive officers were not eligible to participate in this stock option repricing. During the execution of the stock option repricing plan, the Company's stock price was below \$8.25 per share and, therefore, no compensation charge was recorded as a result of the stock option repricing.

11. Commitments

The Company leases its operating facilities and certain office equipment under noncancelable capital and operating leases which expire at various dates through 2005. Rental expense under operating leases was approximately \$251,000,

SeaChange International, Inc.
Notes to Consolidated Financial Statements (continued)

\$542,000 and \$1,294,000 for the years ended December 31, 1996, 1997 and 1998, respectively. Future commitments under minimum lease payments as of December 31, 1998 are as follows:

<TABLE>
<CAPTION>

<S>	Capital <C>	Operating <C>
Year ended December 31, 1999	\$ 90,000	\$1,460,000
2000	90,000	1,402,000
2001	90,000	1,143,000
2002	90,000	675,000
2003	66,000	524,000
Thereafter	-	649,000

Minimum lease payments	426,000	
Less: Amount representing interest	70,000	

	\$356,000	

</TABLE>

The Company had noncancelable purchase commitments for inventories of approximately \$3,000,000 at December 31, 1998.

In the ordinary course of business, the Company is subject to various types of litigation. In the opinion of management, all litigation currently pending or threatened will not have a material adverse effect on the Company's financial position or results of operations.

12. Employee Benefit Plan

The Company 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. The Company matches contributions up to 25% of the first 6% of compensation contributed by the employee to the Plan. During 1997 and 1998, the Company contributed \$68,000 and \$189,000, respectively, to the Plan. Prior to 1997, the Company did not make contributions to the Plan.

SEACHANGE INTERNATIONAL, INC.

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 January 29, 1999 appearing on page F-1 of this Form 10-K also included an audit of the Financial Statement Schedule listed in Item 14 (a) (2) of this 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.

PricewaterhouseCoopers LLP

Boston, Massachusetts
January 29, 1999

Schedule II

SEACHANGE INTERNATIONAL, INC.

VALUATION OF QUALIFYING ACCOUNTS AND RESERVES

<TABLE>
<CAPTION>

at end period	Balance at beginning of period	Charged to costs and expenses	Deductions and write-offs	Other	Balance of
	-----	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>	<C>
Allowance for Doubtful Accounts:					
Year ended December 31, 1996	\$ 40,000	\$ 133,000	\$ -	\$ -	\$
173,000					
Year ended December 31, 1997	173,000	485,000	(174,000)	75,000	
559,000					
Year ended December 31, 1998	\$ 559,000	\$ 497,000	\$ (186,000)	\$ -	\$
870,000					
Inventory Valuation Allowance:					
Year ended December 31, 1996	\$ 56,200	\$ 693,800	\$ -	\$ -	\$
750,000					
Year ended December 31, 1997	750,000	1,730,000	(1,076,000)	100,000	
1,504,000					
Year ended December 31, 1998	\$1,504,000	\$2,016,000	\$ (919,000)	\$ -	
\$2,601,000					

</TABLE>

LEASE AGREEMENT

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- Exhibit A-1: Plan of the Demised Premises
- Exhibit A-2: Building Complex Space Allocation
- Exhibit B: Landlord's Services
- Exhibit C: Site Plan (showing Building Complex, parking areas and loading docks)
- Exhibit C-1: Parking and Loading Plan

THIS LEASE is executed on May 29, 1998 and made effective as of April 1, 1998, between Maynard Industrial Properties Associates Trust, a Massachusetts Nominee Trust under declaration of trust dated December 10, 1990 and recorded with the Middlesex South Registry of Deeds in Book 21018, Page 326, with an address at 124 Acton Street, Maynard, Massachusetts 01754 ("Landlord") and SeaChange International, Inc., a Delaware Corporation, with an address at 124 Acton Street, Maynard, Massachusetts 01754 ("Tenant").

ARTICLE 1 - Basic Lease Terms

1. Reference in this Lease to any of the terms listed below shall be deemed to incorporate and be a reference to the data set forth next to such term in this Article.

- (a) Additional Rent: See Article 6

- (b) Address of the Demised Premises: 124 Acton Street, Maynard,

Massachusetts 01754
- (c) Annual Base Rent: See Section 4.1

- (d) Base Rent: The net rent due Landlord for the use of the Demised

Premises without any markup or add-on for utility expenses, operating expenses or real estate taxes associated with the Property shown on the schedule of Base Rent in Article 4.
- (e) Building: The three story building commonly known as Building No.3, as

well as that certain area located in the so called Connector Building referred to in Exhibit A attached hereto, located on the Land containing a total of 79,822 rentable square feet. In the event that Tenant exercises its Expansion Right pursuant to Section 32.4, the word "Building" shall also include Building No.1, for purposes of Articles 6, 10, 11, 12, 13, 30, and Exhibit B.
- (f) Building Complex: The Building and all other buildings (currently

Building No.1, Building No.2 and the balance of the Connector Building) located on the Land collectively containing a total of 126,622 rentable square feet.
- (g) Building No. 1: The one-story building located within the Building

Complex on the Land containing a total of 21,189 rentable square feet.
- (h) Commencement Date: as of April 1, 1998

- (i) Date of Execution: The date, which shall be inserted above, on which

this Lease is fully executed by both parties.

- (j) Demised Premises: See Article 2 and Exhibits A and A-1, subject to

increase if Tenant exercises its Expansion Right.
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- (k) Early Termination Right: See Section 3.3

- (l) Expansion Right: See Article 32

- (m) Expiration Date: The end of the 84th full calendar month following the

Commencement Date, unless the Term is extended pursuant to Article 3
hereof.
- (n) Extended Term: See Article 3

- (o) Land: The parcel of land located at 124 Acton Street, Maynard,

Massachusetts, shown on a plan of land dated January 28, 1974 by
Colburn Engineering, recorded as plan 44 of 1975 at the end of Book
12751 in the Middlesex South Registry of Deeds and all rights and
easements appurtenant thereto.
- (p) Landlord: Maynard Industrial Properties Associates Trust

- (q) Landlord's Address: 124 Acton Street, Maynard, Massachusetts 01754

- (r) Landlord Improvements: See Article 8.2

- (s) Landlord Work: See Section 8.1

- (t) Primary Term: See Article 3

- (u) Property: The Land and all site improvements and parking areas located

thereon together with the Building Complex.
- (v) Real Estate Tax Arrearage: See Section 6.11

- (w) Security Deposit: See Article 31.

- (x) Tenant: SeaChange International, Inc.

- (y) Tenant's Address: 124 Acton Street, Maynard, Massachusetts 01754

- (z) Tenant's Improvements: See Article 8.6

- (aa) Term: Primary and/or Extended Term as the context may require

- (bb) Use: See Article 5

2. The Exhibits listed below are attached hereto and are incorporated in
this Lease by reference herein.

- (a) Exhibit A; Schedule of Space
- (b) Exhibit A-1; Plan of the Demised Premises
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- (c) Exhibit A-2; Building Complex Space Allocation
- (d) Exhibit B; Landlord's Services
- (e) Exhibit C; Site Plan (showing Building Complex, parking areas and
loading docks)
- (f) Exhibit C-1; Parking and Loading Plan

ARTICLE 2-Demised Premises and Common Areas

In consideration of the Base Rent, Additional Rent and agreements herein reserved and contained on the part of Tenant to be paid, performed, and observed, the Landlord does hereby demise and lease to Tenant, and Tenant leases from Landlord, for the term hereinafter set forth, upon and subject to the terms and conditions of this Lease, the Demised Premises. The Demised Premises shall initially consist of the Initial Demised Premises shown on Exhibit A and Exhibit A-1 and shall be increased to include the First Additional Premises as defined and for the periods shown on Exhibit A; Schedule of Space and shown on Exhibit A-1; Plan of the Demised Premises and may be further increased in accordance with Article 32.

Appurtenant to such leasing are the right of ingress and egress to the Demised Premises, and, during Period 1 shown on Exhibit A, the right in common with others to use the elevator and common passageways and stairways in the Building, and the right to access the first floor manufacturing space through other space on the first floor as shown on Exhibit A-1 and the right to access the third floor space through other space on the third floor as shown on Exhibit A-1, which other space is currently under the control of Landlord. During Period 1, Tenant shall also have as appurtenant to such lease, the right to use the vestibule and lobby on the first floor of the Building, which Landlord represents are currently under lease to and/or occupied and used by Andataco, Inc., in connection with its lease of space in Building No.2. If at any time prior to the commencement of Period 1A such tenant vacates or removes some or all of its furniture from the lobby and/or vestibule, Tenant shall have the right to the exclusive use of such area, including the right to place its furniture and other personal property therein and to install telephone lines and electric and computer lines therein connecting to other space leased by Tenant. If Tenant wishes to exercise this right, it shall do so by written notice thereof to Landlord and from and after the date set forth in such notice, such space shall be added to the Demised Premises leased hereunder and the Base Rent shall be increased in the amount of \$4.75 per square foot contained within the lobby and/or vestibule, as appropriate. Landlord shall notify Tenant in advance if such area or areas are likely to become vacant. Beginning with Period 1A, all such areas (i.e. the above-described elevator, passageways, stairways, vestibule and lobby, as well as the balance of the First Additional Premises) shall be included within the Demised Premises.

Also appurtenant to such leasing is the right to pass over and park on that portion of the Land owned by Landlord and designated by Landlord for parking and the exclusive right to use the loading docks indicated on Exhibit A-1 according to the schedule of increased space shown on Exhibit A and as further set forth in Article 18 hereof. Tenant may use the Demised Premises for the purposes and uses defined below in Article 5.

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Tenant shall also have as appurtenant to such leasing the right, upon request (which may be verbal) to Landlord's Property Manager, and subject to such reasonable and timely conditions as the Property Manager may impose, to access to the roof of the Building, and to the roof of Building No.1 in the event that Tenant exercises its Expansion Right under Section 32(b), in connection with the installation, maintenance, repair and/or replacement of Tenant's equipment on the roof of each such Building. Any such installation, repair or replacement shall be subject to the provisions of Section 8.6, Section 8.7 and Article 9 if applicable.

Tenant shall have the right to add to the Demised Premises all or a portion of the First Additional Premises ("Early Space") prior to July 1, 1998. If Tenant wishes to exercise this right, it shall do so by written notice thereof to Landlord, and from and after the date set forth in such notice, or, if later, the date on which Landlord has performed Landlord Work with respect to any such Early Space located on the third floor of Building No.3, such Early Space shall be added to the Demised Premises leased hereunder. In such event, Base Rent shall be due with respect to such space during Period 1, at the rate of \$4.75 per square foot per annum, subject to the provisions of Section 4.1 relating to the New Third Floor Space. The parties hereby acknowledge that the "demonstration room" on the first floor of Building No.3, and the adjacent corridor, and an additional area on the first floor of Building No.3 known as the "former marketing area," containing, together, a total of 3,692 square feet, was added to the Demised Premises as Early Space pursuant to such a notice as of May 1, 1998.

ARTICLE 3 - Term

1. Primary Term: The Primary Term of this Lease shall be for Seven (7) Years commencing on the Commencement Date and ending on the Expiration Date except as otherwise provided hereinafter.

2. Extended Term: Tenant shall have the option to extend this Lease for a period of Three (3) Years commencing on the Expiration Date and ending on the

third anniversary after the Expiration Date provided that Tenant shall give to Landlord written notice of the exercise of this option no later than nine months prior to the Expiration Date and that Tenant shall not then be in default beyond any applicable grace and/or cure periods of any provision of this Lease. This Lease shall be extended upon the same terms, covenants and conditions, except as may otherwise be provided in Section 4.2 herein.

3. Early Termination Right: If Landlord does not (i) timely perform all of its obligations under Section 6.11(a) by July 7, 1998 and/or (ii) deliver to Tenant, on or before July 8, 1998, the Tax Payment Notice as required pursuant to Section 6.11(b), and/or (iii) deliver to Tenant, on or before July 15, 1998, the Building Permit Notice pursuant to Section 6.11(c), Tenant shall have the option to terminate this Lease (the "Early Termination Right") on or before January 31, 1999 provided that Tenant shall give to Landlord written notice of the exercise of its Early Termination Right at least one hundred twenty (120) days prior to the proposed termination date specified in such notice (the "Termination Date"). If such notice is timely given, the Lease shall terminate on the Termination Date.

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ARTICLE 4 - Base Rent

1. Primary Term: Commencing on the Commencement Date and thereafter on or before the first day of each calendar month during the Term, Tenant shall pay to Landlord, at Landlord's address stated above, or at such other place or address as Landlord may, from time to time, direct as provided for in Article 21, fixed monthly Base Rent in the following amounts:

(a) Period 1: Commencement Date through June 30, 1998 - Seventeen Thousand Two Hundred Twenty-Six Dollars and Twenty-Seven Cents (\$17,226.27) per full calendar month. This amount is based on an Annual Base Rent rate of Four Dollars and Seventy-Five Cents (\$4.75) per square foot for Forty-Three Thousand Five Hundred Nineteen square feet (43,519 SF). No Base Rent or Additional Rent shall be payable with respect to Two Thousand One Hundred Twenty (2,120 SF) square feet of storage space within the Demised Premises on the third floor of Building No.3. Notwithstanding the foregoing, (i) the monthly payments of Base Rent shall be reduced pursuant to Subsection (f) below and (ii) if any Early Space is added to the Demised Premises pursuant to Section 2, Additional Rent during Period 1 shall be increased accordingly, and Base Rent shall be due with respect to such Early Space unless it is part of the New Third Floor Premises, as further set forth in Subsection (e) below.

(b) Period 1A: July 1, 1998 through December 31, 1998 - Twenty-Three Thousand Four Hundred Sixty-Two Dollars and Twenty-Three Cents (\$23,462.23) per full calendar month. This amount is based on an Annual Base Rent rate of Four Dollars and Seventy-Five Cents (\$4.75) per square foot for Fifty-Nine Thousand Two Hundred Seventy Three square feet (59,273 SF). No Base Rent shall be payable with respect to Twenty Thousand Five Hundred Forty-Nine (20,549SF) square feet of space within the First Additional Premises on the third floor of Building No.3 (the "New Third Floor Premises"), including any portion thereof which is added to the Demised Premises as Early Space, for a period of six (6) months. Notwithstanding the foregoing, the above monthly payments of Base Rent shall be reduced pursuant to Subsection (f) below. No Additional Rent shall be payable with respect to the New Third Floor Premises until the Landlord has completed the Landlord Work described in Paragraph 8.1(a) below; except that Tenant shall pay Additional Rent for any New Third Floor Premises which is delivered to Tenant at its request as Early Space with Landlord Work completed.

(c) Period 2: January 1, 1999 through the Expiration Date:

(i) January 1, 1999 through March 31, 1999 - Thirty-One Thousand Five Hundred Ninety-Six and Twenty-One Cents (\$31,596.21) per full calendar month. This amount is based on an Annual Base Rent rate of Four Dollars and Seventy-Five Cents (\$4.75) per square foot for Seventy-Nine Thousand Eight Hundred and Twenty-Two square feet (79,822 SF), subject to the provisions of Subsection (e) below;

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(ii) April 1, 1999 through March 31, 2002- Thirty Nine Thousand Nine Hundred Eleven Dollars (\$39,911) per full calendar month. This amount is based on an Annual Base Rent rate of Six Dollars (\$6.00) per square foot for Seventy-Nine Thousand Eight Hundred and Twenty-Two square feet (79,822 SF); and

(iii) April 1, 2002 through the Expiration Date - Forty-Three Thousand Two Hundred Thirty-Six Dollars and Ninety-Two Cents (\$43,236.92) per full calendar month. This amount is based on an Annual Base Rent rate of Six Dollars and Fifty Cents (\$6.50) per square foot for Seventy Nine Thousand Eight Hundred Twenty Two square feet (79,822 SF).

- (d) The monthly Base Rent for any partial month at the beginning or end of the Term shall be prorated at the rate of 1/30 of the then current installment of Base Rent for each day in such partial month.
- (e) The monthly Base Rent for Period 1A identified above shall not commence until Landlord has delivered the space in the condition identified in Article 8.1. Further, Tenant shall be entitled to six (6) months free Base Rent with respect to all of the New Third Floor Space, beginning on the date any such space is added to the Demised Premises, whether as Early Space or otherwise. Thus, for example, if 600 square feet of New Third Floor Space is added to the Demised Premises on June 1, 1998 and 1,200 square feet is added on July 1, 1998 and the balance is added on August 1, 1998, the Base Rent for the first such space shall begin on December 1, 1998, the second such space on January 1, 1999 and the third such space on February 1, 1999.
- (f) The monthly Base Rent for each of the months of May, June, July, August, September and October, 1998 shall be reduced by a credit in the amount of \$2,417.72 each month (for a total reduction of \$14,506.33) in order to reimburse Tenant for its previous payment of \$31,772.60 as Base Rent for the month of April, 1998, or an excess payment of \$14,506.33. Accordingly, for the months of May and June 1998 the amount to be paid monthly for Base Rent shall be \$14,808.55 and for the months of July 1998 through October, 1998, the amount to be paid monthly for Base Rent shall be \$21,044.51.

2. Extended Term: The Annual Base Rent for the Extended Term shall be Ninety-Five Percent (95%) of the Fair Market Rental Value ("FMRV") at the commencement of such Extended Term. The FMRV shall be determined as follows:

- (a) Upon receipt by Landlord of Tenant's written notice exercising its option to extend the Lease as provided above in Article 3.2, Landlord shall within ten (10) days provide Tenant with a proposed rent schedule for Annual Base Rent for the Extended Term.
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- (b) Landlord and Tenant shall schedule a meeting no later than fifteen (15) days after receipt by Landlord of Tenant's written notice exercising its option, to mutually agree on a rent schedule for the Extended Term.
 - (c) If Landlord and Tenant are unable to agree on a rent schedule, then within five (5) days of the meeting each shall name and appoint a duly qualified and licensed real estate appraiser or appraisal firm of recognized competence and experience in central and eastern Massachusetts. The fees of each appraiser shall be paid by the appointing party. If for any reason either Landlord or Tenant do not appoint an appraiser by 5:00 PM on the fifth (5th) day, or if the fifth (5th) day falls on a Saturday, Sunday or a holiday, by 5:00 PM of the next business day, then the party making their appointment may request the President of the Greater Boston Real Estate Board or a presiding Justice of the Middlesex Superior Court appoint a second appraiser. The fee of the second appraiser shall be paid by the non-appointing party.
 - (d) Within ten (10) days of their appointment, the two appraisers shall appoint a third appraiser of comparable qualifications. If the two appraisers cannot agree on a third, then either Landlord or Tenant can follow the above procedure for the appointment of the third appraiser. The fee of the third appraiser shall be divided equally between the parties.
 - (e) The three appraisers shall complete their assignments and establish the FMRV for the Demised Premises for the period of the Extended Term within thirty (30) days after the appointment of the third appraiser. If all three appraisers are unable to agree on the FMRV, then the three appraisal reports shall be compared and the percent variance between values calculated. The two appraisals with the least variance between the values shall be added together and the sum divided by two (2), which quotient shall represent the FMRV for the Demised Premises. The FMRV shall be expressed in dollars per square foot per year.
 - (f) The Annual Base Rent for the Extended Term is calculated by multiplying the FMRV as determined by ninety-five percent (95% or .95).

3. Late Payment of Base Rent and Additional Rent: The Base Rent and the Additional Rent shall be considered late if the payment is not received by Landlord by 5:00 PM on the first day of each month during the Term. Landlord shall assess and Tenant agrees to pay Landlord, as Additional Rent, a late fee

equal to five (5%) percent of the then monthly rental payment due for both Base Rent and Additional Rent if payment is made after the fifth day of the month.

ARTICLE 5 - Use

Tenant may use the Demised Premises (i) for general and executive offices; (ii) for research and development; (iii) for the manufacture and assembly of products; (iv) for testing and inspection of assembled products; (v) for the warehousing of both raw materials and finished

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goods related to Tenant's business; and (vi) for corporate sales, training and demonstration purposes related to Tenant's business ("Permitted Uses"). Tenant may use the Demised Premises for such other business use in which Tenant might engage in the future provided that Tenant receives the prior written approval of Landlord which approval shall not be unreasonably withheld or delayed. It shall be the Tenant's responsibility to insure that its intended use of the Demised Premises is in compliance with all laws, codes and regulations throughout the Primary Term and any Extended Term of this Lease.

ARTICLE 6 - Operating Costs, Capital Expenditures, Landlord Repairs and Real Estate Taxes

1. During the term of this Lease, Tenant shall pay to Landlord as Additional Rent "Tenant's Proportionate Share," hereinafter defined, of the following Operating Costs ("Operating Costs") actually incurred by Landlord pursuant to the discharge of its obligation to manage the Property under this Lease. Notwithstanding the foregoing, Tenant shall not be obligated to pay for any costs incurred by Landlord, its agents, employees and/or contractors arising from the operation, maintenance and repair of those systems, structures and improvements on the Property serving only Building No. 1 (unless, pursuant to Article 32 Building No. 1 shall have been added to the Demised Premises) and/or Building 2 and/or not benefiting the Demised Premises. "Tenant's Proportionate Share" shall mean the percentage determined by taking the actual amount of space occupied by Tenant during the Term for which Tenant is to be charged Additional Rent and dividing it by the total amount of space in the Building Complex which percentage is shown on Exhibit A-2; Building Complex Space Allocation. Landlord shall provide to Tenant the services outlined below and shown on Exhibit B; Landlord's Services attached hereto, and those set forth in Sections 6.5, 7.1, 7.6 and in Article 8.

Notwithstanding the foregoing, if any of the services provided by Landlord, the costs of which are included as Operating Costs under this Section 6.1, benefit only the Demised Premises or benefit the Demised Premises and some, but not all, of the balance of the Building Complex (such as, by way of example, costs relating to the elevator at Building No. 3, and certain of the expenses referred to in subsections (g), (h), (i), and (k) in the next following paragraph), Tenant shall pay a share of such costs equal to the percentage determined by taking the actual amount of space occupied by Tenant during the Term for which Tenant is to be charged Additional Rent and dividing it by the total amount of space within the Building Complex affected or benefited by such services.

Operating Costs for which Tenant shall pay Tenant's Proportionate Share include the following:

- (a) All necessary repairs, maintenance, operation and replacements, which are not capital expenditures, of the parking areas, sidewalks and grounds including, without limitation, all exterior lighting, landscaping including lawn mowing, edging and weeding and mulching of flower beds, edging of walkways and pruning of shrubs, and snow removal from all walks, driveways and parking areas

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on the Land including the cost of materials and supplies in connection with any such maintenance, repair, operation and replacements;

- (b) The reasonable and customary management fee for Landlord or Landlord's managing agent in the amount of 3% of the aggregate Base Rent for all tenants at the Building Complex for each calendar year in the term;
- (c) The cost of Common Area support space including a property management office (577 SF) and telecom room (215 SF) located in the Connector Building, and a transformer room (146 SF) located in Building No. 2, each of which is shown on Exhibit A-1 and identified on Exhibit A-2;
- (d) The cost of materials and supplies used in connection with the management of the Property;
- (e) The contract wage of an independent contractor or the salary of the employee(s) to the extent engaged in the operation and maintenance of the Demised Premises including overtime at the hourly rate 150% of such employee's hourly wage (the current hourly overtime rate being

\$39), but not bonuses, payroll taxes, workmen's compensation insurance and the Landlord's share as employer of employee benefits, including, but not limited to, contributions to life insurance, hospitalization insurance and pension plans;

- (f) The premium for Landlord's "All Risk" property insurance and Landlord's Comprehensive General Liability Insurance for the Demised Premises as required by Article 13;
- (g) Service costs for the elevator within and serving Building No. 3;
- (h) Cost of repair, maintenance, operation and replacements which are not capital expenditures made with respect to the Demised Premises, its systems including HVAC units and utility lines contained therein and the two (2) HVAC units serving Tenant's second floor computer room located on top of the roof of the Connector Building and related utility lines, including, without limitation, the cost of refuse removal and janitorial services, except that notwithstanding the foregoing, it is agreed that (x) any obligations of Landlord stated in Article 8 shall be done at Landlord's sole cost without any reimbursement from Tenant unless such repair is increased as a result of alterations or improvements performed by Tenant and (y) Landlord will pursue any warranty or guaranty available before including any such expense as an Operating Cost;
- (i) Cost of all supplies and materials used in connection with the operation, repair and maintenance of the Demised Premises, including, without limitation, bathroom and cleaning supplies, light bulbs, ballasts, fuses, and other electrical supplies, paper and paper goods;

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- (j) Real Estate Taxes, betterments and special assessments (exclusive of any portion of the Real Estate Tax Arrearage, except for Tenant's Proportionate Share of Real Estate Taxes for Fiscal Year 1998 not previously paid by it); and
- (k) Utility expenses for those utilities serving Common Areas or serving the Demised Premises as described in Article 7 below.

Operating Costs shall not include the following:

- (a) Rent, additional rent or other charges payable under any ground lease or superior lease affecting the Building Complex or the Land;
- (b) Leasehold improvements made in connection with the preparation of any portion of the Property for occupancy by a new or existing tenants;
- (c) Any expansion of the rentable area of the Building, Property or the parking areas serving the Building or Property except if such expansion directly benefits Tenant;
- (d) Costs, expenses or charges properly chargeable or attributable to a particular tenant or tenants of the Building (if the Building is a multi-tenant building) or Property;
- (e) Any utility or other service used or consumed in premises leased to any tenant or occupant of the Property;
- (f) Efforts to lease portions of the Property or to procure new tenants for the Property, including advertising expenses, leasing commissions and attorney's fees;
- (g) Negotiations or disputes with any tenant of the Property;
- (h) Landlord's general overhead not directly related to the management or operations of the Property, except to the extent included in the management fee described above;
- (i) Repairs and replacements arising out of a fire or other casualty, except a reasonable deductible under insurance carried by Landlord, or out of an exercise of eminent domain affecting the Building or Property or any of the parking areas serving the Building or Property;
- (j) Landlord's or Landlord's managing agent's breach or violation of a law, lease or other obligation, including fines, penalties and attorneys' fees;
- (k) Fees for licenses, permits or inspections that are not part of Landlord's required maintenance of the Building or Property under this Lease or result from the act or

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negligence of Landlord, Landlord's managing agent or any other tenant

of the Property;

- (l) Environmental testing, remediation and compliance except for any testing or remediation specifically requested by Tenant (the work performed by Landlord pursuant to Article 8 of this Lease shall not be deemed requested by Tenant for purposes of this Subparagraph (l));
- (m) Any repairs necessary to cure defects in the construction of any portion or in any component of the Building Complex, in the building systems or in the Landlord Improvements, Landlord Work or any other construction by Landlord provided that Tenant or its contractors have not done anything to result in the need for such repairs;
- (n) Any items with respect to which Landlord receives reimbursement from insurance proceeds or from a third party;
- (o) Costs incurred by Landlord in connection with its obligations under Article 8 of this Lease; and
- (p) Any costs of repair and/or replacements arising out of or relating to any action or inaction of the Landlord or its employees, contractors or agents.

2. Landlord shall reasonably estimate the Operating Costs for each calendar year wholly or partially included within the Term of this Lease. Prior to the execution hereof, Landlord shall send notice of said estimate to Tenant for the remaining portion of the first such calendar year and thereafter at least thirty (30) days prior to the commencement of each subsequent calendar year. During each calendar year thereafter included in the Term, Tenant shall pay, as Additional Rent, one twelfth of the applicable estimate each month to Landlord together with the fixed monthly Base Rent. If Landlord does not give Tenant such estimate within the time period stated above, then Tenant shall continue to make estimated payments based upon the preceding year's estimate and within thirty (30) days after receipt of the new estimate for the current calendar year, Tenant shall commence payment of the new estimated monthly amount and shall pay in a lump sum any retroactive amounts due from the beginning of the new calendar year, except that if such retroactive amount exceeds \$25,000, Tenant shall have the right to pay it in installments over a three (3) month time period.

It is agreed between the parties that Landlord may revise its estimate of Operating Costs once a calendar year to reflect increased costs and shall give notice to Tenant thereof no later than the tenth (10th) day of the month preceding the month in which said increased Operating Costs will be applicable. All payments made hereunder shall be paid to Landlord as stated in this Lease.

3. Within one hundred twenty (120) days after the expiration of each calendar year included in the Term, Landlord shall provide Tenant with a written statement, in sufficient detail for verification by Tenant, comparing the actual Operating Costs for the preceding calendar year

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against the estimate of Operating Costs for the current calendar year. Within thirty (30) days after the delivery of such statement, including any statement delivered after the expiration or termination of this Lease, Tenant shall pay to Landlord the difference, if any, between the amount paid by Tenant as estimated Operating Costs and the amount owed by Tenant for the actual Operating Costs for such lease year, provided, however, that if Landlord does not furnish Tenant with a statement within six (6) months after the end of the billing period for Operating Costs, Tenant shall not be obligated to pay such amount. If Tenant's payment of the estimated Operating Costs was greater than the amount owed by Tenant for the actual Operating Costs, then Landlord shall pay same to Tenant within thirty (30) days after delivery of such a statement.

Tenant shall notify Landlord within sixty (60) days after receipt of Landlord's statement of its intention to inspect Landlord's books and records with respect to Landlord's maintenance and operation of the Property for the purpose of verifying the actual Operating Costs and their inclusion and Landlord shall promptly thereafter provide Tenant with access to such records. Tenant, its accountant, or a qualified consultant engaged by Tenant, at Tenant's sole cost, shall conduct and conclude its inspection of Landlord's books and records with respect to Landlord's maintenance and operation of the Property within thirty (30) days after Tenant's notice and access and shall be entitled, at its expense, to make copies thereof. If such inspection reveals that Tenant's payment of the estimated Operating Costs was greater than the amount owed by Tenant for the actual Operating Costs, then Landlord shall pay same to Tenant within sixty(60) days after receipt by Landlord of a written notice from Tenant identifying the nature and amount of any overpayment.

4. If, during the Term of this Lease, Landlord shall make

(i) a Capital Expenditure, hereinafter defined, for an improvement which produces a cost savings in operating the Land and/or Demised Premises and of which Landlord has given information reasonably satisfactory to Tenant

demonstrating a cost savings greater than Tenant's Proportionate Share of the Annual Amortization of such improvement as stated in the following sentence; or

(ii) a Capital Expenditure to the Property which benefits the Demised Premises and/or to the Demised Premises, which is required: a) to comply with changes in laws applicable to the Property and/or the Demised Premises, or b) as a result of an alteration or improvement performed by Tenant, except for any such Capital Expenditure made as a result of an obligation of Landlord pursuant to this Lease, which shall be done at Landlord's sole expense without any reimbursement from Tenant; then Tenant shall pay Tenant's Proportionate Share of the Annual Amortization of such Capital Expenditure. The Annual Amortization shall be determined by dividing the cost of the original Capital Expenditure plus an interest factor, reasonably determined by Landlord as being the interest rate then being charged for long-term mortgages by institutional lenders on like properties within the locality in which the Demised Premises are located, by the number of years of the useful life of the Capital Expenditure in accordance with GAAP.

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With respect to the payment of Tenant's Proportionate Share of the Annual Amortization, Tenant shall commence payment as Additional Rent of one twelfth (1/12th) of the annual amount shown in Landlord's notice given pursuant to the immediately preceding sentence with the next and each succeeding installment of rent becoming due during the Term, provided that the item for which the expenditure was made has been fully completed on the date of Tenant's first payment and further provided that Tenant has received notice of such amount at least fifteen (15) days prior to the month in which payment is first due or if not so received, then Tenant's payment shall commence as of the following month. For purposes of this Lease, a "Capital Expenditure" is defined as the acquisition of a prior non-existing asset or the acquisition of a replacement of a pre-existing asset not acquired in the ordinary course of business and not characterized as an operating cost or expense within generally accepted accounting principles, provided that the acquired asset must enhance the value of the real estate over its useful life, be permanently affixed to the real estate and excludes all personal property, removable trade fixtures and repairs to existing assets.

5. Notwithstanding any provisions in this Lease to the contrary, Landlord shall perform all maintenance, repairs and replacements necessary to keep in good condition and working order and in compliance with all applicable laws, ordinances and regulations (a) the roof, foundation, columns and other structural elements of the Building, (b) the heating, ventilating, air conditioning, plumbing, electrical, life safety and other mechanical systems and equipment serving the Building, (c) the parking areas on the Land (including snow removal), (d) the driveways and walkways necessary for access to the Building or the Demised Premises or such parking areas (including snow removal), (e) the entrances (including snow removal), necessary for access to the Building and Demised Premises, (f) the loading docks and passenger elevators in the Building, (g) the lavatories in the Demised Premises, and (h) any common areas and facilities provided by Landlord from time to time. When Landlord performs maintenance, repair and replacement work, Landlord shall take care not to unreasonably interfere with Tenant's use of the Demised Premises. If Tenant's use of the Demised Premises is materially adversely affected for more than three (3) consecutive business days as a result of Landlord's breach of its repair obligations as set forth herein, then Tenant shall be entitled to an equitable abatement of rent for each such consecutive business days that Tenant's use is materially adversely affected.

6. As used herein, Real Estate Taxes shall mean general real estate taxes levied against the Property but not any special assessments or taxes in the nature of improvement or betterment assessments which shall be governed solely by Paragraph 6.9. Real Estate Taxes shall also exclude, without limitation, any income, franchise, gross receipts, corporation, capital levy, excess profits, revenue, rent, inheritance, devolution, gift, estate, payroll or stamp tax by whatsoever authority imposed or howsoever designated or any tax upon the sale, transfer and/or assignment of Landlord's title or estate which at any time may be assessed against or become a lien upon all or any part of the Demised Premises, or this leasehold. In addition, Real Estate Taxes shall exclude any liens or taxes, penalties or interest which are levied or assessed against the Property for a period of time prior to the commencement of the Term or one levied or assessed for a period during the Term on account of late payment not caused by Tenant, or any related fees or costs, and shall also exclude all or any portion of the Real Estate Tax Arrearage,

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except for Tenant's Proportionate Share of Real Estate Taxes for Fiscal Year 1998 not previously paid by it.

7. If at any time during the Term the laws concerning the methods of real property taxation prevailing at the commencement of the Term are changed so that a tax or excise on rents or any other such tax, however described, is levied or assessed against Landlord as a direct substitute in whole or in part for any Real Estate Taxes, Tenant shall pay before delinquency (but only to the extent

that it can be ascertained that there has been a substitution and that as a result Tenant has been relieved from the payment of Real Estate Taxes it would otherwise have been obligated to pay) the substitute tax or excise on rents.

8. Tenant shall pay monthly, as part of the Additional Rent described in Paragraph 6.2 above, Tenant's Proportionate Share of all Real Estate Taxes as estimated by Landlord based on the tax bill for the current tax year to be assessed against the Property for each fiscal tax year or such other tax period as may be defined by the appropriate governmental authority having jurisdiction or portion thereof included within the Term, and which are during such Term, levied, or imposed upon or become a lien or liens upon the Property or any part thereof. This part of the Additional Rent payment shall be one twelfth of the applicable annual estimate.

Real Estate Taxes for the tax year in which the Term of this Lease commences and for the tax year in which such Term expires shall be apportioned between Landlord and Tenant in accordance with the number of days thereof falling within the Term of this Lease.

9. Landlord shall pay when due all special assessments and betterment assessments for municipal improvements levied against the Property or any part thereof during the Term. Landlord may elect to either i) pay the assessments in full, or ii) pay in installments over the period of time and upon the terms offered by the assessing authority.

Tenant shall pay Tenant's Proportionate Share of any such assessments which shall be calculated as follows: 1) using Tenant's Proportionate Share as identified in Exhibit A -Schedule of Space and Exhibit A-2 - Building Complex Space Allocation, 2) multiplied by the amount of the assessment attributable to the Property, 3) divided by the maximum number of installments allowed or allowable by the assessing authority, 4) multiplied by the interest rate (monthly or annual) as stated by the assessing authority. Payment of any such installment of an assessment shall be made in accordance with the Article 6.8 above.

10. Landlord is solely responsible for the timely payment of Real Estate Taxes and any special assessments or betterment assessments to the Town of Maynard. So long as no lien will be placed against the Property, Landlord, at its sole election and its sole cost, may contest the amount of real estate taxes to be paid, file for an abatement of real estate taxes paid, file an appeal of the decision of the local Board of Assessors to the State Appellate Tax Board or file a suit in a court having jurisdiction over such matters. Should Landlord receive an abatement or an award from the court for amounts levied or assessed for a period falling within the Term, then Landlord shall pay to Tenant Tenant's Proportionate Share of such amount after deduction of expenses incurred in connection therewith.

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11. Landlord acknowledges that it currently owes real estate taxes and water and sewer charges due with respect to the Property (collectively, "Outstanding Taxes") for periods of time prior to the commencement of the Term, as well as interest, fees, penalties and costs relating to such Outstanding Taxes, and taxes and water and sewer charges for Fiscal Year 1998 (all such amounts, as well as any assessments or other amounts, outstanding with respect to the Property for any period of time prior to the Date of Execution, including penalties and interest, collectively, referred to as the "Real Estate Tax Arrearage"). As a material inducement to Tenant's willingness to execute this Lease, Landlord has agreed (a) to pay to the Town of Maynard, or other appropriate entity, the entire Real Estate Tax Arrearage on or before July 7, 1998; and (b) to provide to Tenant on or before July 8, 1998 written verification of its payment in full of all such amounts, as well as written verification from the Town of Maynard that it has accepted such amounts as payment in full (such written verification referred to as the "Tax Payment Notice"); and (c) to provide to Tenant on or before July 15, 1998 written verification from the Town of Maynard of Tenant's and Landlord's ability to obtain a building, occupancy, or other local permit or license for performing alterations or improvements at, and/or the occupancy by Tenant of, the Demised Premises (collectively, "Permits") and of the removal of any conditions or restrictions on (or the denial, suspension or revocation of) the issuance of any Permits resulting from the Real Estate Tax Arrearage (such written verification referred to as the "Building Permit Notice"). In the event that Landlord has not timely performed all of its obligations under this Section 6.11, Tenant shall be entitled to exercise its Early Termination Right pursuant to Section 3.3. Notwithstanding the foregoing, Landlord shall be entitled to seek relief against the Town of Maynard with respect to such amounts so long as such actions or litigation shall not affect Landlord's obligations in subsections (a) - (c) above or Tenant's ability to obtain any Permits.

12. If the Term or Extended Term includes any partial calendar year, the Additional Rent for such calendar year shall be prorated according to the fraction of total days in such calendar year that are included in the Term or Extended Term. If the Term or Extended Term begins on a day other than the first day of a calendar month or ends on a day other than the last day of a calendar month, then the monthly installment of Additional Rent for the month in which

the Term begins or ends shall be prorated at the rate of 1/30 of the then current installment of Additional Rent for each day in such month.

ARTICLE 7- Utilities and Services

1. Landlord shall supply to the Building Complex, of which the Demised Premises is a part, at no cost to Tenant, except as it may otherwise be provided Sections 6.1, 6.2 and 7.2 in this Lease, the following services, which shall be available 24 hours per day, 7 days per week: gas, hot and cold running water for lavatory, cooking and drinking purposes, sewer services, heating, ventilating and air conditioning ("HVAC"), and electricity for lighting and the operation of Tenant's business equipment and machines. HVAC service shall be provided 8 a.m. to 6 p.m. Monday through Friday throughout the entire Demised Premises, and at other hours to portions of the Demised Premises, at Tenant's request, through the energy management system at the Property (the "EMS"). The Landlord shall provide that the heating system serving the Demised Premises shall heat all areas of the Demised Premises to an inside temperature of seventy (70) degrees Fahrenheit when the outside temperature is zero (0) degrees Fahrenheit or above, and

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that the air-conditioning equipment will be of sufficient capacity to cool the Demised Premises to seventy-five (75) degrees Fahrenheit plus or minus two (2) degrees with a relative humidity of fifty percent (50%) plus or minus five percent (5%) and the outside temperature is ninety-five (95) degrees dry bulb, seventy-three (73) degrees wet bulb.

2. Tenant shall be responsible for the payment of all utility expenses for those utilities serving the Demised Premises associated with the use and occupancy of the Demised Premises including water, sewer, electricity, fuel oil or gas. Tenant will be charged by Landlord for its actual usage of utilities as part of the Operating Costs and which Tenant shall pay monthly as part of the Additional Rent, described in Paragraph 6.2. Landlord represents that gas, water and sewer service for Building No.3 are currently separately metered and that Landlord shall, at its sole cost and expense, separately sub-meter the electric utilities provided to Building No.3 and connect such submeter to the EMS, on or before July 1, 1998. For any utility service provided to all or any portion of the Demised Premises which are separately metered or submetered, Tenant shall be charged for its actual usage as shown on such meter or sub-meter, without mark-up.

For any period during which any utility service provided to all or any portion of the Demised Premises is not separately metered or sub-metered, Tenant shall pay for such utility service, as follows. If such utility service is provided to all tenants at the Building Complex, Tenant's share shall be Tenant's Proportionate Share. If such utility service is provided to some, but not all, tenants at the Building Complex, Tenant's share shall be a fraction, the numerator of which is the square feet of the Demised Premises at the time such service is provided and the denominator of which is the total square feet of the premises to which such service is provided. Notwithstanding the foregoing, if Tenant's usage significantly increases on a per square foot basis over its current usage with respect to utilities which are not separately metered or sub-metered, Landlord may reasonably adjust Tenant's share.

3. Tenant shall make its own arrangements with any utility company not servicing the Demised Premises for any utilities that it desires that are currently not being provided by Landlord (Landlord is not aware of any such utility), and shall pay when due any and all charges for services supplied to Tenant by the respective utility. In the event that Landlord is notified that a lien will be placed against the Demised Premises as a result of Tenant's failure to pay any such utility charge, then Landlord shall immediately notify Tenant of the impending lien and to protect the real estate Landlord may pay such charges, notify Tenant thereof and the same shall be paid by Tenant as Additional Rent with the next installment of Base Rent becoming due.

4. In no event shall Landlord be responsible for charges for any utilities consumed by Tenant at the Demised Premises.

5. Landlord shall use reasonable efforts to work with the utility providers to restore any service which becomes unavailable. If, however, such unavailability of any utility service has a material adverse effect on Tenant's use and occupancy of the Demised Premises for more than ten (10) consecutive business days, then after the tenth (10th) day Tenant shall be entitled to

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an abatement of fifty percent (50%) of the Base Rent as prorated on a per diem basis for each consecutive day that Tenant's use is so affected.

6. Landlord shall provide property management services for the Property and the Demised Premises as provided for in Article 6 above and shown on Exhibit B. Tenant is responsible for Tenant's Proportionate Share of the cost of said services, the amount of which shall be identified on the Operating Cost estimate to be delivered to Tenant as provided for in Article 6.2 above and paid monthly

as part of Additional Rent. The property management services to be rendered by Landlord set forth in this Article shall be provided between the hours of 8 AM and 5 PM Monday through Friday. If Tenant requires any property management services to be performed after said hours, including Saturdays, Sundays and holidays, Tenant shall notify Landlord of such requirement no later than 3 PM on any week day and by 3 PM on Friday for after hours service on Saturday and/or Sunday. The cost for such additional service shall be as provided for in Article 6.1 above

ARTICLE 8 - Condition of the Premises, Landlord and Tenant Improvements

1. Condition of the Premises:

(a) Tenant agrees to take and Landlord agrees to deliver the Demised Premises according to Exhibit A; Schedule of Space, upon the Commencement of this Lease, in the "as is, where is" condition, subject to Landlord's obligations under this Article 8 and 6.5 hereof. On such date or the dates identified in Exhibit A; Schedule of Space, or such earlier occupancy date as provided in Article 2, the Demised Premises shall be free of all occupants and their personal property, in good basic operating condition and repair, broom clean and in compliance with applicable building, life and safety codes.

(b) In addition to the foregoing, Landlord shall, on or before July 1, 1998 (a) insure that Andataco, Inc., and any other persons, currently using the vestibule and lobby on the first floor of the Building have vacated and ceased all use of or operation within such areas, as well as any access to or through the lobby and vestibule, removing all signage and leaving the same in broom clean, good condition and (b) construct a demising wall in the loading dock area of the Connector Building, separating the Demised Premises from the remainder of the Connector Building, as previously agreed. Landlord further agrees that it shall, on or prior to June 1, 1998, remove from the third floor portion of the First Additional Premises, all equipment, supplies, materials and all other personal property.

(c) Subject to the provisions of Article 2 relating to Early Space, Landlord will, prior to August 1, 1998, perform the following improvements in the third floor portion of the First Additional Premises ("Landlord Work"): install new carpeting and ceiling tiles; paint walls; refurnish existing light fixtures; demolition of certain demising walls as shown on a plan prepared by John Brennan, architect, previously approved by Landlord and Tenant; and clean and paint bathrooms. The quality and type of materials and workmanship will be similar to the Initial Demised Premises. Landlord will have no obligation to install any hard wall partitions or to modify the HVAC, electrical or telecommunications system as part of Landlord Work.

2. Landlord Improvements and Repairs: HVAC and Air Quality:

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Landlord shall promptly and diligently make whatever improvements are necessary to correct air quality problems with respect to the Demised Premises, including addressing the problems identified in the Envirohealth Report issued May 19, 1997. Such improvements shall include, but are not limited to:

(a) HVAC System

- (1) Landlord shall provide ventilation of the Demised Premises that meets or exceeds the Standards for Acceptable Indoor Air Quality (ASHRAE 62-1989) established by the American Society of Heating, Refrigeration and Air-Conditioning Engineers, as such Standards may be amended from time to time (the "Standards"). If the ventilation system serving the Demised Premises fails to provide adequate ventilation according to the Standards, Landlord shall promptly and diligently make such repairs or replacements to the ventilation system as are necessary to comply with the Standards.
- (2) Prior to the date hereof, Landlord has installed four (4) new HVAC units on the roof of Building No.3. The specifications for the new units includes:
 - a. Economizers pre-set to provide fresh air (outside) make up at approximately fifteen percent (15%),
 - b. Power exhausts to provide proper pressure stabilization and air exchange.
 - c. Humidity controls to provide for humidity levels between forty-five and sixty percent (45% to 60%).
- (3) The cost of the new HVAC units and the cleaning of the HVAC duct work and their installation shall be at Landlord's sole cost and expense and shall not be amortized and payable by Tenant as Additional Rent as provided for in Article 6.4 above.
- (4) Landlord shall, throughout the Term of the Lease, be responsible

for the inspection, repair and maintenance of the HVAC system serving the Demised Premises, including the two (2) units which are located on the roof of the Connector Building, which serve the Tenant's second floor computer room. Tenant shall pay Tenant's Proportionate Share of said expenses as provided for in Article 6 above. In the event that the new HVAC units serving Building No.3 described above (as well as the new HVAC unit located on the roof of Building No.3 and serving Tenant's third floor computer room) require repairs or replacements during the Term or Extended Term, Landlord shall first seek coverage or reimbursements for said repairs or replacements from any warranty or

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guaranty that may be in effect at that time before seeking reimbursement from Tenant. Landlord represents that all such new units are covered by a five (5) year warranty. It is understood by both parties that normal preventive maintenance practices including but not limited to oiling of motors, changing belts and replacing filters are not covered by a new HVAC unit warranty.

(b) HVAC Duct Cleaning:

After the installation of the new HVAC units, Landlord engaged a qualified consultant to clean the HVAC ducts in Building No.3 as recommended in the EnviroHealth Report (#809-849b), issued May 19, 1997. During this process, the consultant installed after-filters in the supply grills to enhance the collection of airborne dust particles.

3. Air Quality Monitoring:

Landlord shall (a) at Landlord's sole expense, within a reasonable amount of time following the HVAC duct cleaning (as set forth below), and at three (3) year intervals thereafter, and (b) at Tenant's request and at Tenant's sole expense, at other times, engage an indoor air quality professional, subject to Tenant's approval which approval shall not be unreasonably withheld or delayed, to inspect the HVAC system and/or conduct air quality tests, if appropriate. Landlord shall promptly correct any problems identified by such air quality professional. Landlord shall require such air quality professional to provide copies of any and all reports and test data to Tenant. The first such inspection and testing (which shall include the HVAC duct work and HVAC machinery pans and sumps) shall be performed at Landlord's expense, and all reports and test data delivered to Tenant by September 1, 1998.

4. Landlord Improvements - General:

Landlord in making any improvements, alterations, construction or other work, including Landlord Work, shall cause all work to be done in a good and workmanlike manner using materials equal to or better than those used in the construction of the Demised Premises and shall comply with or cause compliance with all applicable building codes, health and safety regulations and zoning laws and with any direction given by any public officer pursuant to such codes, regulations and laws. Landlord shall obtain or cause to be obtained and maintain in effect, as necessary, all building permits, licenses, temporary and permanent certificates of occupancy and any other governmental approvals which may be required in connection with the making of the improvements, alterations, construction or other work.

5. Default by Landlord:

In the event that Tenant notifies Landlord of any defaults on its obligations under this Article, and Landlord shall fail to cure the same within fifteen (15) days after receipt of such notice (or, as to a default under Subsection 2(a)(4) which is not within Landlord's control, forty

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(40) days after receipt of such notice, Tenant shall have the right to terminate the Lease, upon fifteen (15) days written notice to Landlord.

6. Tenant Improvements:

(a) Prior to making any initial improvements to any portion of the Demised Premises ("Tenant Improvements"), Tenant shall give Landlord notice of its intentions and submit plans and specifications of the proposed Tenant Improvements to Landlord, for approval, which approval shall not be unreasonably withheld or delayed. Landlord acknowledges that the Tenant Improvements may include the following work:

- . Upgraded cafeteria.
- . Relocation of demonstration room and training room.

- . Exercise room with shower.
- . Relocation of existing and/or construction of new laboratories.
- . Enlarge third floor computer room, including additional air conditioning and installation of condenser(s) on roof.
- . Installation of a new card reader security system, separate from the current Andataco system, including electrical and low voltage wiring. This may include expansion of the current system in the manufacturing area of the first floor of the Demised Premises.

Landlord's approval shall be deemed given if Landlord does not respond to Tenant's request for approval within fifteen (15) days from the receipt of such request. In the event that Landlord withholds approval for the proposed Tenant Improvements, Landlord shall state in writing its reasons in sufficient detail to permit Tenant to modify its plans in order to receive approval.

- (b) At the time Landlord grants or is deemed to grant approval of any Tenant Improvements, Landlord shall inform Tenant of any of the Tenant Improvements that would (i) materially diminish the value of the Demised Premises for use by a tenant for the Permitted Uses or (ii) require unusual expenses to readapt the Demised Premises for use by a tenant for the Permitted Uses or (iii) would be unique to Tenant's particular business operations (except for the air handlers in Tenant's computer rooms), and must be removed at the end of the Term. If Landlord does inform Tenant of any such removal requirements, then Tenant may either remove or leave such Tenant Improvements as it decides. Tenant's responsibility upon removal of any such Tenant Improvement is to repair any damage caused by the removal and not to restore the Demised Premises.

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- (c) Tenant Improvements may be done by any contractor chosen by Tenant and approved by Landlord which approval shall not be unreasonably withheld or delayed. Said contractor must be licensed, carry the kinds or insurance and in the amounts set forth in subparagraph (f) below, and must not interfere with Landlord's performance of its obligations under this Lease.
- (d) If Tenant retains Landlord to perform any of the work of making Tenant Improvements for Tenant, Landlord shall obtain bids from three (3) independent general contractors. If Landlord acts as its own general contractor, it shall obtain three (3) bids from three (3) independent subcontractors for each discipline (mechanical, electrical, etc.). Landlord shall make its recommendation as to each bidder, however, Tenant shall have the right to choose the successful bidder in either event. If Landlord acts as its own general contractor, Landlord shall not receive more than ten percent (10%) overhead and profit based on the total cost of construction.
- (e) Tenant in making any Tenant Improvements shall cause all work to be done in a good and workmanlike manner using materials equal to or better than those used in the construction of the Demised Premises and shall comply with or cause compliance with all applicable building codes, health and safety regulations and zoning laws and with any direction given by any public officer pursuant to such codes, regulations and laws. Tenant shall obtain or cause to be obtained and maintain in effect, as necessary, all building permits, licenses, temporary and permanent certificates of occupancy and any other governmental approvals which may be required in connection with the making of the Tenant Improvements. Landlord shall cooperate with Tenant in the obtaining thereof and shall execute any documents reasonably required in the furtherance of such purpose, provided any such cooperation shall be without expense and/or liability to Landlord.
- (f) Tenant shall have its contractor procure and maintain in effect during the term of such Tenant Improvements, the following insurance coverages with an insurance company or companies with a Best's rating of A- or better and authorized to do business in the Commonwealth of Massachusetts.
 - (1) Workmen's Compensation Insurance-Statutory limits for the Commonwealth of Massachusetts.
 - (2) Employer's Liability insurance meeting the requirements of Massachusetts law.
 - (3) Comprehensive General Liability - at least \$1,000,000.00 Combined Single Limit, including Personal Injury, Contractual and Products/Completed Operations Liability and Property Damage. Coverage must include the following:

- (a) premises - operations
 - (b) elevators and hoists
 - (c) independent contractor
 - (d) contractual liability assumed under this contract
 - (e) completed operations - products
 - (f) explosion, underground and collapse (XCU) coverage
- (4) Comprehensive Auto Liability - at least \$1,000,000.00 Combined Single Limit, including each person Bodily Injury, must include the following:
- (a) owned vehicles
 - (b) leased vehicles
 - (c) hired vehicles
 - (d) non-owned vehicles

Tenant shall insure that Landlord receives a certificate of insurance for each contractor selected by Tenant to work on the Tenant Improvements. Said certificate of insurance shall contain a provision to provide Landlord with thirty (30) days prior notice of any material change in, cancellation or non-renewal of any policy.

- (g) All Tenant Improvements shall be at Tenant's sole cost and expense.
 - (h) Tenant may make additional alterations, additions and improvements in accordance with Article 9 below.
7. Installation of Tenant's Microwave Dishes on Roof:

Prior to the date hereof, Tenant has installed on the roof of Building No.3 two (2) microwave dishes. Landlord hereby acknowledges its consent to such installation. Landlord also acknowledges Tenant's intention, either as part of its initial improvements to the First Additional Premises or as subsequent alterations to install additional microwave dishes on the roof of Building No.3, which installation may include roof penetration, and on the roof of the Building No.1, in the event that Tenant exercises its Expansion Right under Section 32(b), but without roof penetration. Any such microwave dish shall be for reception and not transmission and shall be used only by Tenant or its affiliates or its successors or assigns and not third parties and shall meet all applicable Town requirements. Landlord hereby consents to Tenant's installation of such dishes so long as Tenant complies with the provisions of Article 2, Section 8.6 and Article 9 if applicable.

8. Elevator and Lobby:

Landlord agrees that it will not construct any improvements on or near the outside of Building 3, including, without limitation, a new elevator and lobby. Landlord shall have access to the interior of the Demised Premises during the last nine (9) months of the Term (or Extended Term) solely for measuring and preparing plans for alterations to be performed by

Landlord after the expiration of the Term (or Extended Term), so long as there is no disruption of or interference with Tenant's operations.

ARTICLE 9 - Alterations, Additions and Improvements

Upon completion of the initial Tenant Improvements to any portion of the Demised Premises, Tenant may, from time to time, at its own cost and expense and without the consent of Landlord make alterations, additions or improvements (collectively herein called "Alterations") of a non-structural nature to the Demised Premises which cost in any one instance is Ten Thousand and 00/100 Dollars (\$10,000.00) or less, provided Tenant first notifies Landlord in writing of any such Alterations. If Tenant desires to make any structural Alterations costing any amount or any non-structural Alterations which costs in any one instance exceed Ten Thousand and 00/100 Dollars (\$10,000.00), Tenant must first give Landlord notice of its intentions and submit plans and specifications of the proposed Alterations to Landlord, for approval, which approval shall not be unreasonably withheld or delayed. With respect to all of the other aspects of any proposed Alterations, including Landlord approvals, selection of contractors, the Landlord as contractor, materials and workmanship, licenses and permits, and the insurances to be carried, the provisions of Article 8.4(a) through (g) above apply. Such alterations may include, without limitation, some or all of the items referred to in Section 8.6(a).

ARTICLE 10 - Compliance with Laws

1. Tenant shall be responsible throughout the Term or Extended Term for procuring all licenses and permits for the Demised Premises required for the operation of Tenant's business including Tenant's sign. Tenant agrees that it shall do nothing, during the Term or Extended Term, in its use and occupancy of

the Demised Premises which would cause the Demised Premises to be in non-compliance with any applicable governmental laws, codes, ordinances, rules and regulations to the extent the same apply to Tenant's use and occupancy of the Demised Premises as opposed to laws of general applicability. In the event that Tenant receives notice of non-compliance with laws relating to Tenant's use and occupancy, as provided for in Article 5, by any governmental authority having jurisdiction over the Property, Tenant shall diligently pursue remediation of the problem and shall correct the non-compliance within the period of time prescribed by the governmental authority unless it is determined that such remediation and correction work falls within the Landlord's responsibilities and obligations under this Lease whereupon Tenant shall provide Landlord with written notice of the non-compliance and identify Landlord's responsibilities and obligations under the Lease.

2. Tenant shall have the right, at its expense, to contest, by appropriate legal proceedings conducted in good faith with due diligence, the validity or applicability, in whole or in part, of any governmental laws, codes, ordinances, rules and regulations pursuant to which such notice of non-compliance was issued, and, so long as such proceedings are being conducted in good faith and with due diligence Tenant may defer compliance therewith pending the outcome of that contest provided that such deferral shall not: i) result in any deprivation in the use of the Property by any party entitled thereto; or ii) result in any criminal or civil liability on the part of the Landlord. Landlord shall, upon request by Tenant, cooperate with any such

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contest provided that Tenant shall pay all actual out-of-pocket costs incurred by Landlord in connection therewith.

3. In the event that a capital expenditure is required to make an Alteration to the Demised Premises so that it is in compliance with all statutes, codes, regulations and other laws as a result of Tenant's use of the Demised Premises (excluding any Capital Expenditures which fall within Landlord's responsibilities and obligations under this Lease included in Article 6 and 8), Tenant shall be responsible for making any such expenditure and Alteration. Upon receipt of notice of non-compliance by any governmental authority having jurisdiction over the Demised Premises, Tenant shall diligently pursue remediation of the problem and shall correct the noncompliance within the period of time prescribed by the governmental authority. The provisions of Article 8.6 and 9 above apply in the remediation of any non-compliance. Landlord agrees to cooperate fully with Tenant in correcting the item(s) of non-compliance.

4. In the event that Landlord receives notice of non-compliance with any law, ordinance, code, rule or regulation relating to the Land and/or Building (and any systems therein) and/or the Property by any governmental authority having jurisdiction over the Property, Landlord shall diligently pursue remediation of the problem at its expense subject to the provisions of Article 6.4 and shall correct the non-compliance within the period of time prescribed by the governmental authority.

ARTICLE 11 - Damage and Destruction

1. In the event of damage or destruction to all or part of the Demised Premises or Building by fire or other casualty (collectively, a "casualty"), or if Tenant's access ("Access") to or use and occupancy of the Building, Demised Premises, parking area or Common Areas of the Property is interfered with due to a casualty, Tenant shall notify Landlord thereof as soon as possible after Tenant becomes aware thereof.

2. Landlord or Landlord's managing agent shall have a period of thirty (30) calendar days from receipt of Tenant's notice pursuant to the first paragraph of this Article to give Tenant a good faith estimate ("Estimate") of the time required to repair the casualty and restore Access and/or Tenant's use and occupancy of the Building, Common Areas, and the Demised Premises to their condition existing immediately prior to the Casualty. The Estimate shall be based on the following information, if available: Landlord's own estimate, at least one independent contractor, and a report from the insurance adjuster representing the insurance company insuring the Property. If the Estimate is for a period equal to or more than ninety (90) days, the Casualty is hereby deemed substantial. If the Estimate is for a period of less than ninety (90) days, the Casualty is hereby deemed partial.

3. If the Demised Premises, or the Building, suffers a partial Casualty and Tenant's use and occupancy of the Demised Premises and/or Access can be restored within ninety (90) days, Landlord shall completely repair and restore same. If Landlord does not substantially complete the repair and restoration within the Estimate period plus ten (10) days (measured from the date of Tenant's receipt of the Estimate), Tenant has the right to terminate this Lease on ten (10) days written notice to Landlord provided that any delay in the completion of the work on the

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part of Landlord must be within Landlord's control, or 40 days written notice if such delay is not within Landlord's control.

4. If there is a substantial Casualty to the Demised Premises, the Building, or the Access and Tenant's use and occupancy cannot be restored within ninety (90) days, either Landlord or Tenant has the right to terminate this Lease on ten (10) days written notice to Landlord after Tenant's receipt of the Estimate. If neither party terminates this Lease, then Landlord shall proceed to promptly repair and restore such damage, destruction or hindrance to Access.

5. From the date of such partial or substantial Casualty, a proportionate part of the Base Rent and Additional Rent, according to the nature and extent of the interference with Tenant's use and occupancy of or Access to the Demised Premises shall be equitably abated until the repair and restoration have occurred. In the event this Lease is terminated as hereunder provided, Tenant shall pay the Base Rent and Additional Rent prorated to the date of such partial or substantial Casualty and thereafter, Tenant shall be relieved of all further liability for the payment thereof.

6. Notwithstanding anything to the contrary in this Lease, if the Estimate is for a period extending beyond the remainder of the Term, either Landlord or Tenant may terminate this Lease upon ten (10) days written notice to the other, provided, however, that Landlord may not exercise this right if Tenant has previously exercised or provides immediate exercise of the extension option contained in this Lease and within the prescribed time frame defined in Article 3.2 above.

7. In the event that the Demised Premises or the Building suffers either partial or substantial Casualty, the parties have not exercised their respective rights to terminate this Lease, and Landlord has proceeded to repair and restore the damage or destruction caused by a Casualty at its own cost and expense, then Landlord shall be entitled to recover the cost of the repair and restoration from the following sources:

- (a) The insurance proceeds up to the limit of coverage.
- (b) Any cost not covered by insurance including costs resulting from a shortfall in insurance coverage and/or the cost of any deductibles shall be the responsibility of the party deemed to be at fault, either by a willful or negligent act, as determined in the appropriate judicial forum.

ARTICLE 12 - Condemnation

1. In the event of a taking by condemnation or by the exercise of the power of eminent domain by a public or quasi-public authority or entity or conveyance in lieu thereof (all hereinafter referred to as "Taking") of the entire Demised Premises, or of the entire Building or of the entire parking area serving the Building, or of the entire Access thereto, either by fee title or easement, either party may terminate this Lease by giving written notice to the other party, and this Lease shall terminate on the date that title vests in the Taking authority or that such Taking

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authority takes physical possession so as to deprive Tenant of the use thereof without the necessity for any further act or notice by either party hereto.

2. In the event of a partial taking of the Demised Premises, the Building, the parking area serving the Building, or the Access thereto, either by fee title or easement, that, in Tenant's judgment reasonably exercised, results in a material interference in the conduct of Tenant's business operations, Tenant shall have the right to terminate this Lease upon written notice to Landlord within thirty (30) days of the Taking. The effective date of the termination shall be the later of the Taking or fifteen (15) days after the date of such notice.

Notwithstanding the foregoing, if the parking area serving the Building is the subject of the Taking resulting in a reduction of the number of parking spaces available to Tenant, Landlord may suspend the effectiveness of such notice by giving its own notice to Tenant within ten (10) days of receipt of Tenant's termination notice that Landlord shall provide substitute parking spaces equal to the number taken with sixty (60) days of the Taking.

3. In the event this Lease is not terminated as a result of a Taking: (i) Base Rent and Additional Rent payable hereunder shall abate from the earlier date of vesting of title or the date of possession by such Taking authority whether or not there is divestiture of title; such abatement of Base Rent and Additional Rent shall be in proportion to the amount of the Demised Premises or Building or Property subject to a Taking and shall be permanent in the case of divestiture of title; and there shall be no abatement of Base Rent and Additional Rent for the Taking of parking spaces; and (ii) Landlord shall commence the work of repairing and restoring the Building to a complete architectural unit and useable by Tenant as allowed under this Lease, the work of restoring the remainder of the Demised Premises as nearly as possible to

their condition existing immediately prior to the Taking, and to restore Access to the Building and Demised Premises or provide alternative Access thereto, all such work to be commenced within thirty (30) days of possession by the Taking authority and completed within ninety (90) days ("Work Date") of the effective date of such possession. If Landlord does not substantially complete the repair and restoration within the time herein provided, Tenant has the right to terminate this Lease by giving notice to Landlord within fifteen (15) days of the Work Date effective on the date specified in the notice, which date shall not be more than fifteen (15) days from the date of the notice to Landlord provided that any delay in the completion of the work, on the part of Landlord must be within Landlord's control.

4. In the event of a Taking, Tenant shall, within ten (10) days of the effective date of the termination of this Lease or the effective date of the abatement of Base Rent and Additional Rent, as the case may be, receive a refund from Landlord of the appropriate Base Rent and Additional Rent amount paid by Tenant prior to the effective date of termination or abatement for any period subsequent to the effective date of termination or abatement.

ARTICLE 13 - Insurance

1. Tenant shall obtain and keep in force throughout the Term, at its own expense, Comprehensive General Liability Insurance including a contractual liability endorsement, with respect to the Demised Premises, with a combined single limit of at least \$2,000,000. Tenant

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shall also obtain and keep in force a property damage policy insuring Tenant's personal property on a full replacement cost basis.

2. Landlord shall obtain and maintain in force throughout the Term "all-risk" property insurance upon the Building, on a full replacement cost basis. Landlord may include the Building in a so-called "blanket" policy, but the Building shall be specifically listed and its full replacement cost separately stated. Landlord shall obtain and maintain in force throughout the Term a Comprehensive General Liability Insurance policy insuring Landlord, with a combined single limit of at least \$2,000,000. Tenant shall pay its proportionate share of Landlord's insurance policies as provided for in Article 6.1(f).

3. All policies shall be issued by responsible insurance companies with a Best's rating of A- or better and authorized to do business in the Commonwealth of Massachusetts. Landlord and Tenant shall, on the Commencement Date of the Primary Term (and thereafter within thirty (30) days after either party's request), deliver a certificate of such policy to the other evidencing the coverage hereunder.

4. Landlord and Tenant each hereby waive all claims and rights of recovery against each other and their respective officers, directors, employees, contractors, servants and agents, for any loss, damage or destruction of the real or personal property of Landlord or Tenant, regardless of cause or origin to the extent of any recovery from any insurance policy. Landlord and Tenant agree that any policies obtained on or after the date hereof shall include a clause or endorsement to the effect that any such waiver of subrogation shall not adversely affect or impair such policies or prejudice the rights of the insured to recover thereunder.

ARTICLE 14 - Indemnity

1. Tenant shall, upon timely receipt of written notice, defend, indemnify, and save harmless Landlord, its employees, contractors, business invitees and agents, from and against any and all suits, claims, demands, loss, costs, damages, and expenses, including reasonable attorneys' fees and litigation costs, arising from injury or death of any person or damage to property (other than property of Landlord or Tenant in and about the Demised Premises) arising from the negligent acts or omissions or willful acts or omissions of Tenant, its employees, contractors, business invitees or agents.

In the event that Landlord is notified of a claim, action or proceeding, or becomes aware of an occurrence, which may result in indemnification by Tenant of Landlord as provided above, Landlord shall give prompt written notice to Tenant and provide complete information known by Landlord. Landlord shall immediately forward to Tenant every demand, notice, summons or other process received by Landlord or its representatives.

Tenant has the obligation to defend any claim, action, or proceeding wherein Landlord is entitled to indemnification under the provisions of this Article. Tenant may not settle any such claim, action, or proceeding without Landlord's consent or approval which approval shall not be unreasonably withheld or delayed. Landlord agrees to cooperate fully with Tenant in the defense or settlement of any claim, action or proceeding.

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2. Landlord shall, upon timely receipt of written notice, defend,

indemnify, and save harmless Tenant, its employees, contractors, business invitees and agents, from and against all loss, costs, damages, and expenses, including reasonable attorneys' fees and litigation costs, arising from injury or death of any person or damage to property (other than that of Landlord or Tenant in and about the Demised Premises) arising from the negligent acts or omissions, or willful acts or omissions, of Landlord, its employees, contractors, business invitees or agents.

In the event that Tenant is notified of a claim, action or proceeding, or becomes aware of an occurrence, which may result in indemnification by Landlord of Tenant as provided above, Tenant shall give prompt written notice to Landlord and provide complete information known by Landlord. Tenant shall immediately forward to Landlord every demand, notice, summons or other process received by Tenant or its representatives.

Landlord has the obligation to defend any claim, action, or proceeding wherein Tenant is entitled to indemnification under the provisions of this Article. Landlord may not settle any such claim, action, or proceeding without Tenant's consent or approval which approval shall not be unreasonably withheld or delayed. Tenant agrees to cooperate fully with Landlord in the defense or settlement of any claim, action or proceeding.

3. The indemnities and duties to defend contained in this Article shall not survive the termination of this Lease, and upon such date all obligations of each party to indemnify and defend shall cease, except with respect to claims which arose on or prior to the termination date.

ARTICLE 15 - Subletting and Assignment

1. Landlord hereby grants to Tenant the right to sublet all or any portion of the Demised Premises throughout the Term provided Tenant first obtains Landlord's consent to such subletting in writing except in the case of an Affiliate Transfer (hereinafter defined), which consent shall not be unreasonably withheld or delayed. However, Landlord shall have the right to reasonably approve the subtenant and the proposed lease transaction except if an Affiliate Transfer. If Landlord withholds or refuses consent, the reasons for such refusal shall be stated in detail in writing.

2. If Tenant requests Landlord's consent to a sublet of all of the Demised Premises, Landlord shall have the right to recapture the Demised Premises. Landlord shall exercise this right, if at all, within thirty (30) days of Tenant's request for consent of the sublet. If Landlord exercises this right, the Lease shall terminate on the effective date of the proposed subletting of the entire Demised Premises and thereafter, Landlord and Tenant shall be released from and relieved of any further obligation under this Lease, and all sums payable by Tenant hereunder shall be prorated to that date.

3. In the event Landlord does not respond to the written request for such consent or exercise its right of recapture within thirty (30) days of the date of such request from Tenant, Landlord's consent is hereby deemed given.

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4. In the event that Tenant sublets all or a portion of the Demised Premises, after receiving Landlord's consent, and the Base Rent to be charged to subtenant by Tenant results in an increase over Tenant's then current Base Rent,

(a) Tenant shall first be entitled to use the amount of the increase over the Base Rent specified in this Lease to recover any qualifying expenses incurred by Tenant to sublease the Demised Premises. Expenses that qualify for recovery include: (i) legal and brokerage fees specifically related to the sublease (ii) any free rent that Tenant is obligated to provide, due to real estate market conditions, to induce subtenant to sign a sublease; and (iii) any capital spent for additional leasehold improvements to retrofit the Demised Premises and required by subtenant as an inducement to sign a sublease. Expenses that do not qualify for recovery include: (i) capital expended by Tenant for its own Tenant Improvements either initially or during the Term of this Lease; (ii) Cash grants, awards, contributions or allowances given directly to subtenant with no specific purpose as an inducement to sign a sublease, (iii) capital expended on behalf of subtenant for the purchase of any personal property including trade fixtures and equipment; and (iv) any loans and/or the interest thereon provided by Tenant to subtenant to sign a sublease.

(b) After Tenant has recovered all of its qualifying expenses, Landlord and Tenant shall share equally the amount of the increase over the Base Rent specified in this Lease as profit.

5. Tenant shall remain liable for any and all obligations as specified in this Lease with Landlord.

6. In no event shall Tenant be allowed to assign this Lease, except that, Tenant shall have the right, without the prior consent of Landlord, to assign this Lease and to sublet all or any portion of the Demised Premises to any

person or entity (a) controlling, controlled by, or under common control with Tenant, (b) acquiring all or substantially all of the assets of Tenant or (c) with or into which Tenant merges or consolidates (an "Affiliate Transfer"). Tenant shall be obligated to notify Landlord in writing thirty (30) days in advance of the Affiliate Transfer as to the person or entity taking the assignment or sublet and the effective date of the Affiliate Transfer.

ARTICLE 16 - Tenant's Property

1. Tenant shall have the right at the expiration or sooner termination of this Lease, or at any time during the Term to remove from the Demised Premises all fixtures, machinery, office equipment, signs, moveable partitions and other property (including buss ducts) (collectively called "Tenant's Property") which it may have installed, either freestanding or affixed to the realty, in the Demised Premises. Tenant shall be responsible to repair any damage resulting thereby reasonable wear and tear, damage due to fire or other casualty, and alterations made by Tenant as permitted herein excepted.

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2. Upon the expiration or sooner termination of this Lease, Tenant shall have the right to remove Tenant's Property and surrender the Demised Premises in accordance with Section 16.1 above and Article 27 of this Lease. Within fifteen (15) days after the expiration or sooner termination of this Lease if Tenant has not removed Tenant's Property from the Demised Premises, it shall be deemed abandoned by Tenant

ARTICLE 17 - Signs

Landlord hereby grants to Tenant the right to install and maintain Tenant's business sign currently located on the exterior of the Building No.3, in accordance with all local laws and regulations, now and in the future. Landlord shall remove the IPL Systems, Inc. sign from Building No.3 on or before July 1, 1998. Tenant's sign may be lighted at Tenant's discretion and expense, if permitted by law. Tenant shall also have the right to maintain its current sign, and, upon placement by Landlord of a sign kiosk or directory located at the intersection of Acton Street and Route 27, Tenant shall replace such sign with a new sign to be installed on such kiosk or directory in a location of its choice. It shall be Tenant's responsibility to secure the necessary local permits for the erection of the sign(s). Landlord shall cooperate with Tenant in any permit applications, as may be required by the permit granting authority. Tenant assumes full responsibility for its sign and agrees to maintain it and keep it in good appearance. Tenant agrees that its Comprehensive General Liability Insurance policy as provided for in Article 13 above shall include coverage for Tenant's sign.

ARTICLE 18 - Parking and Loading

1. During Period 1, Tenant shall be allowed:

- (a) To use up to two hundred eighteen (218) unassigned regular parking spaces in the parking area at the rear of the Building and two (2) handicap parking spaces at the rear of the Building Complex, as shown on Exhibit C-1.
- (b) The exclusive use of one loading dock in the Connector Building containing three hundred eighty-five feet (385 SF)

2. During Period 1A, through the end of the Term, Tenant shall be allowed:

- (a) The exclusive use of the parking area east of the Building comprised of twelve (12) regular parking spaces,
- (b) The exclusive use of the visitor parking spaces adjacent to the north side of the Building currently comprised of 7 regular parking spaces. Landlord shall restripe these spaces to provide three (3) regular parking spaces and three (3) handicapped parking spaces prior to July 1, 1998.
- (c) The nonexclusive use of two hundred two (202) regular parking spaces in the parking area at the rear of the Building Complex.

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- (d) The exclusive use of the two loading docks in the Connector Building shown on Exhibit A-1.

3. If Tenant shall exercise its Expansion Right, Tenant shall be allowed the use of an additional 40 parking spaces at the Property, consisting of two (2) handicap and thirty-eight (38) unassigned regular parking spaces.

All such areas and spaces are as shown on Exhibit C-1.

4. For the purpose of this Article,

- (a) A regular parking space shall mean a parking space that has been measured and laid out, according to local zoning regulations, to accommodate a vehicle of standard design and construction and equipped for drivers without disabilities.
- (b) A handicap parking space shall mean a parking space that has been measured and laid out, according to local zoning regulations, to accommodate a vehicle of standard design and construction that has been modified or a vehicle of special design and construction that has been equipped for drivers with disabilities.

ARTICLE 19 - Tenant's Default

1. The following shall constitute a default by Tenant:
 - (a) Tenant fails to pay Base Rent and Additional Rent, and such failure to cure continues for ten (10) days after notice from Landlord;
 - (b) Tenant fails to perform Tenant's other obligations in this Lease, and such failure continues for thirty (30) days after notice from Landlord, or if said default shall require longer than thirty (30) days to cure, Tenant shall: (i) notify Landlord that it has commenced the cure within the thirty (30) day period after notice from Landlord; (ii) provide Landlord with an estimate of the total time necessary to cure the default; and (iii) diligently proceed to cure the default and continue to take all steps necessary to complete the same;
 - (c) Tenant shall file a voluntary petition in bankruptcy or shall be adjudicated a bankrupt or insolvent, or shall file any petition or answer seeking any arrangement, composition, liquidation or dissolution under any present or future Federal, State, or other statute, law or regulation relating to bankruptcy, insolvency or other relief for debtors, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of the Tenant or of all or any substantial part of its properties, or of the Demised Premises, or shall make any general assignment for the benefit of

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creditors, or shall admit in writing its inability to pay its debts generally as they become due; or

- (d) A court shall enter an order, judgment, or decree approving a petition filed against Tenant seeking any arrangement, composition, liquidation or dissolution under any present or future Federal, State, or other statute, law or regulation relating to bankruptcy, insolvency or other relief for debtors, and such order, judgment or decree shall remain unvacated or unstayed for a period of sixty (60) days.

In any such event, Landlord at any time thereafter may give written notice to Tenant specifying the occurrence giving rise to such default and stating that this Lease and the Term hereby demised shall expire and terminate on the date specified in such notice which shall be at least ten (10) days after the giving of such notice, and upon the date specified in such notice, this Lease and the Term, estate and interest hereby demised shall expire and terminate by limitation and all rights of Tenant under this Lease shall cease.

2. At any time after any such expiration or termination of this Lease, Landlord, without further notice, may enter upon and reenter the Demised Premises to repossess itself of the Demised Premises, by summary proceedings, ejectment or otherwise, and may remove Tenant and all other persons and any and all property from the Demised Premises as hereinabove provided.

ARTICLE 20 - Landlord's Default

1. If Landlord, during the Term, shall default in the performance or observance of any agreement, obligation, or condition in this Lease, and Landlord shall not cure such default within thirty (30) days after receipt of written notice thereof (the "Default Notice") from Tenant, or shall not within said period commence to cure and thereafter diligently prosecute the curing of such default to completion, then Tenant may, at its option, after it has given Landlord at least five (5) days prior written notice of its intent to cure (the "Self-Help Notice"), cure such default in the name of and for the account of Landlord. The Self-Help Notice maybe sent any time after the expiration of 25 days following the Default Notice.

2. Tenant may cure any such default prior to the expiration of said waiting period, but after said notice to Landlord in the event of an emergency.

3. Landlord shall immediately reimburse Tenant on demand for such payments

and save the Tenant harmless. If Landlord shall fail to reimburse Tenant upon demand for any amount paid for the account of Landlord hereunder, said amount may be deducted by Tenant from the next or any succeeding payments of Base Rent due hereunder until Tenant has been fully reimbursed. In the event that Tenant wrongly invokes its right herein contained, Landlord's relief shall be the payment by Tenant of all installment of Base Rent withheld by it plus a penalty fee of five percent (5%) of the amount of Base Rent withheld.

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4. Tenant may abandon any cure of a default by Landlord at any time without penalty.

5. This Article does not supersede or conflict with the duties, rights and remedies of the parties which are specifically addressed in other Articles of this Lease.

ARTICLE 21- Notice/Authority

All notices, consents, approvals, and demands shall be in writing and shall be delivered in hand, by recognized overnight courier, or by depositing with the U.S. Postal Service, postage prepaid, certified or registered mail, return receipt requested. All notices and payments of rent shall be sent: (a) to Landlord at the address set forth above in Article 1; and (b) to Tenant, Attention: Vice President Operations, at the address set forth above in Article I with a courtesy copy to Testa, Hurwitz & Thibault, LLP, Attn.: Real Estate Department, High Street Tower, 125 High Street, Boston, 02110. The address of each may be changed from time to time by notice so given. Notice shall be deemed given, provided or received, as the context may require,: (1) if delivered by hand, when actually delivered, as evidenced by a signed receipt; (2) if sent by recognized overnight courier, the next business day; and (3) if sent by the U.S. Postal Service, on the business day it is received as noted on the return receipt.

Landlord hereby agrees that, unless Tenant is otherwise notified in writing, Landlord's Property Manager has the authority to act on Landlord's behalf and represents Landlord's interests with respect to day-to-day Building management issues under this Lease.

ARTICLE 22 - Landlord's Access

Landlord or Landlord's agents shall be allowed to enter the Demised Premises on an as needed basis in order to perform its facility management function as referenced in Articles 6 and 7 above. Landlord shall give Tenant's appointed facility liaison reasonable advance notice, which notice may be verbal, of Landlord's need to access the Demised Premises to perform its facility management functions pursuant to Articles 6 and 7. In the event of an emergency, Landlord may enter the Demised Premises to inspect, assess and resolve the emergency situation. Landlord shall use reasonable efforts not to interfere with Tenant's use and occupancy of the Demised Premises and to comply with Tenant's confidentiality requirements. Tenant shall provide Landlord with a list of its confidentiality requirements within ten (10) days after the Commencement Date.

ARTICLE 23 - Quiet Enjoyment

Landlord covenants that upon Tenant's paying the rent and performing its obligations hereunder, Tenant shall quietly have and enjoy the Demised Premises during the Term without hindrance or molestation from Landlord or any other person.

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ARTICLE 24 - Holding Over

1. If Tenant or any one claiming under Tenant occupies the Demised Premises after the Expiration Date, Tenant shall be considered a tenant-at-will on a month-to-month basis. The Base Rent for any hold over period shall be at One Hundred Fifty Percent (150%) of the Base Rent in effect immediately prior to the Expiration Date. All other terms, conditions and obligations of the Lease in effect prior to the Expiration Date shall remain in full force and effect.

2. Either Landlord or Tenant may terminate this tenant-at-will tenancy by providing the other party notice of the intention to terminate thirty (30) days prior to the proposed termination date.

ARTICLE 25 - Subordination

1. This Lease shall be subject and subordinate, at all times, to the lien of any mortgage of the Property, now or hereafter placed, with a lending institution, pension fund, insurance company, other similar financial institution or private mortgage lender provided that a Subordination, Recognition and Non-Disturbance Agreement ("Agreement") is executed, acknowledged and delivered by such mortgagee to Tenant. Said Agreement must be

in form suitable for recording, satisfactory to Tenant, and must contain substantially the following provisions:

- (a) Mortgagee consents to and approves the Lease;
- (b) Tenant shall not be named or joined as a party in any suit, action or proceeding for the foreclosure of the Mortgage or to enforce any rights under the Mortgage or note or other obligation secured thereby,
- (c) The possession by Tenant of the Demised Premises and Tenant's rights thereto shall not be disturbed, affected or impaired by, nor will the Lease or the Term be terminated or otherwise affected by (i) any suit, action, or proceeding upon the Mortgage or the note or other obligation secured thereby, (ii) the foreclosure of the Mortgage, (iii) the enforcement of any rights under the Mortgage, (iv) any other document held by the Mortgagee, (v) any judicial sale or execution or other sale of the Property including the Demised Premises, (vi) any deed given in lieu of foreclosure, (vii) the exercise of any other rights given to the Mortgagee by any other documents, (viii) a matter of law, or (ix) any default under the Mortgage or the note or other obligation secured thereby;
- (d) All condemnation awards and insurance proceeds paid or payable with respect to the Demised Premises and received by the Mortgagee shall be applied to the repair and restoration of the Demised Premises;
- (e) Mortgagee must acknowledge and agree that all trade fixtures, equipment and other property owned by Tenant located or installed in or on the

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Demised Premises, regardless of the manner or mode of attachment shall be and remain the property of Tenant and may be removed by Tenant at anytime according to the provisions of Articles 8, 16 and 27;

- (f) If the Mortgagee or any successor or assignee takes possession of the Property including the Demised Premises or starts collecting rent or becomes the owner of the Property by reason of foreclosure of the Mortgage or otherwise; or if the Property shall be sold as a result of any action or proceeding to foreclose tile Mortgage or by a deed given in lieu of foreclosure, the Lease shall continue in full force and effect, without necessity for executing any new lease with the Mortgagee or the new owner of the Property, and such mortgagee and new owner shall recognize Tenant's rights and Landlord's obligations under this Lease.
- (g) Any agreement between Mortgagee and Tenant shall bind and inure to the benefit of and be enforceable the parties thereto and their respective successors.
- (h) Tenant agrees that Mortgagee, if Mortgagee shall succeed to the interest of Landlord under the Lease, shall not be (i) liable for the prior actions or omissions of Landlord under the Lease, (ii) subject to any offsets or defenses which Tenant might have against the prior Landlord, (iii) bound by any Base Rent or Additional Rent which Tenant might have paid for more than thirty (30) days in advance to the prior Landlord, (iv) bound by any security deposit paid to the prior Landlord, unless such deposit is in an escrow fund available to Mortgagee, or (v) bound by any amendment or modification of the Lease which reduces the term, rent, or square footage made without Mortgagee's consent.

Tenant shall execute and send to Landlord any such Agreement within fifteen (15) days of receipt of same if such Agreement contains substantially the provisions set forth above and is reasonably acceptable to Tenant or within fifteen (15) days after agreement of the parties to an alternative Agreement.

2. If the holder of any mortgage of the Property requires that this Lease have priority over such mortgage, Tenant shall, upon request of such holder, execute, acknowledge and deliver to such holder an agreement acknowledging such priority. "Mortgage", as used herein, includes mortgages, deeds of trust or other similar instruments.

3. Landlord represents and warrants that there is no mortgage or other encumbrance in existence on the Property at the time this Lease is executed except for those noted in Landlord's counsel's title certification, dated March 23, 1998.

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ARTICLE 26 - Memorandum of Lease

Neither Landlord nor Tenant shall record this Lease. Landlord and Tenant shall at any time, at the request of either one, promptly execute a memorandum of lease which satisfies the requirements of the applicable statute in the State in which the Demised Premises are located and either party may record the same.

ARTICLE 27 - Surrender of Premises

On the termination date, Tenant shall surrender the Demised Premises free and clear of all tenants and occupants, and in good order and condition, except for reasonable wear and tear and damage caused by fire or other casualty, taking, default by Landlord, or by any negligent or willful act or omission by Landlord. Tenant shall be required to remove any Alterations, or Tenant Improvements made by Tenant if Landlord has so stipulated as provided for in Articles 8 and 9 above.

ARTICLE 28 - Estoppel Certificate

Upon request, either party shall execute and deliver to the other a written certificate stating (a) whether this Lease has been modified or amended; (b) whether this Lease (as so modified or amended) is in full force and effect; (c) the date to which rent has been paid, and (d) whether the other party is in default, and if so, the nature of such default.

ARTICLE 29 - Mechanics' Liens

Landlord and Tenant shall each pay promptly for all labor and materials in connection with any construction on the Property or in the Demised Premises. If a notice of contract is filed against the Demised Premises or the Property for any work performed, materials furnished or obligation incurred by or at the request of Tenant, then Tenant shall use reasonable effort to bond or discharge any such lien within thirty (30) days after Landlord has provided Tenant with notice of the filing of the statement of account relating to such notice of contract.

ARTICLE 30 - Hazardous Substances

1. "Hazardous Substance" means any substance, waste or material which is deemed hazardous, toxic, a pollutant or contaminant, under any Federal, State, or local statute, law, ordinance, rule, regulation, or judicial or administrative order or decision, now or hereafter in effect.

"Hazardous Substance on the Demised Premises" means any hazardous substance present in or on the Demised Premises including, without limitation, in or on the surface or beneath the Demised Premises, the surface water or groundwater, and in or on any improvement or part thereof at or beneath the surface of the Demised Premises.

"Applicable Law" shall mean all Federal, State and local statutes, laws, ordinances, rules and regulations and judicial and administrative orders, rulings and decisions

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that are applicable now or in the future to the Demised Premises or any portion thereof or to any activity which shall take place thereon.

"Demised Premises" for the purposes of this Article shall include the Building, other improvements and the Land on which they are located.

2. Landlord, to the best of its knowledge, has never generated, stored, disposed of or otherwise handled any Hazardous Substance on the Demised Premises in any fashion contrary to Applicable Law and Landlord shall not generate, store, dispose of otherwise handle any Hazardous Substance on the Demised Premises in any fashion contrary to Applicable Law. Landlord is, to the best of its knowledge, not aware of the generation, storage, disposal or other handling of any Hazardous Substance on the Demised Premises by anyone else in any fashion contrary to Applicable Law. Landlord also is, to the best of its knowledge, not aware of the presence of any Hazardous Substance on the Demised Premises which may require remedial action under Applicable Law or may pose a threat to human health, safety or the environment.

3. Landlord, to the best of its knowledge, is not aware of any underground storage tanks on the Demised Premises.

4. Landlord, to the best of its knowledge, is not aware of any transformers or other equipment on the Demised Premises which contain PCBs.

5. Landlord shall defend, indemnify and hold harmless Tenant from and against any and all liability, loss, claims, actions, proceeding, costs, and fines resulting from the presence of any Hazardous Substance on the Demised Premises which occurred or commenced prior to the date on which this Lease is executed.

6. The indemnities and duties to defend in this Article shall survive the termination of this Lease.

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ARTICLE 31 - Security Deposit

Tenant shall be required to deposit with Landlord a security deposit in the initial amount of \$23,462.23, which shall increase to \$31,596.21 as of January 1, 1999, to \$39,911 as of April 1, 1999, and to \$43,236.92 as of April 1, 2000 (the "Security Deposit"). Of this, \$23,831.73 has been previously deposited with Landlord. Landlord shall hold the Security Deposit in segregated escrow account as security for the full and faithful payment or performance by Tenant of its obligations under this Lease Agreement. Landlord may expend such amount from the Security Deposit as may be necessary to cure any monetary default by Tenant under this Lease Agreement, and in such a case, Tenant shall pay to Landlord the amount so expended on demand. Any balance remaining shall be promptly returned to Tenant after the termination of or the expiration of the Term of this Lease upon redelivery of possession of the Demised Premises to Landlord in the condition required.

ARTICLE 32 - Expansion Right

In addition to the rights and obligations set forth in Section 33.2, Landlord agrees that neither Landlord nor any of its agents, employees or contractors shall advertise, market, show, offer for lease or lease all or any portion of Building No.1 during the first year of the Primary Term of this Lease and that Tenant shall have the option to lease (the "Expansion Right") all or a portion of Building No.1 at the Building Complex, on the terms and subject to the conditions set forth below in (a) and (b).

(a) If Tenant wishes to lease all or a portion of Building No. 1 during the first lease year of the Primary Term, it shall give to Landlord written notice of the exercise of such option, specifying the area to be leased and the date of occupancy and Landlord shall deliver such space to Tenant on such date free of all occupants and personal property, in good basic operating condition and repair (including a roof airtight and free of leaks), broom clean and in compliance with applicable building, life and safety codes. From and after the date of such delivery, (i) such space shall be added to the Demised Premises for the balance of such lease year, (ii) the Base Rent shall be due with respect to such space at the rate of \$4.75 per square foot per annum for such space, and (iii) Tenant's Proportionate Share shall increase accordingly. Tenant may exercise its option to add additional portions of Building No. 1 to the Demised Premises by sending additional written notices of the exercise of its option to Lease at any time during the first lease year, and the terms of the prior two sentences shall apply to such additional space.

(b) In addition to the Expansion Right set forth in Paragraph (a) above, Tenant shall have the option to lease all of Building No. 1 for a period beginning on or before the second lease year of the Term and continuing for the remainder of the Primary Term and any Extended Term with Base Rent for such space due at the same rate per square foot per annum for 21,189 square feet, as shall apply to the Initial Premises pursuant to Article 4. If Tenant wishes to elect such option, it shall do so by giving written to Landlord written notice of the election of such option on or before March 31, 1999. In such event, Building No. 1 shall be delivered to Tenant free of all occupants and personal property, in good basic operating condition and repair (including a roof airtight and free of leaks), broom clean and in compliance with applicable building, life and

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safety codes, whereupon such space shall be added to the Demised Premises, and the provisions of Subsections (4)(a)(i) and (iii) shall apply to such space. If no such notice is timely given, Tenant shall vacate any portion of Building No. 1 occupied by it pursuant to Subparagraph (a) above, on or before March 31, 1999 and all rights of Tenant with respect to the leasing of Building No. 1 pursuant to this Section 32 shall terminate and be of no further force and effect and Landlord shall be free to advertise, market, show or offer Building No. 1 for lease, subject to the provisions of Section 33.2.

ARTICLE 33 - Additional Provisions

1. At any time within six (6) months before the expiration of the Term, Tenant shall at all reasonable times and upon reasonable advance notice permit Landlord or its agents to enter the Demised Premises to show the Demised Premises to others, and to affix to any suitable part of the Building and/or the Demised Premises, but not so as to interfere unreasonably with any of the signs or the windows of the Tenant, a notice for letting or selling the Demised Premises, and to keep the same so affixed without hindrance or molestation by the Tenant.

2. Landlord shall provide Tenant with a notification of vacant space, as space becomes available, or of space to be vacated, as Landlord becomes aware of

such potential available space, in either the existing Building Complex or in buildings to be constructed on the Land or on adjacent lots. If Tenant does not exercise its Expansion Right pursuant to Article 32, then Landlord shall be required to send a notification under this Section 33.2 as to space in Building No. 1 only after the initial leasing of such space. If Tenant is interested in the space, then it must notify Landlord in writing within ten (10) days after receipt of Landlord's notice that it wants to receive a proposal that would reflect the terms and conditions of a lease that would be acceptable to the Landlord at that time. Any rent for such space shall be at fair market rates. The parties shall either mutually agree to a set of terms and condition within fifteen (15) days after Tenant has received Landlord's proposal or Landlord shall commence marketing of the space. Landlord's willingness to notify Tenant of any vacant space pursuant to this Section 33.2 shall not be construed or implied to mean that Tenant has either a "Right of First Option" or "Right of First Refusal" on any space that may become vacant during the Term of Tenant's Lease, except as set forth in Article 32.

3. The covenants and agreement herein contained shall, subject to the provisions hereof, bind and inure to the benefit of Landlord and its successors and assigns, and Tenant and its successors and assigns, and no extensions, modifications or change in the terms of this Lease effected with any successor, assignee or transferee shall cancel or affect the obligations of the original parties hereto. No officer, director, shareholder, trustee, or beneficiary of Landlord or Tenant shall be personally liable hereunder. Each party represents to the other that the person signing this Lease on its behalf is properly authorized to do so.

4. If any provision of this Lease shall be determined to be invalid or unenforceable by any court of competent jurisdiction in the Commonwealth of Massachusetts, then such determination shall not affect any other provision of this Lease, all of which other provisions shall remain in full force and effect; and it is the intention of the parties hereto that if any

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provision of this Lease is capable of two constructions, one of which would render the provision void, and the other of which would render the provision valid, then the provision shall have the meaning which renders it valid.

5. This Lease contains the entire and only agreement between the parties as to the Demised Premises, and no oral statements or representations or prior written matter not contained in this instrument shall have any force or effect. This Lease shall not be modified or canceled except by a writing signed by Landlord and Tenant.

6. This Lease shall be governed by, interpreted and enforced in accordance with the laws of the Commonwealth of Massachusetts.

7. Failure of one party to complain of any act or omission by the other, no matter how long the same may continue, shall not be deemed to be a waiver of any rights hereunder. No waiver of any breach of this Lease shall be deemed a consent to a subsequent breach. All waivers shall be in writing. The consent to one action given on one occasion shall not be deemed a consent to of the same action on another occasion. No consent or approval required under this Lease shall be unreasonably withheld.

8. Any and all rights and remedies which either party may have under this Lease or by operation of law, upon any breach, shall be distinct, separate and cumulative and shall not be deemed inconsistent with each other; no one of them whether exercised by the other party or not, shall be deemed to be exclusive of any other, and any two or more of all such rights and remedies may be exercised at the same time.

9. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions of this Lease, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment. There shall survive the right on the part of said party to institute suit for the recovery of such sum, and if it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

10. If at any time a dispute shall arise between the parties hereto as to any work to be performed by either of them under the provisions hereof, the party against whom the work is asserted may perform such work and pay the cost thereof "under protest" and the performance of such work shall in no event be regarded as a voluntary performance. There shall survive the right on the part of said party to institute suit for the recovery of the costs of such work, and if it shall be adjudged that there was no legal obligation on the part of said party to perform the same or any part thereof, said party shall be entitled to recover the cost of such work or the cost of so much thereof as it was not legally required to perform under the provisions of this Lease.

11. Words and phrases used in the singular shall be deemed to include the plural and vice versa, and nouns and pronouns used in any particular gender shall be deemed to include any other gender.

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12. The various terms which are defined in Articles of this Lease or are defined in Exhibits annexed hereto shall have the meanings specified in such Articles and such Exhibits for all purposes of this Lease and all agreements supplemental thereto, unless the context clearly indicates the contrary.

13. Landlord and Tenant each hereby waive any and all claims for consequential damages which one may have against the other for breach of or failure to perform or observe the requirements and obligations created by this Lease.

14. This Lease shall not be effective or binding on the parties to it until it has been signed by both Landlord and Tenant.

15. Landlord and Tenant acknowledge that Tenant currently occupies the Initial Premises pursuant to a Letter Agreement dated March 16, 1998 and agree that such letter agreement and any other occupancy agreement or arrangement relating to Tenant's occupancy of the Initial Premises is hereby terminated as of the Commencement Date. Landlord represents and warrants that neither IPL Systems Inc. nor Andataco, Inc. nor any successor thereto, nor any other party has or shall have any rights with respect to any part of the Demised Premises except as set forth in this Lease.

IN WITNESS WHEREOF, the parties hereto have duly executed this Lease as of the date first written above.

LANDLORD: MAYNARD INDUSTRIAL PROPERTIES
ASSOCIATES TRUST, a Massachusetts Nominee Trust

Date: 5/28/98 By: /s/ Robert D. Quirk

Name:
Title: Trustee, duly authorized

TENANT: SEACHANGE INTERNATIONAL, INC.
Date: 5/28/98 By: /s/ Richard Poulsen

Name: RICHARD POULSEN
Title: V.P. OPERATIONS

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Commonwealth of Massachusetts

Middlesex County, SS

At Sudbury, in said County and State, this 29 day of May, 1998, [ILLEGIBLE] Trustee of Maynard Industrial Properties Associates Trust of 124 Acton Street, Maynard, MA 01754, personally appeared before me and acknowledged this Lease by him, signed and sealed to be his free act and deed.

/s/ Sheri Anne Lazaros

/s/ Sheri Anne Lazaros

My Commission Expires 12/30/99

Commonwealth of Massachusetts

Middlesex County, SS

At Maynard, in said County and State, this 28th day of May, 1998, Richard Poulsen, VP Operations, SeaChange International, Inc., of 124 Acton Street, Maynard, MA 01754, personally appeared before me and acknowledged this Lease by him, signed and sealed to be his free act and deed and that of said corporation.

/s/ BEATRICE C. MOONEY

Notary Public

My Commission Expires February 1, 2002

EXHIBIT A

SCHEDULE OF SPACE

Period I: 4/1/98 - 6/30/98: Initial Demised Premises

Building No.3, Floor 1	- 12,120 SF*
Building No.3, Floor 2	-25,974 SF
Building No.3, Floor 3	- 7,545 SF(a)

Total Square Feet -45,639 SF(a) 34.4% Occupancy of the Building
Complex for Additional Rent

* Includes 385 SF in Connector Building as loading dock

Period 1A: 7/1/98 - 12/31/98

Vestibule, Floor 1	- 414 SF (b)
Building No.3, Floor 1	-25,974 SF (b)
Building No.3, Floor 2	-25,974 SF
Building No.3, Floor 3	-25,974 SF
Connector Building	- 1486 SF (b)

Total Square Feet	-79,822 SF(c) 47% Occupancy of the Building Complex for Additional Rent, increasing to 63%

Period 2: 1/1/99 - 3/31/05:

Vestibule, Floor 1	- 414 SF (b)
Building No.3, Floor 1	-25,974 SF (b)
Building No.3, Floor 2	-25,974 SF
Building No.3, Floor 3	-25,974 SF
Connector Building	-1,486 SF (c)

Total Square Feet	-79,822 SF 63.0% Occupancy of the Building Complex for Additional Rent

Notes: (a) Includes 2120 SF of undemised space on the third floor for furniture storage, on which no rent shall be due. Accordingly, Tenant's Proportionate Share will be based on 43,519 SF occupancy, or 34.4% subject to increase if Early Space is added pursuant to Article 2.

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(b) The additional portion of the first floor, the additional portion of the third floor, the vestibule and the Connector Building space which includes the loading docks noted on Exhibit A-1 to be added to the Demised Premises are to be referred to as the "First Additional Premises."

(c) Subject to increase pursuant to the provisions of Section 4.1(b) and Article 2 relating to Early Space, (i) until Landlord Work is completed on third floor, no Additional Rent shall be due for 20,549 SF, and accordingly, (ii) Tenant's Proportionate Share will be based initially on 59,273 SF occupancy or 47.0%

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EXHIBIT A-1

PLAN OF THE DEMISED PREMISES

Period 1: The amount of space shown on Exhibit A is shown in yellow.

Periods 1A and 2: The amount of space is the addition of yellow and orange.

NOTE: Exhibit A-1 is to include: the loading docks; access routes to first and third floor space during Period 1 and the common area support space.

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BUILDING #3

FIRST FLOOR

[EVACUATION PLAN APPEARS HERE]

[.] FIRE EXTINGUISHER

[EVACUATION PLAN APPEARS HERE]

ATTENTION: IN CASE OF FIRE DO NOT USE ELEVATORS!

[.] FIRE EXTINGUISHERS

BUILDING #3

THIRD FLOOR

[EVACUATION PLAN APPEARS HERE]

BUILDING #2

[EVACUATION PLAN APPEARS HERE]

[.] FIRE EXTINGUISHERS

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EXHIBIT A-2

BUILDING COMPLEX SPACE ALLOCATION - PERIOD 1A AND 2

Space by Tenant*

	Periods 1A & 2	
	Square Feet	Percentage
	-----	-----
SeaChange	79,822	63.0%
Andataco/IPL	24,673	19.5%
Vacant	21,189	16.7%
Common Area	938	.8%
TOTAL	126,622	100%

Space by Building

<TABLE>	
<S>	<C>
Building No. 1	21,189 SF
Building No. 2	20,763 SF
(Common Area within Bldg. No. 2 - Transformer Room = 146 SF)	
Connector Building	6,334 SF
(Common Area within Connector Bldg. - Property Management Office = 577 SF) Telecom Room = 215 SF)	
Building No. 3	78,336 SF
TOTAL Building Complex Square Feet	126,622 SF
</TABLE>	

*NOTES:

1. During Period 1, Tenant's Proportionate Share shall be 34.4%. (see Section 4.1(a) and Exhibit A).
2. During Period 1A, Tenant's Proportionate Share shall be 47% prior to Landlord's completion of Landlord Work, and thereafter shall be 63.0%. (see Section 4.1(b) and Exhibit A).

3. If a portion, or all, of Building No. 1 is added to the Demised Premises pursuant to Article 32, or if a portion of the First Additional Premises is added to the Demised Premises prior to 7/1/98, Tenant's Proportionate Share shall be increased pro rata.

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Exhibit B

Landlord's Services

Under the terms of this Lease, Landlord shall provide for the management of the Property and the delivery of services to the Tenant and other tenants who may, from time to time, occupy portions of the Building. Specifically, Landlord's role is that of: (i) a manager and coordinator of service providers, and (ii) a direct service provider. Except as otherwise provided in the Lease, the cost of these services shall be paid by the Tenant and the other tenants who may, from time to time, occupy portions of the Building. The payment for these services has been provided for in the Lease.

Landlord shall manage and/or coordinate the delivery of the following sets of services or provide them directly as noted:

1. Utilities.

a. Gas.

The Property is currently served by Commonwealth Gas. Prior to the Commencement Date, Landlord shall arrange to have the service placed in the name of Landlord except in the case where a tenant desires to have a direct relationship with the service provider and is separately metered for the service.

b. Electricity.

The Property is currently served by Boston Edison. Prior to the Commencement Date, Landlord shall arrange to have the service placed in the name of Landlord except in the case where a tenant desires to have a direct relationship with the service provider and is separately metered for the service.

c. Water and Sewer.

The Property is served by the Town of Maynard. Service is in the name of Landlord.

2. Maintenance.

a. Elevator Maintenance.

Prior to the Commencement Date, a service agreement shall be put in place with a qualified contractor to provide preventive maintenance services on a monthly basis that will consist of a visual examination of the

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hydraulic system and pump, controller, governor, piston and any other major operating part of the elevator and lubrication of components. The agreement shall also include a provision for an annual safety test and inspection.

b. HVAC Preventive Maintenance.

A service agreement shall be put in place with a qualified contractor to provide preventive maintenance services four (4) times each year on the Building's HVAC equipment and the HVAC equipment located on the roof of the Connector Building and serving the Demised Premises. Preventive maintenance shall include cleaning, lubricating, inspecting, testing, and adjusting of the HVAC units including filter and belt replacements as needed to facilitate normal operation of the system. Any repairs and/or replacements to the new HVAC units installed on Building No. 3 shall be covered under the warranty. Preventive maintenance and any repairs and/or replacements in subsequent years shall be provided for in the annual Operating Cost budget. In the case where an equipment replacement is required, Landlord shall look to any warranty or guarantee that may be in force before charging Tenant for any such costs.

c. Parking Lot Maintenance.

Landlord, through its Property Manager, shall engage a qualified contractor for maintenance and repair of the Property's parking lots. This maintenance is scheduled to take place every four years and will be performed by September 1, 1998. The maintenance service includes the filling of all cracks and sealing the parking lot with a black rubber sealant. The entire parking lot will then be restriped.

d. Daily Maintenance.

Landlord, through its Property Manager, shall assume the responsibility for minor daily maintenance and repair responsibilities including such items as changing light bulbs including parking lot lights, changing lock sets, making minor repairs to walls or ceilings not requiring specialized equipment, supervising the work of contract vendors in the performance of their agreements, and coordination with public officials and/or inspectors on matter related to the Property.

- e. Other Repairs and Maintenance: Landlord shall also perform those ----- repairs, maintenance and the like set forth in 6.5 of the Lease.

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3. Inspections

a. Backflow Inspection.

Landlord, through its Property Manager, shall engage a qualified contractor for an annual inspection and test of the Building's water backflow preventors in accordance with state regulations. Landlord shall provide all necessary test documentation to the Town of Maynard.

b. Sewer Pump Inspection.

There are two sewer pumps located under ground along the side of the Building. These pumps push the sewer waste to the Town of Maynard's main sewer lines. Landlord, through its Property Manager, shall engage a qualified contractor for an annual inspection, test, and servicing of these pumps.

c. Fire Extinguisher and Fire Alarm System Inspections.

Landlord, through its Property Manager, shall engage a qualified contractor for an annual inspection of all fire extinguishers including refill requirements, gasket O-ring, pull pin, CO2 service, conductivity testing and tamper seal charge. Landlord acknowledges that certain fire extinguishers are not currently operational in the first floor of Building No. 3 and agrees to promptly correct the same.

4. Operations.

a. Janitorial Services.

Landlord, through its Property Manager, shall engage a qualified contractor to provide janitorial services to those tenants desirous of receiving such services. The contract shall provide for the following services: (1) empty all wastepaper baskets and trash barrels including those in the parking lot and change liners as needed; (2) dust furniture, file cabinets, chairs, and bookcases; (3) wash fingerprints and dirt on all doors including glass doors; (4) vacuum all carpeted areas and dust/clean all baseboards, (5) clean front entrances vacuum mats and carpeted areas, dust lobby and reception furniture, and wash glass in lobby areas inside and outside, (6) sweep, wet mop, and spray buff tile floors, wax or strip and wax all tile floors as required; (7) clean and stock six restrooms (i) sweep and mop floors with a disinfectant cleaner, (ii) wash and polish mirrors, shelving and faucets, (iii) scour and disinfect basins, bowls and urinals, (iv) restock paper, soaps and sanitary products, (v) dust all horizontal surfaces, wipe partitions and tiled walls, remove dirt and fingerprints; (8) machine scrub/vacuum carpet in stairways, wash stairway

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railings and stair runners; (9) wash cafeteria table tops, dust and polish furniture; (10) pick up leaves which gather in the corners of the front entry areas.

b. Trash Removal.

Currently, the trash is removed on a weekly basis by Browning-Ferris Industries (BFI). Landlord, through its Property Manager, shall assume the current contract and administer it. Prior to the expiration of the contract, Landlord shall seek bids from alternative vendors before extending the contract with the current vendor.

c. Landscaping.

Landlord, through its Property Manager, shall engage a qualified contractor to provide landscaping services for the Property. Said services shall consist of: (1) weekly cutting and trimming of all lawn areas with off-site disposal of grass or leaves, (2) pruning, trimming or shaping of trees, shrubs and hedges shall be done twice per growing season, (3) mulching will be done annually; (4) fertilizer and seeding (or overseeding) of lawn areas will be done upon request at rates specified in the contract; and edging and weeding flower beds and edging walkways shall be done as needed.

d. Snow Removal.

Landlord, through its Property Manager, shall engage a qualified contractor to provide snow removal services for all walks, driveways and parking areas based on the following snow fall amounts: (1) for snow projected to amount to 0 to 3 inches - walk ways, door ways, stairs and ramps will be pretreated with calcium chloride prior to snow fall whenever possible. Shoveling of these areas will be done as needed; (2) for snow amounts of 3 or more inches falling during or before regular business hours - plowing and full sanding of main road and parking lot areas will be done as needed, all interior walks will be cleared with a standard size snow blower, main walkways will be cleared with the large 5 ft. wide snow blower. Snow will be removed from such areas prior to the beginning of Tenant's business operations.

e. Drain Cleaning.

Landlord, through its Property Manager, shall engage a qualified contractor to clean all drains on an annual basis. Included in this service is the cleaning of the main sewer lines from within the Building to the manholes located in the roadways.

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f. Window Cleaning.

Landlord, through its Property Manager, shall engage a qualified contractor to clean all windows inside and outside on an annual basis.

g. Security.

Landlord shall not be responsible for the security of Tenant's Demised Premises, Tenant's Improvements or Tenant's Personal Property.

5. Administrative.

a. Real Estate Taxes.

Real Estate Taxes assessed against the Property by the Town of Maynard, Massachusetts are the responsibility of Landlord. Landlord may file for an abatement of taxes or may enter into any other proceeding it may deem appropriate in order to reduce the amount of taxes due. The cost of real estate taxes shall be pro-rated per the Lease. This provision is subject to additional provisions relating to Real Estate Taxes set forth in the Lease.

b. Building Insurance.

Landlord shall procure and keep in full force and effect insurance on the Building as provide for in the Lease. This insurance is for the Building only and in no way is meant to extend to Tenant's Personal Property.

6. Tenant Review of Agreements

Prior to selection of any provider of services described in this Exhibit B or under Article 7 of the Lease, or any renewal of any provider's contract, Landlord shall obtain bids from three (3) independent contractors (including, if Tenant elects, one (1) selected by Tenant). All such bids, and contractor qualifications shall be

provided to Tenant for its review. Tenant shall have the right to elect to retain the services of independent contractors to perform those services to be provided by Landlord pursuant to Section 6.5 and Exhibit B which are provided to and within the Demised Premises (except for the roof and the HVAC units) and to pay 100 percent of the cost of such services. The Tenant shall have the right to make such election with respect to a particular calendar year by notice to Landlord given on or before November 30 of the prior calendar year.

7. Acknowledgment

Landlord hereby acknowledges that all actions described in Sections 1 and 2 above to be taken by it prior to the Commencement Date have been completed by it prior to the execution of this Lease, and that all contractors described in Sections 3 and 4 above have been engaged prior to the execution of this Lease

except for the engaging of a parking lot contractor under Section 2(c) and the fire extinguisher replacement under Section 3(c).

EXHIBIT C

SITE PLAN

EXHIBIT C-1

PARKING & LOADING PLAN

EXHIBIT C-1

18 Spaces

20 Spaces

21 Spaces

21 Spaces

22 Spaces

22 Spaces

22 Spaces

22 Spaces

23 Spaces

23 Spaces

23 Spaces

23 Spaces

20 Spaces

20 Spaces

2 Handicap Spaces

1 Loading Dock
(Bldg. #1)

124 Acton Street

4 Visitor Spaces
2 Handicap Spaces

3 Loading Docks
[2 for Bldg. #3]
[1 for Bldg. #2]

Building Complex
[not to scale]

7 Visitor Spaces

12 Spaces

Reference is made to that certain Lease (the "Lease") dated May 29, 1998, (the "Date of Execution") and made effective as of April 1, 1998, between Maynard Industrial Property Associates Trust, as Landlord, and SeaChange International, Inc., as Tenant, for the Demised Premises located at 124 Acton Street, Maynard, Massachusetts.

BACKGROUND:

- - - - -

Pursuant to the Lease, Landlord agreed, as a material inducement to Tenant's willingness to execute the Lease, that it would pay to the Town of Maynard, or other appropriate entity, amounts due as of the Date of Execution as the Real Estate Tax Arrearage on or before July 7, 1998, and thereafter provide Tenant with the Tax Payment Notice and the Building Permit Notice. The Lease provides that, in the event that Landlord did not timely perform such obligations, the Tenant could terminate the Lease as of January 31, 1999, upon at least one hundred twenty (120) days prior written notice. As of the date hereof, such payments have not been made and notices have not been given by Landlord; however, Landlord has indicated to Tenant its intention and ability to do so on or before October 31, 1998. Accordingly, Landlord has requested, and Tenant has agreed, to extend the deadlines set forth above.

The Lease is hereby amended as follows:

1. In Section 3.3, by (a) deleting the date "January 31, 1999" in line 6 and replacing it with the date "March 3, 1999"; (b) deleting the date "July 7, 1998" in line 2 and replacing it with the date "October 31, 1998"; and (c) deleting the date "July 8, 1998" in lines 3 and 4 and replacing it with the date "November 1, 1998."
2. In Section 6.11, by (a) deleting the date "July 7, 1998" in line 9 and replacing it with the date "October 31, 1998"; (b) deleting the date "July 8, 1998" in line 10 and replacing it with the date "November 1, 1998"; and (c) deleting the date "July 15, 1998" in line 13 and replacing it with the date "November 9, 1998."

Except as herein amended, the Lease is ratified and affirmed and shall remain in full force and effect. All defined terms shall have the same meaning as in the Lease.

[CONTINUED ON NEXT PAGE]

Executed as a sealed instrument this 28/th/ day of September, 1998.

LANDLORD:

MAYNARD INDUSTRIAL PROPERTIES
ASSOCIATES TRUST, a Massachusetts
Nominee Trust

By: /s/ Robert D. Quirk

Name: Robert D. Quirk
Title: Trustee duly authorized

TENANT:

SEACHANGE INTERNATIONAL, INC.

By: /s/ Richard Poulsen

Name: Richard Poulsen

Title: VP Operations

Reference is made to that certain Lease dated May 29, 1998 (the "Date of Execution"), and made effective as of April 1, 1998, between Maynard Industrial Property Associates Trust, as Landlord, and SeaChange International, Inc., as Tenant, for the Demised Premises located at 124 Acton Street, Maynard, Massachusetts, as amended by that certain First Amendment to Lease dated September 28, 1998 executed by Landlord and Tenant (as amended, the "Lease").

BACKGROUND:

- -----

Pursuant to the Lease, Landlord agreed, as a material inducement to Tenant's willingness to execute the Lease, that it would pay to the Town of Maynard, or other appropriate entity, amounts due as of the Date of Execution as the Real Estate Tax Arrearage on or before October 31, 1998, and thereafter provide Tenant with the Tax Payment Notice and the Building Permit Notice. The Lease provides that, in the event that Landlord did not timely perform such obligations, the Tenant could terminate the Lease as of March 3, 1999, upon at least one hundred twenty (120) days prior written notice. As of the date hereof, such payments have not been made and notices have not been given by Landlord; however, Landlord has indicated to Tenant its intention and ability to do so on or before November 30, 1998. Accordingly, Landlord has requested, and Tenant has agreed, to extend the deadlines set forth above.

The Lease is hereby amended as follows:

In Section 3.3, by (a) deleting the date "March 3, 1999" in line 6 and replacing it with the date "April 5, 1999"; (b) deleting the date "October 31, 1998" in line 2 and replacing it with the date "November 30, 1998"; and (c) deleting the date "November 1, 1998" in lines 3 and 4 and replacing it with the date "December 1, 1998."

In Section 6.11, by (a) deleting the date "October 31, 1998" in line 9 and replacing it with the date "November 30, 1998"; (b) deleting the date "November 1, 1998" in line 10 and replacing it with the date "December 1, 1998"; and (c) deleting the date "November 9, 1998" in line 13 and replacing it with the date "December 9, 1998."

Except as herein amended, the Lease is ratified and affirmed and shall remain in full force and effect. All defined terms not defined herein shall have the same meaning as in the Lease.

[CONTINUED ON NEXT PAGE]

Executed as a sealed instrument this 10/27 day of October, 1998.

LANDLORD:

MAYNARD INDUSTRIAL PROPERTIES
ASSOCIATES TRUST, a
Massachusetts Nominee Trust

By: /s/ Robert D. Quirk 10/26/98

Name: Robert D. Quirk
Title: Trustee duly authorized

TENANT:

SEACHANGE INTERNATIONAL, INC.

By: /s/ Richard Poulsen

Name: Richard Poulsen

Title: VP Operations

Commonwealth of Massachusetts
County of Middlesex

Then personally appeared before me the above-named Robert D. Quirk and Richard Poulsen, and acknowledged the foregoing instrument to 10/27/98 free act

and deed.

/s/ Stacy Leigh Bennett

Notary Public
My Commission Offices 7/15/2005

TENANT ESTOPPEL CERTIFICATE

To: Bay State Federal Savings Bank, its successors and assigns (collectively
"Lender")

The undersigned hereby certifies and agrees as follows:

1. The undersigned is the tenant (the "Tenant") under that certain Lease

by and between Tenant and Maynard Industrial Properties Associates Trust (such party, together with its successors and assigns hereinafter collectively referred to as the "Landlord") dated May 29, 1998 and amended September 28, 1998

and as further amended October __, 1998 (as amended the "Lease") affecting space in the building complex located at 124 Acton Street, Maynard, Massachusetts (the "Building"). A true, correct and complete copy of the Lease

and all amendments thereto is attached as Schedule A.
2. The Lease commenced on April 1, 1998.
3. The Lease expires on March 31, 2005. Tenant has no option or other right to extend the term of the Lease beyond March 31, 2008. Tenant has not exercised its right to terminate the Lease pursuant to Article 3, Section 3 and agrees that provided all real estate taxes, water and sewer charges, assessments, penalties, costs and interest thereon are brought current as of November 1, 1998 by payment made by November __, 1998, Tenant will forever waive and cancel said termination right.
4. Tenant has accepted and is occupying the entire premises demised to it under the Lease (the "Premises") and all improvements to the Premises required

by the Lease have been completed by Landlord in accordance with the Lease other than certain work with respect to the parking lot as set forth on Schedule B hereto.
5. Tenant has not paid rent or additional rent beyond the current month and agrees not to pay rent or additional rent more than one month in advance at any time.
6. Rent payable in the amount of \$21,044.51 per month has been paid through October 31, 1998.
7. Except as set forth on Schedule B attached hereto, there are no defenses to or offsets against the enforcement of the Lease or any provision thereof by the Landlord.
8. Tenant has deposited \$23,831.73 as a security deposit with Landlord pursuant to the terms of the Lease.
9. Except as set forth in the Lease, (i) Landlord has not agreed to grant Tenant any free rent or rent rebate or to make any contribution to tenant improvements, and (ii) Landlord has not agreed to reimburse Tenant for or to pay Tenant's rent obligation under any other lease.
10. Tenant has not advanced any funds for or on behalf of Landlord for which Tenant has a right to deduct from or offset against future rent payments.
11. Except as set forth on Schedule B attached hereto, the Lease is in full force and effect without default past applicable cure periods thereunder by Tenant or, to the best knowledge of Tenant, Landlord.
12. The Lease is the entire agreement between the Landlord and Tenant pertaining to the Premises, except for the letter agreement dated May 28, 1998 relating to brokerage commissions.
13. The Lease has not been amended, modified or supplemented except as set forth above.
14. Tenant agrees that no future amendment of the Lease shall be enforceable unless such amendment has been consented to in writing by Lender.
15. Except as set forth in the Lease, (i) Tenant does not have any purchase option or first refusal right with respect to the Building, and (ii) Tenant does not have any right or option for additional space in the Building.

Tenant acknowledges that Lender will rely on this Certificate in making a

loan or otherwise extending credit to Borrower.

Dated: October 27, 1998

SEA CHANGE INTERNATIONAL, INC.

By: /s/ Richard Poulsen

Name: Richard Poulsen

Title: V.P. OPERATIONS

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NOTICE OF LEASE

LESSOR: ROBERT D. QUIRK AND BRUCE T. QUIRK, TRUSTEES OF MAYNARD INDUSTRIAL PROPERTIES ASSOCIATES TRUST, U/D/T DATED DECEMBER 10, 1990, RECORDED WITH MSRD, BOOK 21018, PAGE 326

LESSEE: SeaChange International, Inc., a Delaware corporation

DATE OF EXECUTION: May 29, 1998; amended on September 28, 1998 and further amended on October 27, 1998

DESCRIPTION OF PREMISES: 79,822 rentable square feet of space, consisting of Building No.3 and a portion of the Connector Building, located at 124 Acton Street, Maynard, Middlesex County, Massachusetts, on a lot of land described on Schedule A attached hereto.

TERM: 7 years

DATE OF COMMENCEMENT: April 1, 1998.

RIGHTS OF RENEWAL OR EXTENTION: One extension term of three (3) years

EXPANSION RIGHTS: The tenant has a first option to lease space in Building No.1, to be exercised within twelve (12) months from the Date of Commencement. In addition, Landlord is to notify Tenant of available vacant space at 124 Acton Street, Maynard, MA or other nearby buildings.

LESSOR: /s/ Robert D. Quirk Trustee Robert D. Quirk, Trustee as aforesaid

LESSEE: SeaChange International, Inc.

By: /s/ Richard Poulsen Name: Richard Poulsen Title: Vice President - Operations

COMMONWEALTH OF MASSACHUSETTS

Middlesex, SS.

October 27, 1998

Then personally appeared the above-named Robert D. Quirk, Trustee of Maynard Industrial Properties Associates Trust, and acknowledged the foregoing instrument to be his free act and deed as Trustee as aforesaid, and that of said Trust, before me,

/s/ Stacy Leisly Bennett, Notary Public

My Commission Expires: 7/15/2005

COMMONWEALTH OF MASSACHUSETTS

Middlesex, SS.

October 27, 1998

Then personally appeared the above-named Richard Poulsen, Vice President - Operations, of SeaChange International, Inc. and acknowledged the foregoing

Lease and all of the terms, covenants and provisions thereof and all rights, remedies and options of Tenant thereunder are and shall at all times continue to be subject and subordinate in all respects to the terms, covenants and provisions of the Mortgage and to the lien thereof, including without limitation, all renewals, increases, modifications, spreaders, consolidations, replacements and extensions thereof and to all sums secured thereby and advances made thereunder with the same force and effect as if the Mortgage had been executed, delivered and recorded prior to the execution and delivery of the Lease.

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2. NON-DISTURBANCE. If any action or proceeding is commenced by Lender for

the foreclosure of the Mortgage or the sale of the Property or to enforce Lender's rights against Landlord under the Mortgage or the Note or other obligations secured thereby, Tenant shall not be named as a party therein unless such joinder shall be required by law, provided, however, such joinder shall not, nor shall any (i) suit, action, or proceeding upon the Mortgage or the Note or other obligation secured thereby, (ii) the foreclosure of the Mortgage, (iii) the enforcement of any rights under the Mortgage, (iv) any other document held by the Lender, (v) any judicial sale or execution or other sale of the Property including the premises leased by the Tenant (the "Demised Premises"), (vi) any deed given in lieu of foreclosure, (vii) the exercise of any other rights given to the Lender by any other documents, (viii) a matter of law, or (ix) any default under the Mortgage or the Note or other obligation secured thereby, result in the termination of the Lease or disturb the Tenant's possession or use of the Demised Premises demised thereunder, and the sale of the Property in any such action or proceeding and the exercise by Lender of any of its other rights under the Note or the Mortgage shall be made subject to all rights of Tenant and obligations of Landlord under the Lease, provided that at the time of the commencement of any such action or proceeding or at the time of any such sale or exercise of any such other rights (a) the term of the Lease shall have commenced pursuant to the provisions thereof, (b) Tenant shall be in possession of the premises demised under the Lease, (c) the Lease shall be in full force and effect and (d) Tenant shall not be in default past applicable grace or cure periods under any of the terms, covenants or conditions of the Lease or of this Agreement on Tenant's part to be observed or performed.

3. ATTORNMEN T AND RECOGNITION. If Lender or any other subsequent purchaser

of the Property shall take possession, collect rent, or become the owner of the Property

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by reason of the foreclosure of the Mortgage or the acceptance of a deed or assignment in lieu of foreclosure or by reason of any other enforcement of the Mortgage or otherwise (Lender or such other purchaser being hereinafter referred as "Purchaser"), and the conditions set forth in Section 2(a)-(d) above have been met, the Lease shall not be terminated or affected thereby but shall continue in full force and effect as a direct lease between Purchaser and Tenant upon all of the terms, covenants and conditions set forth in the Lease and in that event, Tenant agrees to attorn to Purchaser and Purchaser by virtue of such acquisition of the Property, possession or collection of rent, shall be deemed to have agreed to accept such attornment, provided, however, that Purchaser shall not be (a) liable for the failure of any prior landlord (any such prior landlord, including Landlord and any successor landlord, being hereinafter referred to as a "Prior Landlord") to perform any of its obligations under the Lease which have accrued prior to the date on which Purchaser shall become the owner of the Property, provided that the foregoing shall not limit Purchaser's obligations under the Lease to correct any conditions that (i) existed as of the date Purchaser shall become the owner of the Property and (ii) violate Purchaser's obligations as landlord under the Lease; provided further, however, that Purchaser shall have received written notice of such omissions, conditions or violations and has had a reasonable opportunity to cure the same, all pursuant to the terms and conditions of the Lease, (b) subject to any offsets, defenses, abatements or counterclaims which shall have accrued in favor of Tenant against any Prior Landlord prior to the date upon which Purchaser shall become the owner of the Property, (c) liable for the return of rental security deposits, if any, paid by Tenant to any Prior Landlord in accordance with the Lease unless such sums are actually received by Purchaser, (d) bound by any payment of rents, additional rents or other sums which Tenant may have paid more than one (1) month in advance to any Prior Landlord unless (i) such sums are actually received by

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Purchaser or (ii) such prepayment shall have been expressly approved of by Purchaser or (e) bound by any agreement terminating (unless pursuant to a termination right under the Lease) or amending or modifying the rent, term, commencement date or other material term of the Lease, or by any voluntary surrender of the premises demised under the Lease, made without Lender's or Purchaser's prior written consent prior to the time Purchaser succeeded to Landlord's interest. In the event that any liability of Purchaser does arise

pursuant to this Agreement, such liability shall be limited and restricted to Purchaser's interest in the Property and shall in no event exceed such interest.

Lender agrees that, in the event of damage or destruction to the Premises by casualty, Lender will not unreasonably withhold its consent to a request by Landlord to advance insurance proceeds for restoration of the Premises provided, however, the following conditions are met:

- (a) Landlord shall not be in default past applicable notice and grace periods under the Note or the Mortgage or any documents securing or given in connection with the Note (the "Loan Documents");
- (b) Tenant shall not be in default under the Lease beyond applicable notice and grace periods;
- (c) The insurance proceeds are in the opinion of Lender sufficient to restore the property or, if the proceeds are not sufficient, Landlord has deposited with Lender the amount of any such insufficiency;
- (d) The Premises may be restored as a matter of right under applicable law and Landlord has secured all permits therefore;

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- (e) Tenant shall not be entitled to terminate the Lease on account of said casualty, or if such termination right exists, Tenant has waived the same;
- (f) The insurance proceeds will be held by Lender and will be advanced under Lender's customary construction loan procedures; and
- (g) The damage or destruction does not occur within the last two years of the term of the Lease unless the Lease has been extended.

Lender acknowledges and agrees that all trade fixtures, equipment and other property owned by the Tenant located or installed in or on the Demised Premises, regardless of the manner or mode of attachment, shall be and remain the property of Tenant and may be removed by Tenant at any time according to the provisions of Articles 9, 16, and 27 of the Lease

4. NOTICE TO TENANT. After notice is given to Tenant by Lender that the

Landlord is in default under the Note and the Mortgage and that the rentals under the Lease should be paid to Lender pursuant to the terms of the assignment of leases and rents executed and delivered by Landlord to Lender in connection therewith, Tenant shall thereafter pay to Lender or as directed by the Lender, all rentals and all other monies due or to become due to Landlord under the Lease and Landlord hereby expressly authorizes Tenant to make such payments to Lender and hereby releases and discharges Tenant from any liability to Landlord on account of any such payments.

5. NOTICE TO LENDER AND RIGHT TO CURE. Tenant shall notify Lender of any

default by Landlord under the Lease and agrees that, notwithstanding any provisions of the Lease to the contrary, no notice of cancellation thereof or of an abatement shall be effective unless Lender shall have received notice of default giving rise to such cancellation or abatement and shall have failed within sixty (60) days after receipt of such notice to cure such default, or if

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such default cannot be cured within sixty (60) days, shall have failed within sixty (60) days after receipt of such notice to commence and thereafter diligently pursue any action necessary to cure such default, but in any event such cure shall be effected within 120 days of receipt of said notice. Notwithstanding the foregoing, Lender shall have no obligation to cure any such default.

6. NOTICES. All notices or other written communications hereunder shall be

deemed to have been properly given (i) upon delivery, if delivered in person or by facsimile transmission with receipt acknowledged by the recipient thereof and confirmed by telephone by sender, (ii) one (1) Business Day (hereinafter defined) after having been deposited for overnight delivery with any reputable overnight courier service, or (iii) three (3) Business Days after having been deposited in any post office or mail depository regularly maintained by the U.S. Postal Service and sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Tenant: 124 Acton Street, Maynard, MA 01754

Attention: Vice President, Operations
Facsimile No. _____

If to Lender: Bay State Federal Savings Bank

or addressed as such party may from time to time designate by written notice to the other parties. For purposes of this Section 7, the term "Business Day" shall mean a day on which commercial banks are not authorized or required by law to close in Massachusetts. Either party by notice to the other may designate additional or different addresses for subsequent notices or communications.

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7. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and

inure to the benefit of Lender, Tenant and Purchaser and their respective successors and assigns.

8. GOVERNING LAW. This Agreement shall be deemed to be a contract

entered into pursuant to the laws of the Commonwealth of Massachusetts and the United States of America and shall in all respects be governed, construed, applied and enforced in accordance with such laws.

9. MISCELLANEOUS. This Agreement may not be modified in any manner or

terminated except by an instrument in writing executed by the parties hereto. If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision. This Agreement may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. This Agreement may be executed in several counterparts, each of which counterparts shall be deemed an original instrument and all of which together shall constitute a single Agreement. The failure of any party hereto to execute this Agreement, or any counterpart hereof, shall not relieve the other signatories from their obligations hereunder. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

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Executed under seal as of the date first above written.

TENANT:	LENDER:
SEACHANGE INTERNATIONAL, INC.	BAY STATE FEDERAL SAVINGS BANK
By: /s/ Richard Poulsen -----	By: /s/ Phyllis M. Penta -----
Name: Richard Poulsen -----	Name: Phyllis M. Penta -----
Title: VP OPERATION'S -----	Title: Vice President -----

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The undersigned accepts and agrees to the provisions of Section 4 hereof:

LANDLORD:

/s/ Robert D. Quirk

Robert D. Quirk, Trustee

, Trustee

COMMONWEALTH OF MASSACHUSETTS)
)ss.
COUNTY OF NORFOLK)

November 18, 1998

Then personally appeared the above-named Phyllis M. Penta, Vice President,
of , and acknowledged the foregoing

instrument to be the free act and deed of Bay State Federal Savings Bank,
before me,

Notary Public /s/ Sebastiana Ovesian
My commission expires: 8/2/2002

COMMONWEALTH OF MASSACHUSETTS)
)ss.
COUNTY OF MIDDLESEX)

10/27/1998

Then personally appeared the above-named Richard Poulsen, of Sea Change
Intl., and acknowledged the foregoing instrument to be his/her free act and deed
as of said VP Operations of said Sea Change Intl., before me,

Notary Public /s/ Stacy Leigh Bennett
My commission expires: 7/15/2005

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COMMONWEALTH OF MASSACHUSETTS)
)ss.
COUNTY OF MIDDLESEX)

10/27/1998

The personally appeared the above-named Robert D. Quirk of Sudbury, MA and
acknowledged the foregoing instrument to be his/her free act and deed as
Landlord of said Maynard Industrial Park associates, before me,

Notary Public Stacy Leigh Bennett
My commission expires: 7/15/2005

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EXHIBIT A

Legal Description

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AGREEMENT OF SUBLEASE

IPC INTERACTIVE, INC.

1. PARTIES

This sublease is entered into by Harding Lawson Associates, Inc. ("Sublessor") and IPC Interactive, Inc. ("Sublessee") subject to the Lease dated April 16, 1992 between MDD Partners, successor's in interest to Condiotti Enterprises, Inc. ("Landlord") and Harding Lawson Associates, a Delaware Corporation, ("Lessee"). A copy of the Master Lease is attached hereto as Exhibit A.

2. PROVISIONS CONSTITUTING SUBLEASE

Except to the extent that this Sublease clearly indicates otherwise, all terms and conditions of the Master Lease and all riders and amendments thereto which are initialed by both parties are incorporated into and made a part of this Sublease as if Sublessor were the Landlord thereunder, Sublessee the Lessee thereunder, and the Premises the Master Premises, except for the following terms and conditions: In the body of the Master Lease, Articles: 1, 2 (a) (e) (f), 17, 33, 35 (f) (g) (n), 36, 37, 39, Exhibits "B", "C", "E", "H".

Sublessee hereby assumes and agrees to perform the Lessee's obligations under the Master Lease during the Term to the extent that such obligations are applicable to the Premises as defined in article 3 hereof. Without limiting the foregoing, Sublessee shall name Sublessor and Landlord as additional insureds under the insurance policies required to be carried by Sublessee pursuant to the incorporation of the insurance paragraphs of the Master Lease. Sublessee shall not commit or suffer any act or omission that will violate any of the provisions of the Master Lease. Notwithstanding the foregoing or anything to the contrary in the Master Lease, Sublessee acknowledges and agrees that Sublessor shall not be obligated to perform any of the obligations or to supply or render any of the services in the Master Lease required to be performed, supplied or rendered by Landlord. Sublessee shall look solely to the Landlord for the performance for any of the foregoing obligations and services so long as Sublessor is not in default under the Master Lease and has not commenced to cure such default, in which event Sublessee shall look solely to the Sublessor for the performance thereof to the extent Sublessor is responsible under the Master Lease ; provided, however, unless requested by Landlord, all requests by Sublessee for the performance of any of the foregoing matters shall be submitted to Landlord by Sublessor.

Sublessor shall exercise due diligence in attempting to cause Landlord to perform its obligations under the Master Lease for the benefit of Sublessee. If the Master Lease terminates, this Sublease shall terminate and the parties shall be relieved of any further liability or obligation under this Sublease, provided however, that if the Master Lease terminates as a result of a default or breach by Sublessee under this Sublease and/or the Master Lease, Sublessee shall be liable to the Sublessor for the damage suffered as a result of such termination. Notwithstanding the foregoing, if the Master Lease gives Sublessor any right to terminate the Master Lease in the event of the partial or total damage, destruction, or condemnation of the Master Premises or the building or project of which the Master Premises are a part, the exercise of such right by Sublessor shall not constitute a default or breach hereunder.

3. PREMISES

Sublessor hereby leases to Sublessee the following premises, commonly described as a portion of Building "O", it being agreed said premises consist of 28,664 rentable square at 105 Digital Drive, Bel Marin Keys, Novato, CA, as indicated on Exhibit B.

Sublessee accepts Premises with the alterations outlined on Exhibit B. Sublessor

at it's sole cost and expense shall furnish and install the alterations on Exhibit B. Sublessor will use commercially reasonable efforts to substantially

complete the alterations on Exhibit B on or before September 1, 1996. The

taking of possession or use of the Premises by Sublessee for any purpose shall conclusively establish that Sublessee has inspected the Premises and accepts them as being in good and sanitary order, condition and repair. Sublessee acknowledges that neither Sublessor nor any of Sublessor's brokers or agents has made any representations or warranties as to the suitability or fitness of the Premises for the conduct of Sublessee's business, or for any other purpose, and that neither Sublessor nor any of Sublessor's agents has agreed to undertake any alterations or additions or construct any improvements to the Premises other than those outlined on Exhibit B.

4.1 WARRANTY BY SUBLESSOR

Except as expressly set forth herein, Sublessor warrants and represents to Sublessee that (i) the Master Lease has not been amended or modified (ii) Sublessor has received no notice of any claim by Landlord that Sublessor is in default or breach of any of the provisions of the Master Lease, and (v) Sublessor shall continue to perform its obligations under the Master Lease throughout the Term of this Sublease.

4.2 DISCLOSURE

Sublessee acknowledges that Sublessor has advised Sublessee that certain conditions of the Premises are the subject of litigation between Sublessor and Landlord, in an action entitled MDD PARTNERS, DANIEL CONDIOTTI v. HARDING LAWSON ASSOCIATES, Sonoma County Superior Court Case No.209317. Sublessor has provided Sublessee with copies of the Complaint, the Cross Complaint of Sublessor, and Sublessor's Response to MDD's First Set of Special Interrogatories in that litigation. Sublessee acknowledges it has had an opportunity to review the disclosure of certain alleged defective conditions of the Premises as set forth in the Response to Special Interrogatories, and has had an opportunity to inspect the property with respect to the alleged defective conditions disclosed. Sublessee specifically assumes and holds Sublessor harmless from any liability for any condition of the premises set forth in said Response, including but not limited to any obligation to maintain, repair or replace any portion of the Premises because of such condition(s). Sublessee acknowledge that it is subleasing the property solely in reliance on Sublessee's own investigation and that no representations or warranties of any kind whatsoever, express or implied, have been made by Sublessor or Sublessor's agents or brokers, except as specifically set forth in writing in this Agreement of Sublease.

5.1 BASE NNN RENTAL

Sublessee shall pay to Sublessor as rent for the Premises in advance on the first day of each calendar month of the term of this Sublease without deduction, offset, prior notice or demand, to Harding Lawson Associates, 7665 Redwood Boulevard, Novato California 94945, (Attn: Accounts Receivable) or at such other place as Sublessor may designate, in lawful money of the United States, the Base NNN Rental of \$29,967.82 (triple net). If the commencement date is not the first day of the month, or if the Sublease

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termination date is not the last day of the month, a prorated monthly installment shall be paid. Sublessee shall pay the first month's rental upon execution and delivery of this Sublease. Notwithstanding the forgoing, provided Sublessee is not in Default hereunder, Sublessee shall not be required to pay the second month's Base NNN Rental payment.

5.2 NNN SUBLEASE

Sublessor shall receive the Base NNN Rental free and clear of any and all taxes, liens, charges, or expenses of any nature whatsoever in connection with the Master Lease and operation of the Premises, except as herein expressly provided. In addition to the Base NNN Rental reserved above and except as may be expressly provided herein, Sublessee shall pay to the parties respectively entitled thereto all Impositions (as hereinafter defined), insurance premiums, maintenance charges, tenant improvement costs, and any other charges, costs, and expenses that are defined in the Master Lease during the Term. It is the intention of the parties that this Sublease shall not be terminable for any reason by Sublessee, and that Sublessee shall in no event be entitled to any set-off against, abatement of, or reduction in Base NNN Rental payable under this Sublease, except as herein expressly provided.

5.3 SUBLESSEE'S OBLIGATION TO REIMBURSE

As defined in the Master Lease, as additional rent, Sublessee shall pay to Sublessor all real estate taxes, special assessments and other governmental charges that at any time during, or with respect to the Term hereof may be assessed or imposed on or with respect to, or become a lien upon, the Premises or any part thereof or that may be assessed or imposed on or with respect to any occupancy, use, or possession of, or activity conducted on, the Premises or any part thereof (collectively, "Impositions") as defined in the Master Lease. Sublessee shall pay the Impositions within Thirty (30) days after being billed for the same by Sublessor. If requested by Sublessee in writing within Thirty (30) days of receipt of a bill for such Impositions, Sublessor shall furnish Sublessee with such evidence as is reasonably available to Sublessor with respect to the amount of any Impositions. Sublessee may not withhold payment of such bill pending receipt and/or review of such evidence.

5.4 UTILITIES

Sublessee shall pay for all gas, electricity, heat, cooling, energy, telephone, janitorial service, water, waste disposal, refuse collection and other utility-type services furnished to Sublessee or the Premises, together with all related

installation or connection charges or deposits. Sublessor shall not be liable in damages, consequential or otherwise, nor shall there be any rent reduction, rent abatement or right on the part of Sublessee to terminate this Sublease, arising out of any interruption whatsoever in utility services which is due to insurrection, war, rioting, earthquakes, fire, accident, strike, governmental authority, acts of public enemy, acts of God or other causes beyond the reasonable control of Sublessor, or any temporary interruption in such services which is necessary to the making of alterations, repairs, or improvements to the Premises or the Building or any part thereof so long as the need for said repairs or improvements is not the result of Sublessor's negligence. Sublessor and Sublessee agree to cooperate with one another to transfer all utility accounts to Sublessee's account effective June 24, 1996.

5.5 ANNUAL BASE NNN RENTAL CPI INCREASE:

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The amount of Base NNN Rental payable by Sublessee under this Sublease shall be adjusted and increased as of the first day of the thirteenth (13/th/) Sublease month and on the first day every thirteenth (13/th/) Sublease month thereafter (the "Adjustment Dates") on the basis of increases in the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Items, All Urban Consumers for the San Francisco-Oakland-San Jose Region (1982-1984 = 100), (the "Index"). The Index for the month in which the thirtieth (30/th/) day preceding each Adjustment Date falls shall be deemed the "Adjustment Index". The Adjustment Index for determining an adjustment to the Base NNN Rental for a specific Adjustment Date shall be deemed the Index on the next following Adjustment Date. At the Adjustment Date, the new Base NNN Rental shall be determined by multiplying the then current Base NNN Rental by the percentage increase of the Adjustment Index over the Index; provided, however, that in no event shall the Base NNN Rental as so adjusted be less than 103% nor more than 108% of the Base NNN Rental in effect for the month immediately prior to such Adjustment Date. When the new Base NNN Rental is determined, Sublessor shall give Sublessee written notice of same. If Sublessor fails to give timely notice of the new Base NNN Rental, the Adjustment shall be retroactive to the Adjustment Date and Sublessee shall pay the arrears within fifteen (15) days after being billed therefor. If at any Adjustment Date, the Index is no longer published as described in this section, Sublessor, after consultation with Sublessee, shall substitute the official index published by the United States Department of Labor, Bureau of Labor Statistics or successors or similar government agency as may then be in existence which is most nearly equivalent thereto.

6.1 SECURITY DEPOSIT

The amount of \$29,967.82 shall be paid upon execution of this Sublease as a non-interest bearing security for performance under this Sublease. If Sublessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of the lease, Sublessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default for the payment of any other sum to which Sublessor may become obligated by reason of Sublessee's default, or to compensate Sublessor for any loss or damage which Sublessor may suffer thereby. If Sublessor so uses or applies all or any portion of said deposit, Sublessee shall within ten (10) days after written demand therefor, deposit cash with Sublessor in an amount sufficient to restore said deposit to the full amount required under this Sublease. In any event, the full amount of the security deposit shall be retained by Sublessor for the full Term hereof and within thirty (30) days following Sublessee's vacation of the Premises and Sublessor's inspection thereof, said deposit shall be returned to Sublessee, less any amounts due to compensate Sublessor for damage or defaults of Sublessee.

6.2 LETTER OF CREDIT

Sublessee, at Sublessee's sole cost and expense, shall provide a letter of credit in the amount of \$60,000.00 for the first two full years of the Sublease. In the event Sublessee defaults, or has defaulted on any monetary obligation under this Sublease (Monetary Default) in the first two (2) years of the Term hereof, Sublessee shall maintain a letter of credit in the amount of \$60,000.00 for a period extending two full years from the last date upon which Sublessee Monetary Default has occurred. The letter of credit shall be in the form of an irrevocable, unconditional, and clean letter of credit, payable at sight and upon demand, in form and substance acceptable to Sublessor in its sole and absolute discretion, from Citibank, N.A., Bank of America, N.A. or Wells Fargo Bank, N.A. or another

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national bank acceptable to Sublessor with offices in San Francisco or Marin, County, California that will accept and pay on any draw on said letter of credit ("Letter of Credit"). The Letter of Credit shall designate Sublessor as beneficiary and shall be transferable by beneficiary to any transferee, successor, and assign (including any lender of Sublessor) at no cost or expense to beneficiary. The letter of credit shall be for a minimum period of two years. Sublessor shall have the right to draw (in whole or in part) on the Letter of

Credit any time it would otherwise have the right to apply all or any portion of the Security Deposit under the terms of the Sublease. However, the Letter of Credit shall provide that it may be drawn by Sublessor (or assignee) upon presentation by Sublessor to the issuing bank (at its offices in San Francisco or Marin, County, California) of a sight draft(s), together with a statement from Sublessor that the amount requested by Sublessor is due and owing to Sublessor and shall be payable by the bank without inquiry or any other documentation or further action required of the bank, Sublessor, or Sublessee. All costs and expenses to obtain the Letter of Credit and all renewals shall be borne by Sublessee. Notwithstanding the foregoing, in the event Sublessee has not been in default hereunder during the first two (2) full years of the Sublease Term, Sublessee's obligation to maintain a Letter of Credit for the benefit of Sublessor shall terminate.

7.1 TERM

A. The term of this Sublease shall extend for five years and commence on July 1, 1996 or upon delivery of the premises and shall terminate sixty months thereafter (Term) subject to Sublessor's option to terminate the Master Lease which is ongoing commencing November 3, 1998. Sublessor shall provide Sublessee with 150 days prior written notice of Sublessor's exercise of its option to terminate the Master Lease which will terminate this Sublease Agreement. In the event that Sublessor is unable to deliver possession of the Premises at the commencement of the Term, Sublessor shall not be liable for any damage caused thereby. In the event Sublessor is unable to deliver possession of the Premises on July 1, 1996, the term shall be correspondingly deferred one day for each day of delay. Sublessor and Sublessee agree to execute an amendment to this Sublease establishing the commencement date and the expiration date. In the event Sublessor is unable to deliver the Premises by July 15, 1996, Sublessee, with prior written notice, shall have the right to terminate this Sublease with all deposits returned to Sublessee without offset or deduction. In the event Sublessor fails to deliver possession of the Premises on or before July 15, 1996, and Sublessee has not exercised its option to terminate this agreement, Sublessee shall be entitled to one (1) day of free Base NNN Rent for each day of delay of delivery of possession of the Premises beyond July 15, 1996.

7.2 EARLY OCCUPANCY

Sublessee shall have access to the Premises commencing June 24, 1996 for the purpose of Sublessee's fixturing or Sublessee's work. Sublessee may thereupon enter the subleased Premises for such purposes at Sublessee's own risk, to make such improvements as Sublessee shall have the right to make, to install fixtures, supplies, inventory and other property. Sublessee agrees that Sublessee shall not in any way interfere with the progress of Sublessor's alterations by such entry. During the course of any Early Occupancy, whether such Early Occupancy arises because of an obligation of construction by Sublessor, or otherwise, all terms and conditions of this Sublease, except for Base NNN Rental and commencement, shall apply, particularly with respect to indemnity by Sublessee of Sublessor hereunder.

7.3 TERM EXTENSION

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Sublessee may elect to extend the Term of this Sublease as follows:

- 1) Sublessee shall provide no less than one-hundred eighty days prior written notice nor more than two-hundred forty days prior written notice (the Extension Notice); and
- 2) The term of such extension shall be through October 3, 2003 (the Extension Period); and
- 3) The Rental for such extension period shall be a continuance of the terms of the initial Sublease Term and Base NNN Rental shall be adjusted in accordance with article 5.5 hereof.

8. USE

The Premises shall be used and occupied only as described in the Master Lease, and for no other use or purpose.

9. OPERATING EXPENSES

Sublessee shall be solely responsible for all expenses for the operation, maintenance and repair of the Premises and Building "O" (105 Digital Drive, Novato) which are incurred during the Term hereof and shall include and not be limited to: waste disposal, janitorial and cleaning services, HVAC and mechanical systems (electrical and plumbing) operation, maintenance and repair.

10. DEFAULT BY SUBLESSEE

The following shall be events of default by Sublessee under this Sublease:

(a) The failure by Sublessee to pay when due any installment of rent or other payment required pursuant to this Sublease;

(b) intentionally deleted;

(c) Sublessee shall fail to comply with any term, provision or covenant of this Sublease, other than the payment of rent, or other sums of money due hereunder, and the Sublessee has not diligently commenced to cure said failure within ten (10) days after written notice thereof to Sublessee;

(d) Sublessee shall file a petition or be adjudged a debtor or bankrupt or insolvent under the National Bankruptcy Code, as amended, or any similar law or statute of the United States or any state; or a receiver or trustee shall be appointed for all or substantially all of the assets of Sublessee; or Sublessee shall make a transfer in fraud of creditors or shall make an assignment for the benefit of creditors; or

(e) Sublessee shall permit to be done any act which results in a lien being filed against the Premises.

11. ENFORCEMENT OF RIGHTS AND REMEDIES.

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Upon the occurrence of any event of default set forth in this Sublease, Sublessor shall have the option to pursue any of the remedies set forth in the Master Lease against Sublessee as if Sublessor were the landlord named in such Lease and Sublessee were the tenant named in such Lease. A waiver by the Sublessor of Sublessee's breach of any one or more covenants or conditions contained herein shall not bar any of the Sublessor's rights or remedies for a subsequent breach of the same covenant or condition. Upon the occurrence of any default or other failure by the Lessor of the Master Lease to fulfill its obligations under the Master Lease during the term of the Sublease, Sublessor, shall, at Sublessee's request, take reasonable and appropriate actions to cause it's Lessor to remedy such default or failure to fulfill obligations and shall invoke such remedies and powers available to Sublessor as the Lessee under the Lease as Sublessee under this Sublease may reasonably request.

12. NOTICES

All notices or demands which may or are to be required or permitted to be given by either party on the other hereunder shall be in writing. All notices and demands between Sublessor and Sublessee shall be sent by United States mail, postage prepaid, addressed to the parties at the addresses designated below, or to such other places as may be designated from time to time by the parties.

Sublessee

Sublessor

IPC Interactive, Inc.
105 Digital Drive
Novato, CA 94949

Manager, Corporate Contracts
Harding Lawson Associates, Inc.
7655 Redwood Boulevard
P.O. Box 578
Novato, CA 94948

Sublessor shall promptly deliver to Sublessee a copy of any notice which Sublessor shall receive from Landlord under the Master Lease.

13. HOLD HARMLESS

Each party to this Sublease holds harmless, defends and indemnifies the other party and Landlord against all reasonable losses, claims, damages, liability, accountants', attorneys' and paralegals' fees and litigation (including appellate procedures) and other expenses related to, growing out of, arising from Sublessee's occupancy, use of the Premises and or either parties acts or omissions, or litigation arising out of any violation or alleged violation of any laws or regulations. In no event shall Sublessor be liable for any and all consequential damages of any nature to Sublessee.

14. ASSIGNMENT AND SUBLETTING

All of the provisions of Article 9 of the Master Lease are hereby incorporated into and made a part of the Sublease, except that Sublessee's exercise of its rights under said Articles shall be subject to the prior written consent of the Sublessor and Landlord pursuant to the Master Lease. Sublessor's consent to assignment or subletting shall not be unreasonably withheld.

15. BROKER PARTICIPATION

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The parties recognize Julien J. Studley, Inc. and Meridian Commercial, Inc. as the brokers who negotiated this Sublease and agree that Sublessor shall be solely responsible for the payment of brokerage commissions to said brokers, and that Sublessee shall have no responsibility therefor. As part of the consideration for the granting of this Sublease, Sublessor and Sublessee represent and warrant to each other, that, to their knowledge, no other broker,

agent or finder negotiated or was instrumental in negotiating or consummating this Sublease on behalf of Sublessor or Sublessee, and that Sublessor and Sublessee know of no other real estate broker, agent or finder who is or might be entitled to a commission or compensation in connection with this Sublease. Sublessee shall hold Sublessor harmless from all damages and indemnify Sublessor for all damages paid or incurred by Sublessor resulting from any claims that may be asserted by any broker, agent or finder based on any statements or representations by Sublessee. Sublessor shall hold Sublessee harmless from all damages and indemnify Sublessee for all said damages paid or incurred by Sublessee resulting from all claims that may be asserted against Sublessee by any broker, agent or finder based on any statements or representations by Sublessor.

16. ATTORNEY'S FEES

If Sublessor, Sublessee, or Broker shall commence any action or proceeding arising out of or in connection with this Sublease, the prevailing party (as determined by the court) shall be entitled to recover from the non-prevailing party its costs of suit and actual attorney's fees reasonably incurred, including without limitation all costs of appeal and collection of any judgment.

17. ASSIGNMENT BY SUBLESSOR, ATTORMENT

In the event of any transfer, assignment, buyout or other conveyance or transfer of Sublessor's interest in the Master Lease, Sublessor shall be automatically freed and relieved from the performance of any covenants or obligations on the part of Sublessor contained in this Sublease thereafter to be performed. Without further agreement the transferee of such interest shall be deemed to have assumed and agreed to perform any and all obligations of Sublessor hereunder, during its ownership of said interest.

Sublessor may transfer, assign, sell or otherwise convey its interest in and obligations under the Master Lease without the consent of Sublessee and such transfer or conveyance shall not be deemed a violation on Sublessor's part of any of the terms and conditions of this Sublease. Within ten (10) days following any written request which Sublessor may make from time to time, Sublessee shall execute and deliver to Sublessor a statement certifying: (i) the date of commencement of this Sublease; (ii) the fact that this Sublease is unmodified and in full force and effect (or, if there have been modifications hereto, that this Sublease is in full force and effect, and stating the date and nature of such modifications); (iii) the date to which the rent and other sums due under this Sublease have been paid; (iv) that there are no current defaults under the Sublease by either Sublessor or Sublessee, except as specified in Sublessee's statement; (v) if the statement is in connection with a transfer, assignment or other conveyance of Sublessor's interest in the Master Lease, that Sublessor is freed and relieved from all liability as respects the performance of covenants and obligations on the part of Sublessor under the Sublease; and (vi) such other matters reasonably requested by Sublessor. Sublessor and Sublessee intent that any statement delivered pursuant to this paragraph may be relied upon by any mortgagee, beneficiary, assignee, purchaser or other transferee of Sublessor's interest in the Master Lease.

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18. ALTERATIONS AND MODIFICATIONS TO THE PREMISES

During the Term, Sublessee may make improvements, alterations or additions to the Premises, provided such work is done in a workmanlike manner with materials and finishes comparable to those then existing in the Premises, and provided that structural improvements, alterations and additions shall be made only with the prior written consent of Sublessor and Landlord. If Sublessee makes any improvements, alterations or additions, Sublessee agrees to:

(i) comply with all insurance requirements and all laws, ordinances, rules and regulations of all governmental authorities, provided that Sublessor shall cooperate with Sublessee in securing any necessary permits, the cost for such permits to be borne by Sublessee;

(ii) discharge by payment, bond or otherwise, any mechanics' lien filed against the Property (of which Sublessee has written notice) for work, labor, services or materials performed at or furnished to the Premises on behalf of Sublessee; and

(iii) upon reasonable request from Sublessor and/or Landlord, (A) furnish Sublessor and/or Landlord with plans of such improvements, alterations or additions and (B) furnish Sublessor and Landlord with contractors' affidavits and lien waivers.

Upon the expiration or earlier termination of this Sublease, Sublessee shall surrender the Premises in substantially as good condition as when entered, except for loss or damages resulting from casualty, condemnation, acts of God, ordinary wear and tear and any improvements, alterations or additions made to the Premises. Notwithstanding the foregoing, Sublessee shall have the obligation to remove any improvements, alterations or additions made to the Premises on Sublessee's behalf, and Sublessee shall repair any damage caused by such removal

in the event Master Lessor has not agreed in writing to allow said improvements, alterations or additions made to the Premises to remain without the obligation of the Sublessee to comply with this paragraph.

19. PARKING

Sublessee shall be entitled to the exclusive use of a total of ninety-five (95) parking spaces at the building which shall be on an assigned and reserved basis subject to mutual approval of the exact location of the spaces. Ten of the total of ninety-five parking spaces shall be reserved in front of the Premises in a mutually agreed location.

20. SIGNAGE

Subject to Sublessor's written approval, which shall not be unreasonably withheld, and also subject to Sublessor's signage rights, transferability of said rights as defined in article 35 (I) of the Master Lease, and the written approval by the Lessor, Sublessee shall be allowed to install, or have installed at Sublessee's sole cost and expense signage in accordance with the building master-signage program.

21. HOLDING OVER

Should Sublessee hold over the term hereby created without the consent of Sublessor, Sublessee shall become a Subtenant from month to month at 150% of the scheduled monthly rental payable hereunder,

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and otherwise upon the covenants and conditions contained in this Lease, and shall continue to be such tenant until thirty (30) days after either party hereto serves upon the other written notice of intention to terminate such monthly tenancy. Should such termination occur on any day other than the last day of any rental month, any unearned prepaid rental shall, within thirty (30) days following surrender of the premises by Lessee, be refunded.

22. FINANCIAL INFORMATION

No more than once each Sublease year, Sublessee agrees to provide audited financial information upon written request by Sublessor Sublessee agrees said financial information shall be in accordance with GAAP. Sublessor acknowledges that Sublessor shall rely on such statements.

DATED: 6/20/96, 1996

SUBLESSOR:

SUBLESSEE:

HARDING LAWSON ASSOCIATES, INC.

IPC INTERACTIVE INC.

By /s/ Greg Thurox

By /s/ Mary E. McGushin

7655 Redwood Boulevard
Novato, CA 94948
(415) 892-0821

The above Sublease is hereby approved by Master Lessor

MASTER LESSOR

By: /s/ Solomon S. Condiotti

Date: 6/24/96

SILICON VALLEY BANK
 \$6,000,000 REVOLVING LINE OF CREDIT
 \$3,000,000 EQUIPMENT LINE OF CREDIT
 WITH
 SEACHANGE INTERNATIONAL, INC.
 AS OF
 NOVEMBER 10, 1998

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LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT is entered into as of November 10, 1998, by and between SILICON VALLEY BANK, a California-chartered bank, with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at Wellesley Office Park, 40 William Street, Suite 350, Wellesley, Massachusetts 02481, doing business under the name "Silicon Valley East" ("Bank") and SEACHANGE INTERNATIONAL, INC., a Delaware corporation with its principal place of business at 124 Acton Street, Maynard, Massachusetts 01754 ("Borrower").

RECITALS

Borrower wishes to obtain credit from time to time from Bank, and Bank

desires to extend credit to Borrower. This Agreement sets forth the terms on which Bank will advance credit to Borrower, and Borrower will repay the amounts owing to Bank.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION

1.1 Definitions. As used in this Agreement, the following terms shall

have the following definitions:

"Accounts" means all presently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Advance" or "Advances" means a loan advance under the Committed Revolving Line.

"Affiliate" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, such Persons, managers and members.

"Agreement" means this Loan and Security Agreement.

"Approved Foreign Accounts" means Accounts with respect to which the account debtor does not have its principal place of business in the United States, which the Bank approves on a case by case basis.

"Bank Expenses" means all reasonable costs or expenses (including reasonable attorneys' fees and expenses) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; and Bank's reasonable attorneys' fees and expenses incurred in amending, enforcing or defending the Loan Documents, (including fees and expenses of appeal or review, or those incurred in any Insolvency Proceeding) whether or not suit is brought.

"Borrower's Books" means all of Borrower's books and records including, without limitation: ledgers; records concerning Borrower's assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

"Borrowing Base" means an amount equal to: (i) eighty percent (80.0%) of Eligible Accounts, PLUS (ii) ninety percent (90%) of Eligible Foreign

Accounts, PLUS (iii) a percentage determined by the Bank, on a case by case

basis, of Approved Foreign Accounts, up to a maximum amount equal to thirty-five percent (35.0%) of the total aggregate Borrowing Base, each as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower, MINUS (iv) at any time prior to the Debt

Service Coverage Event, the amounts outstanding under the Committed Equipment Line.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which banks in the State of California are authorized or required to close.

"Closing Date" means the date of this Agreement.

"Code" means the California Uniform Commercial Code.

"Collateral" means the property described on Exhibit A attached

hereto.

"Committed Revolving Line" means a credit extension of up to Six Million Dollars (\$6,000,000.00).

"Committed Equipment Line" means a credit extension of up to Three Million Dollars (\$3,000,000.00).

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed, co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable; (ii) any obligations with respect to undrawn letters of credit issued for the account of that Person; and (iii) all

obligations arising under any interest rate, currency or commodity swap agreement, interest rate cap agreement, interest rate collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term "Contingent Obligation" shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Copyrights" means any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held.

"Credit Extension" means each Advance, Equipment Advance or any other extension of credit by Bank for the benefit of Borrower hereunder.

"Current Liabilities" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current liabilities on the consolidated balance sheet of Borrower and its Subsidiaries,

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as at such date, plus, to the extent not already included therein, all outstanding Credit Extensions made under this Agreement, including all Indebtedness that is payable upon demand or within one year from the date of determination thereof unless such Indebtedness is renewable or extendable at the option of Borrower or any Subsidiary to a date more than one year from the date of determination, but excluding Subordinated Debt.

"Debt Service Coverage Event" means the first day of the calendar month immediately following the achievement by the Borrower of a Debt Service Coverage Ratio of at least 1.5 to 1.0 for the two prior consecutive fiscal quarters of the Borrower, as confirmed by Bank with reference to the most recent Compliance Certificate delivered by Borrower.

"Debt Service Coverage Ratio" means the Borrower's earnings after tax plus interest and non-cash expenses (depreciation and amortization) divided by the current portion of its long term debt, plus interest.

"Eligible Accounts" means those Accounts that arise in the ordinary course of Borrower's business that comply with all of Borrower's representations and warranties to Bank set forth in Section 5.4. Unless otherwise agreed to by Bank in writing, Eligible Accounts shall not include the following:

(a) Accounts that the account debtor has failed to pay within ninety (90) days of invoice date;

(b) Accounts with respect to an account debtor, fifty percent (50%) of whose Accounts the account debtor has failed to pay within ninety (90) days of invoice date;

(c) Accounts with respect to an account debtor, including Affiliates, whose total obligations to Borrower exceed twenty-five percent (25%) of all Accounts, to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank;

(d) Accounts with respect to which the account debtor does not have its principal place of business in the United States, except for account debtors having their principal place of business in Canada;

(e) Accounts with respect to which the account debtor is a federal, state, or local governmental entity or any department, agency, or instrumentality thereof, except for those Accounts of the United States or any department, agency or instrumentality thereof as to which the payee has assigned its rights to payment thereof to Bank and the assignment has been acknowledged, pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. 3727);

(f) Accounts with respect to which Borrower is liable to the account debtor, but only to the extent of any amounts owing to the account debtor (sometimes referred to as "contra" accounts, e.g. accounts payable, customer deposits, credit accounts etc.);

(g) Accounts generated by demonstration or promotional equipment, or with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, or other terms by reason of which the payment by the account debtor may be conditional;

(h) Accounts with respect to which the account debtor is an Affiliate, officer, employee, or agent of Borrower;

(i) Accounts with respect to which the account debtor disputes liability or makes any claim with respect thereto as to which Bank believes, in its sole discretion, that there may be a basis

for dispute (but only to the extent of the amount subject to such dispute or claim), or is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business; and

(j) Accounts the collection of which Bank reasonably determines in accordance with its standard commercial practices to be doubtful.

"Eligible Foreign Accounts" means Accounts with respect to which the account debtor does not have its principal place of business in the United States or Canada and that are: (1) covered by credit insurance in form and amount, and by an insurer satisfactory to Bank less the amount of any deductible(s) which may be or become owing thereon; or (2) supported by one or more letters of credit in an amount and of a tenor, and issued by a financial institution, acceptable to Bank.

"Equipment" means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"Equipment Advance" has the meaning set forth in Section 2.1.2.

"Equipment Availability End Date No. 1" has the meaning set forth in Section 2.1.2.

"Equipment Availability End Date No. 2" has the meaning set forth in Section 2.1.2.

"Equipment Maturity Date No. 1" means that date which is the thirtieth (30th) Payment Date after Equipment Availability End Date No. 1.

"Equipment Maturity Date No. 2" means June 5, 2002.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

"GAAP" means generally accepted accounting principles as in effect in the United States from time to time.

"Guarantors" means SeaChange Systems, Inc., and GuestServe Networks, Inc..

"Indebtedness" means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations and (d) all Contingent Obligations.

"Insolvency Proceeding" means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"Insolvent" means: (a) the Borrower is not able to pay its debts (including trade debts) as they mature; or (b) the Borrower's liabilities are greater than its assets (as determined in accordance with GAAP).

"Intellectual Property Collateral" means

(a) Copyrights, Trademarks, Patents, and Mask Works;

(b) Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;

(c) Any and all design rights which may be available to Borrower now or hereafter existing, created, acquired or held;

(d) Any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(e) All licenses or other rights to use any of the Copyrights, Patents, Trademarks, or Mask Works, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(f) All amendments, renewals and extensions of any of the Copyrights, Trademarks, Patents, or Mask Works; and

(g) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

"Inventory" means all present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or at any time hereafter owned by or in the custody or possession, actual or constructive, of Borrower, including such inventory as is temporarily out of its custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above.

"Investment" means any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Lien" means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Loan Documents" means, collectively, this Agreement, any note or notes executed by Borrower, and any other present or future agreement entered into between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated from time to time.

"Mask Works" means all mask work or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired;

"Material Adverse Effect" means a material adverse effect on (i) the business operations or condition (financial or otherwise) of Borrower and its Subsidiaries taken as a whole or (ii) the ability of Borrower to repay the Obligations or otherwise perform its material obligations as the same shall become due under the Loan Documents.

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"Maturity Date" means, as applicable, (i) the Revolving Maturity Date with respect to Advances, and (ii) the Equipment Maturity Date No. 1 and the Equipment Maturity Date No. 2, as applicable, with respect to Equipment Advances.

"Negotiable Collateral" means all of Borrower's present and future letters of credit of which it is a beneficiary, notes, drafts, instruments, securities, documents of title, and chattel paper.

"Obligations" means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise.

"Overadvance" is defined in Section 2.2.

"Patents" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"Payment Date" means the fifth (5th) calendar day of each month commencing on the first such date after the Closing Date and ending on the Maturity Date.

"Permitted Indebtedness" means:

(a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and disclosed in the Schedule;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors incurred in the ordinary course of business; and

(e) Indebtedness secured by Permitted Liens.

"Permitted Investment" means:

(a) Investments existing on the Closing Date disclosed in the Schedule; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having the highest rating obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by

Bank.

"Permitted Liens" means the following:

(a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;

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(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and as to which adequate reserves are maintained on Borrower's Books in accordance with GAAP, provided the

same have no priority over any of Bank's security interests;

(c) Liens (i) upon or in any Equipment acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition of such Equipment, or (ii) existing on such equipment at the time of its acquisition, provided that the Lien is

confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment;

(d) Leases or subleases and licenses or sublicenses granted to others in the ordinary course of Borrower's business not interfering in any material respect with the business of Borrower and its Subsidiaries taken as a whole, and any interest or title of a lessor, licensor or under any lease or license provided that such leases, subleases, licenses and sublicenses do not prohibit the grant of the security interest granted hereunder; and

(e) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (c) above, provided that any extension, renewal

or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the variable rate of interest, per annum, most recently announced by Bank, as its "prime rate," whether or not such announced rate is the lowest rate available from Bank.

"Quick Assets" means, as of any applicable date, the consolidated cash, cash equivalents, accounts receivable and investments with maturities of fewer than 90 days of Borrower determined in accordance with GAAP.

"Responsible Officer" means each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"Revolving Maturity Date" means one day prior to the date which is one (1) year from the Closing Date.

"Schedule" means the schedule of exceptions attached hereto, if any.

"Subordinated Debt" means any debt incurred by Borrower that is subordinated to the debt owing by Borrower to Bank on terms acceptable to Bank (and identified as being such by Borrower and Bank).

"Subsidiary" means with respect to any Person, corporation, partnership, company association, joint venture, or any other business entity of which more than fifty percent (50%) of the voting stock or other equity interests is owned or controlled, directly or indirectly, by such Person or one or more Affiliates of such Person.

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"Tangible Net Worth" means as of any applicable date, the consolidated total assets of Borrower and its Subsidiaries minus, without

duplication, (i) the sum of any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, patents, trade and service marks and names, copyrights and research and development expenses except prepaid expenses, and (c) all reserves not already deducted from assets, and (ii) Total Liabilities, plus (iii) Subordinated Debt.

"Total Liabilities" means as of any applicable date, any date as of which the amount thereof shall be determined, all obligations that should, in accordance with GAAP be classified as liabilities on the consolidated balance sheet of Borrower, including in any event all Indebtedness, but specifically excluding Subordinated Debt.

"Trademarks" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same

and like protections, and the entire goodwill of the business of Assignor connected with and symbolized by such trademarks.

1.2 Accounting and Other Terms. All accounting terms not specifically

defined herein shall be construed in accordance with GAAP and all calculations and determinations made hereunder shall be made in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. The terms "including"/ "includes" shall always be read as meaning "including (or includes) without limitation", when used herein or in any other Loan Document.

2. LOAN AND TERMS OF PAYMENT

2.1 Credit Extensions. Borrower promises to pay to the order of Bank, in

lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrower hereunder. Borrower shall also pay interest on the unpaid principal amount of such Credit Extensions at rates in accordance with the terms hereof.

2.1.1 (a) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make Advances to Borrower in an aggregate outstanding amount not to exceed the Committed Revolving Line or the Borrowing Base, whichever is less. Subject to the terms and conditions of this Agreement, amounts borrowed pursuant to this Section 2.1 may be repaid and reborrowed at any time during the term of this Agreement.

(b) Whenever Borrower desires an Advance, Borrower will notify Bank by facsimile transmission or telephone no later than 3:00 p.m. Eastern time, on the Business Day that the Advance is to be made. Each such notification shall be promptly confirmed by a Payment/Advance Form in substantially the form of Exhibit B hereto. Bank is authorized to make Advances under this Agreement,

based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank shall be entitled to rely on any telephonic notice given by a person who Bank reasonably believes to be a Responsible Officer or a designee thereof, and Borrower shall indemnify and hold Bank harmless for any damages or loss suffered by Bank as a result of such reliance. Bank will credit the amount of Advances made under this Section 2.1 to Borrower's deposit account.

(c) The Committed Revolving Line shall terminate on the Revolving Maturity Date, at which time all Advances under this Section 2.1 and other amounts due under this Agreement (except as otherwise expressly specified herein) shall be immediately due and payable.

2.1.2 Equipment Advances.

(a) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make advances (each an "Equipment Advance" and collectively, the "Equipment Advances") to Borrower: (i) in one advance to take place at any time

after the Closing Date through thirty (30) days after the Closing Date (the "Equipment

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"Equipment Availability End Date No. 1") in the aggregate outstanding amount not to exceed Two Million Dollars (\$2,000,000.00) (the "Equipment Line No. 1"), and (ii) at any time and from time to time from the Equipment Availability End Date No. 1 through June 30, 1999 (the "Equipment Availability End Date No. 2") in the aggregate outstanding amount not to exceed Three Million Dollars (\$3,000,000.00) LESS the cumulative Equipment Advances made under Equipment Line

No. 1 (the "Equipment Line No. 2"). To evidence the Equipment Advances, Borrower shall deliver to Bank, at the time of each Equipment Advance request, an invoice for the equipment to be purchased or refinanced. Equipment Advance requests under Equipment Line No. 1 shall only be permitted for Equipment purchased between July 2, 1997 and June 30, 1998. Equipment Advance requests under Equipment Line No. 2 shall only be permitted for Equipment purchased between July 1, 1998 and June 30, 1999. The Equipment Advances shall be used only to purchase or refinance Equipment and shall not exceed: (i) eighty percent (80.0%) of the invoice amount on such equipment, including software, approved from time to time by Bank under Equipment Line No. 1, and (ii) one hundred percent (100%) of the invoice amount on such equipment, including software, approved from time to time by Bank in accordance with its standard commercial practices under Equipment Line No. 2, each of (i) and (ii) excluding taxes, shipping, warranty charges, freight discounts, and installation expense.

(b) Interest shall accrue from the date of each Equipment Advance at the per annum rate of one percent (1.0%) above the Prime Rate and shall be payable monthly on the Payment Date of each month. Any Equipment Advances made pursuant to the Equipment Line No. 1 that are outstanding on the Equipment Availability End Date No. 1 will be payable in Thirty (30) equal monthly installments of principal, plus all accrued interest, beginning on the Payment Date of the month following Equipment Availability End Date No. 1 and ending on the Equipment Maturity Date No. 1. Any Equipment Advances made pursuant to the Equipment Line No. 2 that are outstanding on the Equipment Availability End Date No. 2 will be payable in Thirty-Six (36) equal monthly installments of principal, plus all accrued interest, beginning on the Payment Date of the month

following Equipment Availability End Date No. 2 and ending on the Equipment Maturity Date No. 2. Equipment Advances, once repaid, may not be reborrowed.

(c) When Borrower desires to obtain an Equipment Advance, Borrower shall notify Bank (which notice shall be irrevocable) by facsimile transmission to be received no later than 3:00 p.m. Eastern time one (1) Business Day before the day on which the Equipment Advance is to be made. Such notice shall be substantially in the form of Exhibit B. The notice shall be signed by a Responsible Officer or its designee and include a copy of the invoice for the Equipment to be financed.

2.2 Overadvances. If, at any time or for any reason, the amount of

Obligations owed by Borrower to Bank pursuant to Section 2.1.1 plus, prior to the Debt Service Coverage Event, Section 2.1.2, is greater than the Borrowing Base, Borrower shall immediately pay to Bank, in cash, the amount of such excess (the "Overadvance").

2.3 Interest Rates, Payments, and Calculations.

(a) Interest Rate. Except as set forth in Section 2.3(b), any

Advances under the Committed Revolving Line shall bear interest, on the average daily balance thereof, at a per annum rate equal to: (i) One Half of One percent (0.5%) above the Prime Rate prior to the Debt Service Coverage Event, and (ii) the Prime Rate beginning on the date which is the Debt Service Coverage Event.

(b) Default Rate. All Obligations shall bear interest, from and after

the occurrence of an Event of Default, at a rate equal to five (5) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

(c) Payments. Interest hereunder shall be due and payable on each

Payment Date. Borrower hereby authorizes Bank to debit any accounts with Bank, including, without limitation, Account Number _____ for payments of principal and interest due on the Obligations and any other amounts owing by Borrower to Bank. Bank will notify Borrower of all debits which Bank has made against Borrower's accounts.

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Any such debits against Borrower's accounts in no way shall be deemed a set-off. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder. All amounts borrowed hereunder together with all interest, fees or other amounts due by Borrower to Bank may be repaid or prepaid to Bank in whole or in part prior to the Maturity Date without the imposition of any fee, penalty or cost to Borrower.

(d) Computation. In the event the Prime Rate is changed from time to

time hereafter, the applicable rate of interest hereunder shall be increased or decreased effective as of 12:01 a.m. on the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate. All interest chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

2.4 Crediting Payments. Prior to the occurrence of an Event of Default,

Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence of an Event of Default, the receipt by Bank of any wire transfer of funds, check, or other item of payment, whether directed to Borrower's deposit account with Bank or to the Obligations or otherwise, shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment in respect of the Obligations unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Bank after 12:00 noon Eastern time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.5 Fees. Borrower shall pay to Bank the following:

(a) Committed Revolving Line Facility Fee. A Committed Revolving Line

Facility Fee equal to Fifteen Thousand Dollars (\$15,000.00), which fee shall be due on the Closing Date and shall be fully earned and non-refundable;

(b) Committed Equipment Line Facility Fee. A Committed Equipment Line

Facility Fee equal to: (i) Five Thousand Dollars (\$5,000.00), which fee shall be due on the Closing Date and shall be fully earned and non-refundable, PLUS (ii) Two Thousand Five Hundred Dollars (\$2,500.00), which

fee shall be due upon the initial Equipment Advance under the Equipment Line No. 2 and shall be fully earned at such time and non-refundable;

(c) Financial Examination and Appraisal Fees. Bank's customary fees

and out-of-pocket expenses for Bank's semi-annual audits of Borrower's Accounts, appraisals of Collateral and financial analysis and examination of Borrower performed by Bank or its agents;

(d) Bank Expenses. Upon demand from Bank, including, without

limitation, upon the date hereof, all Bank Expenses incurred through the date hereof, including reasonable attorneys' fees and expenses, and after the date hereof, all Bank Expenses, including reasonable attorneys' fees and expenses, as and when they become due.

2.6 Additional Costs. In case any law, regulation, treaty or official

directive or the interpretation or application thereof by any court or any governmental authority charged with the administration thereof or the compliance with any guideline or request of any central bank or other governmental authority (whether or not having the force of law):

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(a) subjects Bank to any tax with respect to payments of principal or interest or any other amounts payable hereunder by Borrower or otherwise with respect to the transactions contemplated hereby (except for taxes on the overall net income of Bank imposed by the United States of America or any political subdivision thereof);

(b) imposes, modifies or deems applicable any deposit insurance, reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, or loans by, Bank; or

(c) imposes upon Bank any other condition with respect to its performance under this Agreement,

and the result of any of the foregoing is to increase the cost to Bank, reduce the income receivable by Bank or impose any expense upon Bank with respect to any loans, Bank shall notify Borrower thereof. Borrower agrees to pay to Bank the amount of such increase in cost, reduction in income or additional expense as and when such cost, reduction or expense is incurred or determined, upon presentation by Bank of a statement of the amount and setting forth Bank's calculation thereof, all in reasonable detail, which statement shall be deemed true and correct absent manifest error.

2.7 Term. Except as otherwise set forth herein, this Agreement shall

become effective on the Closing Date and, subject to Section 12.7, shall continue in full force and effect for a term ending on the Maturity Date. Notwithstanding the foregoing, Bank shall have the right to terminate its obligation to make Credit Extensions under this Agreement immediately and without notice upon the occurrence and during the continuance of an Event of Default. Notwithstanding termination of this Agreement, Bank's lien on the Collateral shall remain in effect for so long as any Obligations are outstanding.

3. CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Credit Extension. The obligation of

Bank to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Agreement;

(b) a certificate of the Secretary of Borrower with respect to articles, bylaws, incumbency and resolutions authorizing the execution and delivery of this Agreement;

(c) an Intellectual Property Security Agreement;

(d) an opinion of Borrower's counsel;

(e) guaranties by the Guarantors;

(f) financing statements (Forms UCC-1);

(g) insurance certificate;

(h) payment of the fees and Bank Expenses then due specified in Section 25 hereof;

(i) Certificates of Good Standing and Foreign Qualification; and

(j) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

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3.2 Conditions Precedent to all Credit Extensions. The obligation of Bank

to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

(a) timely receipt by Bank of the Payment/Advance Form as provided in Section 2.1; and

(b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Payment/Advance Form and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would result from such Credit Extension. The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2(b).

4. CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt payment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Except as set forth in the Schedule, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in Collateral acquired after the date hereof. Borrower acknowledges that Bank may place a "hold" on any Deposit Account pledged as Collateral to secure the Obligations. Notwithstanding termination of this Agreement, Bank's Lien on the Collateral shall remain in effect for so long as any Obligations are outstanding.

4.2 Delivery of Additional Documentation Required. Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue perfected Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

4.3 Right to Inspect. Bank (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours, to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 Due Organization and Qualification. Borrower and each Subsidiary is a corporation duly existing and in good standing under the laws of its state of incorporation and qualified and licensed to do business in, and is in good standing in, any state in which the conduct of its business or its ownership of property requires that it be so qualified.

5.2 Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Articles/Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound, which default could have a Material Adverse Effect.

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5.3 No Prior Encumbrances. Borrower has good and indefeasible title to the Collateral, free and clear of Liens, except for Permitted Liens.

5.4 Bona Fide Eligible Accounts. To the best of Borrower's knowledge, the Eligible Accounts are bona fide existing obligations. The service or property giving rise to such Eligible Accounts has been performed or delivered in all material respects to the account debtor or to the account debtor's agent for immediate shipment to the account debtor. Borrower has not received notice of actual or imminent Insolvency Proceeding of any account debtor whose accounts are included in any Borrowing Base Certificate as an Eligible Account.

5.5 Merchantable Inventory. All Inventory is in all material respects of good and marketable quality, free from all material defects.

5.6 Intellectual Property. Borrower is the sole owner of the Intellectual

Property Collateral, except for licenses granted by Borrower to its customers in the ordinary course of business. Each of the Patents is valid and enforceable, and no part of the Intellectual Property Collateral has been judged invalid or unenforceable, in whole or in part, and no claim known to Borrower has been made in writing that alleges that any part of the Intellectual Property Collateral violates the rights of any third party. Except for and upon the filing (i) with the United States Patent and Trademark Office with respect to the Patents and Trademarks and the Register of Copyrights with respect to the Copyrights and Mask Works, and (ii) with appropriate state authority, UCC-1 Financing Statements necessary to perfect the intellectual property security interests created hereunder, and except as has been already made or obtained, no authorization, approval or other action by, and no notice to or filing with, any United States governmental authority or United States regulatory body is required either (i) for the grant by Borrower of the intellectual property security interest granted hereby or for the execution, delivery or performance of Loan Documents by Borrower in the United States or (ii) for the perfection in the United States or the exercise by Bank of its rights and remedies under this Section 5.6.

5.7 Name; Location of Chief Executive Office. Except as disclosed in the

Schedule, Borrower has not done business and will not without at least thirty (30) days prior written notice to Bank do business under any name other than that specified on the signature page hereof. The chief executive office of Borrower is located at the address indicated in Section 10 hereof.

5.8 Litigation. Except as set forth in the Schedule, there are no actions

or proceedings pending, or, to Borrower's knowledge, threatened by or against Borrower or any Subsidiary before any court or administrative agency in which an adverse decision could have a Material Adverse Effect on Borrower or a material adverse effect on Bank's security interest in the Collateral.

5.9 No Material Adverse Change in Financial Statements. All consolidated

financial statements related to Borrower and any Subsidiary that have been delivered by Borrower to Bank fairly present in all material respects Borrower's consolidated financial condition as of the date thereof and Borrower's consolidated results of operations for the period then ended. There has not been a material adverse change in the consolidated financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank on or about the Closing Date.

5.10 Solvency. Borrower is able to pay its debts (including trade debts)

as they mature.

5.11 Regulatory Compliance. Borrower and each Subsidiary has met the

minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or

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carrying margin stock (within the meaning of Regulations G, T and U of the Board of Governors of the Federal Reserve System). Borrower has complied with all the provisions of the Federal Fair Labor Standards Act. Borrower has not violated in any material respect any statutes, laws, ordinances or rules applicable to it, violation of which could have a Material Adverse Effect.

5.12 Environmental Condition. To the best of Borrower's knowledge, none of

Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in accordance with applicable law; to the best of Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a hazardous waste or hazardous substance disposal site, or a candidate for closure pursuant to any environmental protection statute; no lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and neither Borrower nor any Subsidiary has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal, state or other governmental agency concerning any action or omission by Borrower or any Subsidiary resulting in the release, or other disposition of hazardous waste or hazardous substances into the environment.

5.13 Taxes. Borrower and each Subsidiary has filed or caused to be filed

all tax returns required to be filed on a timely basis, and has paid, or has made adequate provision for the payment of, all taxes reflected therein, except those being contested in good faith by proper proceedings with adequate reserves under GAAP.

5.14 Subsidiaries. Borrower does not own any stock, partnership interest

or other equity securities of any Person, except for Permitted Investments.

5.15 Government Consents. Borrower and each Subsidiary has obtained all

consents, approvals and authorizations of, made all declarations or filings
with, and given all notices to, all governmental authorities that are necessary
for the continued operation of Borrower's business as currently conducted where
the failure to take such actions would have a Material Adverse Effect.

5.16 Full Disclosure. No representation, warranty or other statement made

by Borrower in any certificate or written statement furnished to Bank contains
any untrue statement of a material fact or omits to state a material fact
necessary in order to make the statements contained in such certificates or
statements not misleading.

6. AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, until payment in full of all
outstanding Obligations, and for so long as Bank may have any commitment to make
a Credit Extension hereunder, Borrower shall do all of the following:

6.1 Good Standing. Borrower shall maintain its and each of its

Subsidiaries' corporate existence and good standing in its jurisdiction of
incorporation and maintain qualification in each jurisdiction in which the
failure to so qualify could have a Material Adverse Effect. Borrower shall
maintain, and shall cause each of its Subsidiaries to maintain, to the extent
consistent with prudent management of Borrower's business, in force all
licenses, approvals and agreements, the loss of which could have a Material
Adverse Effect.

6.2 Government Compliance. Borrower shall meet, and shall cause each

Subsidiary to meet, the minimum funding requirements of ERISA with respect to
any employee benefit plans subject to ERISA. Borrower shall comply, and shall
cause each Subsidiary to comply, with all statutes, laws, ordinances and
government rules and regulations to which it is subject, noncompliance with
which could have a Material Adverse Effect or a material adverse effect on the
Collateral or the priority of Bank's Lien on the Collateral.

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6.3 Financial Statements, Reports, Certificates. Borrower shall deliver

to Bank: (a) as soon as available, but in any event within forty-five (45) days
after the end of each quarter, a company prepared consolidated balance sheet and
income statement covering Borrower's consolidated operations during such period,
in a form and certified by an officer of Borrower reasonably acceptable to Bank;
(b) as soon as available, but in any event within thirty (30) days after the end
of each month, a company prepared consolidated revenue and expense statement
covering Borrower's consolidated operations during such period, in form
reasonably acceptable to Bank; (c) as soon as available, but in any event within
ninety (90) days after the end of Borrower's fiscal year, audited consolidated
financial statements of Borrower prepared in accordance with GAAP, consistently
applied, together with an unqualified opinion on such financial statements of an
independent certified public accounting firm reasonably acceptable to Bank; (d)
promptly upon receipt of notice thereof, a report of any legal actions pending
or threatened against Borrower or any Subsidiary that could result in damages or
costs to Borrower or any Subsidiary of Two Hundred Fifty Thousand Dollars
(\$250,000) or more; (e) prompt notice of any material change in the composition
of the Intellectual Property Collateral, including, but not limited to, any
subsequent ownership right of the Borrower in or to any Copyright, Patent or
Trademark not specified in any intellectual property security agreement between
Borrower and Bank or knowledge of an event other than information that is
publicly available and applicable generally to Borrower's business practices and
industry that materially adversely affects the value of the Intellectual
Property Collateral; and (f) such budgets, sales projections, operating plans or
other financial information as Bank may reasonably request from time to time.

Within twenty (20) days after the last day of each month, Borrower shall
deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer in
substantially the form of Exhibit C hereto, together with aged listings of

accounts receivable.

Within forty-five (45) days after the last day of each quarter, Borrower
shall deliver to Bank with the quarterly financial statements a Compliance
Certificate signed by a Responsible Officer in substantially the form of Exhibit

D hereto.

Bank shall have a right from time to time hereafter to audit Borrower's
Accounts at Borrower's expense, provided that such audits will be conducted no
more often than every six (6) months unless an Event of Default has occurred and
is continuing.

6.4 Inventory; Returns. Borrower shall keep all Inventory in good and

marketable condition, free from all material defects. Returns and allowances, if any, as between Borrower and its account debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this Agreement. Except with respect to the Borrower's ordinary course of business or standard warranty provisions, Borrower shall promptly notify Bank of all returns and recoveries and of all disputes and claims, where the return, recovery, dispute or claim involves more than Two Hundred Fifty Thousand Dollars (\$250,000).

6.5 Taxes. Borrower shall make, and shall cause each Subsidiary to make,

due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Bank, on demand, appropriate certificates attesting to the payment or deposit thereof; and Borrower will make, and will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Bank with proof satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment with respect to the foregoing if (i) the amount or validity of such payment is contested in good faith by appropriate proceedings, (ii) Borrower or Subsidiary, as the case may be, has established proper reserves (to the extent required by GAAP) and (iii) no lien other than a Permitted Lien results.

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6.6 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof. Borrower shall also maintain insurance relating to Borrower's ownership and use of the Collateral in amounts and of a type that are customary to businesses similar to Borrower's.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as are reasonably satisfactory to Bank. All such policies of property insurance shall contain a lender's loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee thereof and all liability insurance policies shall show the Bank as an additional insured, and shall specify that the insurer must give at least twenty (20) days notice to Bank before canceling its policy for any reason. At Bank's request, Borrower shall deliver to Bank certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy shall, at the option of Bank, be payable to Bank to be applied on account of the Obligations.

6.7 Principal Depository. Borrower shall maintain its principal

depository and operating accounts with Bank.

6.8 Quick Ratio. Borrower shall maintain, measured as of the last day of

each quarter, a ratio of Quick Assets to Current Liabilities of at least 0.75 to 1.0.

6.9 Tangible Net Worth. Borrower shall maintain, measured as of the last

day of each quarter, a Tangible Net Worth of not less than: (i) Twenty Nine Million Dollars (\$29,000,000.00) as of the last day of the quarter ending September 30, 1998; and (ii) Twenty-Eight Million Five Hundred Thousand Dollars (\$28,500,000.00) as of the last day of each calendar quarter thereafter.

6.10 Debt-Net Worth Ratio. Borrower shall maintain, measured as of the

last day of each quarter, a ratio of Total Liabilities to Tangible Net Worth of not greater than 0.80 to 1.0.

6.11 Profitability. Borrower shall maintain, measured as of the last day

of each quarter: (i) a maximum net loss of One Million Five Hundred Thousand Dollars (\$1,500,000.00) as of the last day of the third quarter of 1998; (ii) a maximum net loss of One Million Dollars (\$1,000,000.00) as of the last day of the fourth quarter of 1998; and (iii) a profit for each quarter commencing with the first quarter of Borrower's fiscal year 1999 with an allowance for one quarterly loss during such fiscal year of no greater than Two Hundred Fifty Thousand Dollars (\$250,000.00).

6.12 Debt Service Coverage Ratio. Beginning with the last day of the first

quarter following the Debt Service Coverage Event, Borrower shall maintain, measured as of the last day of each quarter, a Debt Service Coverage Ratio of 1.50 to 1.0.

6.13 Registration of Intellectual Property Rights.

(a) Borrower shall, in its discretion, and in accordance with normal

business practices, register or cause to be registered (to the extent not already registered) with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, those intellectual property rights listed on Exhibits A, B and C to the Intellectual Property Security Agreement delivered to Bank by Borrower in connection with this Agreement within thirty (30) days of the date of this Agreement. Borrower shall, in its discretion, and in accordance with normal business practices, register or cause to be registered with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, those additional intellectual property rights developed or acquired by Borrower from time to time in connection with any product prior to the sale or licensing of such product to any third party,

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including, without limitation, revisions or additions to the intellectual property rights listed on such Exhibits A, B and C. Notwithstanding the foregoing, upon the occurrence of an Event of Default, the Bank may require, in its discretion, that Borrower register or cause to be registered with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, any intellectual property rights developed or acquired by Borrower, including, without limitation, revisions or additions to the intellectual property rights listed on such Exhibits A, B and C.

(b) Borrower shall execute and deliver such additional instruments and documents from time to time as Bank shall reasonably request to perfect Bank's security interest in the Intellectual Property Collateral.

(c) Borrower shall (i) in its sole discretion, protect, defend and maintain the validity and enforceability of the Trademarks, Patents, Copyrights, and Mask Works, (ii) use its best efforts to detect infringements of the Trademarks, Patents, Copyrights and Mask Works and promptly advise Bank in writing of material infringements detected and (iii) not allow any Trademarks, Patents, Copyrights, or Mask Works to be abandoned, forfeited or dedicated to the public without written notice to Bank; provided, however, that the decision to abandon, forfeit or dedicate to the public such assets shall be solely within the discretion of the Borrower.

(d) Bank shall have the right, but not the obligation, to take, at Borrower's sole expense, any actions that Borrower is required under this Section 6.13 to take but which Borrower fails to take, after fifteen (15) days' notice to Borrower. Borrower shall reimburse and indemnify Bank for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this Section 6.13.

6.14 Further Assurances. At any time and from time to time Borrower shall -----
execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS

Borrower covenants and agrees that, so long as any Credit Extension hereunder shall be available and until payment in full of the outstanding Obligations or for so long as Bank may have any commitment to make any Advances, Borrower will not do any of the following:

7.1 Dispositions. Convey, sell, lease, transfer or otherwise dispose of -----
(collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than Transfers: (i) of inventory in the ordinary course of business, (ii) of licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; (iii) that constitute payment of normal and usual operating expenses in the ordinary course of business; or (iv) of worn-out or obsolete Equipment.

7.2 Changes in Business, Ownership, or Management, Business Locations. -----
Engage in any business, or permit any of its Subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and any business substantially similar or related thereto (or incidental thereto), or suffer a material change in Borrower's ownership or management. Borrower will not, without at least thirty (30) days prior written notification to Bank, relocate its chief executive office or add any new offices or business locations.

7.3 Mergers or Acquisitions. Prior to the Termination Date, merge or -----
consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person.

7.4 Indebtedness. Create, incur, assume or be or remain liable with -----
respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness.

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7.5 Encumbrances. Create, incur, assume or suffer to exist any Lien with

respect to any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens.

7.6 Distributions. Pay any dividends or make any other distribution or

payment on account of or in redemption, retirement or purchase of any capital stock.

7.7 Investments. Directly or indirectly acquire or own, or make any

Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments.

7.8 Transactions with Affiliates. Directly or indirectly enter into or

permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person.

7.9 Intellectual Property Agreements. Borrower shall not permit the

inclusion in any material contract to which it becomes a party of any provisions that could or might in any way prevent the creation of a security interest in Borrower's rights and interests in any property included within the definition of the Intellectual Property Collateral acquired under such contracts, except to the extent that such provisions are necessary in Borrower's exercise of its reasonable business judgement.

7.10 Subordinated Debt. Make any payment in respect of any Subordinated

Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt without Bank's prior written consent.

7.11 Inventory. Store more than ten percent of the book value of the

Inventory with a bailee, warehouseman, or similar party unless Bank has received a pledge of any warehouse receipt covering such Inventory. Except for Inventory sold in the ordinary course of business and except for such other locations as Bank may approve in writing, Borrower shall keep the Inventory only at the locations set forth in Section 10 hereof and such other locations of which Borrower gives Bank prior written notice and as to which Borrower signs and files a financing statement where needed to perfect Bank's security interest.

7.12 Compliance. Become an "investment company" or a company controlled by

an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Advance for such purpose; fail to meet the minimum funding requirements of ERISA; permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, which violation could have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Bank's Lien on the Collateral; or permit any of its Subsidiaries to do any of the foregoing.

8. EVENTS OF DEFAULT -----

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 Payment Default. If Borrower fails to pay, when due, any of the

Obligations.

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8.2 Covenant Default.

(a) If Borrower fails to perform any obligation under Sections 6.3, 6.6, 6.7, 6.8, 6.9, 6.10, 6.11, 6.12 or 6.13 or violates any of the covenants contained in Article 7 of this Agreement and such failure is not cured within thirty (30) days with respect to Borrower's obligations under Section 6.7 and 6.13; or

(b) If Borrower fails or neglects to perform, keep, or observe any other material term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Bank and as to any default under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure such default within twenty (20) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the twenty (20) day period or cannot after diligent attempts by Borrower be cured within such twenty (20) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed thirty (30) days) to attempt to cure

such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default (provided that no Advances will be required to be made during such cure period);

8.3 Material Adverse Change. If there (i) occurs a material adverse change

in the business, operations, or condition (financial or otherwise) of the Borrower, or (ii) is a material impairment of the prospect of repayment of any portion of the Obligations as the same shall become due or (iii) is a material impairment of the value or priority of Bank's security interests in the Collateral;

8.4 Attachment. If any material portion of Borrower's assets is attached,

seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within ten (10) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within ten (10) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Credit Extensions will be required to be made during such cure period);

8.5 Insolvency. If Borrower becomes Insolvent, or if an Insolvency

Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within 30 days (provided that no Advances will be made prior to the dismissal of such Insolvency Proceeding);

8.6 Other Agreements. If there is a default in any agreement to which

Borrower is a party with a third party or parties resulting in the acceleration of the maturity of any Indebtedness in an amount in excess of Two Hundred Fifty Thousand Dollars (\$250,000) or that could have a Material Adverse Effect;

8.7 Subordinated Debt. If Borrower makes any payment on account of

Subordinated Debt, except to the extent such payment is allowed under any subordination agreement entered into with Bank;

8.8 Judgments. If a judgment or judgments for the payment of money in an

amount, individually or in the aggregate, of at least Two Hundred Fifty Thousand Dollars (\$250,000) shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of thirty (30) days (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment); or

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8.9 Misrepresentations. If any material misrepresentation or material

misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate or writing delivered to Bank by Borrower or any Person acting on Borrower's behalf pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document.

9. BANK'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. Upon the occurrence and during the continuance

of an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, upon terms and in whatever order that Bank reasonably considers advisable;

(d) Without notice to or demand upon Borrower, make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may reasonably designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain

possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's premises, Borrower hereby grants Bank a license to enter such premises and to occupy the same, without charge;

(e) Without notice to Borrower set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right, solely for the purposes of exercising Bank's rights hereunder, to use, without charge, Borrower's labels, patents, copyrights, mask works, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(g) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply the proceeds thereof to the Obligations in whatever manner or order it deems appropriate;

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(h) Bank may credit bid and purchase at any public sale, or at any private sale as permitted by law; and

(i) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

(j) Bank shall have a non-exclusive, royalty-free license to use the Intellectual Property Collateral to the extent reasonably necessary to permit Bank to exercise its rights and remedies upon the occurrence of an Event of Default.

9.2 Power of Attorney. Effective only upon the occurrence and during the

continuation of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; and (e) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; (f) to modify, in its sole discretion, any intellectual property security agreement entered into between Borrower and Bank without first obtaining Borrower's approval of or signature to such modification by amending Exhibit A, Exhibit B, Exhibit C, and Exhibit D, thereof, as appropriate, to include reference to any right, title or interest in any Copyrights, Patents, Trademarks, Mask Works acquired by Borrower after the execution hereof or to delete any reference to any right, title or interest in any Copyrights, Patents, Trademarks, or Mask Works in which Borrower no longer has or claims any right, title or interest; (g) to file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of Borrower where permitted by law; and (h) to transfer the Intellectual Property Collateral into the name of Bank or a third party to the extent permitted under the California Uniform Commercial Code provided Bank may exercise such power of attorney to sign the name of Borrower on any of the documents described in Section 4.2 regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Bank's obligation to provide advances hereunder is terminated.

9.3 Accounts Collection. Upon the occurrence and during the continuance

of an Event of Default, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower for Bank, receive in trust all payments as Bank's trustee, and if requested or required by Bank, immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 Bank Expenses. If Borrower fails to pay any amounts or furnish any

required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves under the Committed Revolving Line as Bank deems necessary to protect Bank from the

exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.6 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement.

9.5 Bank's Liability for Collateral. So long as Bank complies with

reasonable banking practices, Bank shall not in any way or manner be liable or responsible, unless the same is due to Bank's gross negligence or willful

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misconduct, for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral, unless the same is due to Bank's gross negligence or willful misconduct, shall be borne by Borrower.

9.6 Remedies Cumulative. Bank's rights and remedies under this Agreement,

the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not expressly set forth herein as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given.

9.7 Demand; Protest. Borrower waives demand, protest, notice of protest,

notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Bank on which Borrower may in any way be liable.

10. NOTICES -----

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower SeaChange International, Inc.
 124 Acton Street
 Maynard, Massachusetts 01754
 Attn: Mr. William Fiedler, Chief Financial Officer
 FAX: _____

with a copy to Testa, Hurwitz & Thibeault, LLP
 125 High Street - 20th Floor
 Boston, Massachusetts 02110
 Attn: William B. Simmons, Esquire
 FAX: (617) 248-7100

If to Bank Silicon Valley Bank
 40 William Street
 Wellesley, Massachusetts 02481
 Attn: Mr. Mark J. Pasculano
 FAX: (781) 431-9906

with a copy to: Riemer & Braunstein
 Three Center Plaza
 Boston, Massachusetts 02108
 Attn: David A. Ephraim, Esquire
 FAX: (617) 723-6831

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The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. CHOICE OF LAW AND VENUE; JURY WAIVER -----

The laws of the Commonwealth of Massachusetts shall apply to this Agreement. BORROWER ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE COMMONWEALTH OF MASSACHUSETTS IN ANY ACTION, SUIT, OR PROCEEDING OF ANY KIND, AGAINST IT WHICH ARISES OUT OF OR BY REASON OF THIS AGREEMENT; PROVIDED, HOWEVER, THAT IF FOR ANY REASON BANK CANNOT AVAIL ITSELF OF

BORROWER AND BANK EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

12. GENERAL PROVISIONS

12.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

12.2 Indemnification. Borrower shall, indemnify, defend, protect and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under the Loan Documents, or otherwise (including without limitation reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 Time of Essence. Time is of the essence for the performance of all obligations set forth in this Agreement.

12.4 Severability of Provisions. 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.

12.5 Amendments in Writing, Integration. This Agreement cannot be amended or terminated except by a writing signed by Borrower and Bank. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement, if any, are merged into this Agreement and the Loan Documents.

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12.6 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

12.7 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding. The obligations of Borrower to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run; provided that so long as the obligations referred to in the first sentence of this Section 12.7 have been satisfied, and Bank has no commitment to make any Credit Extensions or to make any other loans to Borrower, Bank shall release all security interests granted hereunder and redeliver all Collateral held by it in accordance with applicable law.

12.8 Confidentiality. In handling any confidential information Bank shall exercise the same degree of care that it exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or affiliates of Bank in connection with their present or prospective business relations with Borrower, (ii) to prospective transferees or purchasers of any interest in the Loans, provided that they have entered into a comparable confidentiality agreement in favor of Borrower and have delivered a copy to Borrower, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Bank, and (v) as Bank may deem appropriate in connection with the exercise of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of Bank when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (b) is disclosed to Bank by a third party, provided

Bank does not have actual knowledge that such third party is prohibited from disclosing such information.

12.9 Countersignature. This Agreement shall become effective only when it shall have been executed by Borrower and Bank (provided, however, in no event shall this Agreement become effective until signed by an officer of Bank in California).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

SEACHANGE INTERNATIONAL, INC.

/s/ William L. Fiedler
By:-----

William L. Fiedler
Name:-----

Chief Financial Officer
Title:-----

SILICON VALLEY BANK, D/B/A SILICON VALLEY EAST

/s/ J.S. Parsons
By:-----

J.S. Parsons
Name:-----

Senior V.P.
Title:-----

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SILICON VALLEY BANK

/s/ Heidi Fetty
By:-----

Heidi Fetty
Name:-----

Loan Documentation Officer
Title:-----

Signed in Santa Clara County,
California)

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EXHIBIT A

The Collateral shall consist of all right, title and interest of Borrower in and to the following:

(a) All goods and equipment now owned or hereafter acquired, including, without limitation, all machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

(b) All inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above;

(c) All contract rights and general intangibles now owned or hereafter acquired, including, without limitation, goodwill, trademarks, servicemarks, trade styles, trade names, patents, patent applications, leases, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer discs, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance and rights to payment of any kind;

(d) All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower;

(e) All documents, cash, deposit accounts, securities, investment

property, letters of credit, certificates of deposit, instruments and chattel paper now owned or hereafter acquired and Borrower's Books relating to the foregoing;

(f) All copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished, now owned or hereafter acquired; all trade secret rights, including all rights to unpatented inventions, know-how, operating manuals, license rights and agreements and confidential information, now owned or hereafter acquired; all mask work or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired; all claims for damages by way of any past, present and future infringement of any of the foregoing; and

Including, without limitation, all items listed on Rider 1 attached hereto and -----
made a part hereof.

All Borrower's Books relating to the foregoing and any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof.

EXHIBIT B

LOAN PAYMENT/ADVANCE TELEPHONE REQUEST FORM
DEADLINE FOR SAME DAY PROCESSING IS 3:00 P.M., E.S.T.

TO: CENTRAL CLIENT SERVICE DIVISION DATE: _____

FAX#: (408) _____ TIME: _____

FROM: SEACHANGE INTERNATIONAL, INC.

BORROWER'S NAME

FROM: _____
AUTHORIZED SIGNER'S NAME

AUTHORIZED SIGNATURE

PHONE: _____

FROM ACCOUNT # _____ TO ACCOUNT# _____

REQUESTED TRANSACTION TYPE	REQUEST DOLLAR AMOUNT
PRINCIPAL INCREASE (ADVANCE)	\$
PRINCIPAL PAYMENT (ONLY)	\$
INTEREST PAYMENT (ONLY)	\$
PRINCIPAL AND INTEREST (PAYMENT)	\$

OTHER INSTRUCTIONS:

All representations and warranties of Borrower stated in the Loan and Security Agreement are true, correct and complete in all material respects as of the date of the telephone request for and Advance confirmed by this Advance Request; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

BANK USE ONLY:
TELEPHONE REQUEST:

The following person is authorized to request the loan payment transfer/loan advance on the advance designated account and is known to me.

Authorized Requester

Authorized Signature (Bank)
Phone # _____

EXHIBIT C

BORROWING BASE CERTIFICATE

Borrower: SEACHANGE INTERNATIONAL, INC.

Bank: Silicon Valley Bank

Commitment Amount: \$6,000,000.00

ACCOUNTS RECEIVABLE

1. Accounts Receivable Book Value as of _____	\$ _____
2. Additions (please explain on reverse)	\$ _____
3. TOTAL ACCOUNTS RECEIVABLE	\$ _____

ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)

4. Amounts over 90 days due	\$ _____
5. Balance of 50% over 90 day accounts	\$ _____
6. Concentration Limits	\$ _____
7. Foreign Accounts	\$ _____
8. Governmental Accounts	\$ _____
9. Contra Accounts	\$ _____
10. Promotion or Demo Accounts	\$ _____
11. Intercompany/Employee Accounts	\$ _____
12. Other (please explain on reverse)	\$ _____
13. TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	\$ _____
14. Eligible Accounts (#3 minus #13)	\$ _____
15. Eligible Foreign Accounts	\$ _____
16. Approved Foreign Accounts	\$ _____
17. LOAN VALUE OF ALL ACCOUNTS (80% of #14, plus 90% of #15, plus a Bank determined percentage of #16)	\$ _____

BALANCES

18. Maximum Loan Amount	\$ _____
19. Total Funds Available (Lesser of #18 or #17)	\$ _____
20. Present balance owing on Line of Credit	\$ _____
21. Outstanding under Committed Equipment Line [ONLY PRIOR TO DEBT SERVICE COVERAGE EVENT]	\$ _____
22. RESERVE POSITION (#19 minus #20 and #21)	\$ _____

The undersigned represents and warrants that the foregoing is true, complete and correct, and that the information reflected in this Borrowing Base Certificate complies with the representations and warranties set forth in the Loan and Security Agreement between the undersigned and Silicon Valley Bank.

COMMENTS:

=====

BANK USE ONLY

RECEIVED BY: _____

DATE: _____

REVIEWED BY: _____

COMPLIANCE STATUS: YES / NO

=====

By: _____
Authorized Signer

EXHIBIT D

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK

FROM: SEACHANGE INTERNATIONAL, INC.

The undersigned authorized officer of SEACHANGE INTERNATIONAL, INC. hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct in all material respects as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The Officer expressly acknowledges that no borrowings may be requested by the Borrower at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that such compliance is determined not just at the date this certificate is delivered.

PLEASE INDICATE COMPLIANCE STATUS BY CIRCLING YES/NO UNDER "COMPLIES" COLUMN.

<TABLE>

<CAPTION>

REPORTING COVENANT	REQUIRED		COMPLIES
-----	-----		-----
<S>	<C>	<C>	<C>
Financial statements & CC	Quarterly within 45 days		Yes No
Annual (CPA Audited)	FYE within 90 days		Yes No
BBC & A/R Agings	Monthly within 20 days		Yes No
Monthly Revenue and Expense	Monthly within 30 days		Yes No
FINANCIAL COVENANT	REQUIRED	ACTUAL	COMPLIES
-----	-----	-----	-----

Maintain on a Quarterly Basis:

Minimum Quick Ratio	0.75:1.0	_____ :1.0	Yes	No
Minimum Tangible Net Worth	\$29,000,000 for 9/30/98; \$28,500,000 thereafter	\$ _____	Yes	No
Maximum Debt-Net Worth Profitability	0.80:1.0 (\$1,500,000) for third quarter 1998; (\$1,000,000) for fourth quarter 1998; and profitable on quarterly basis in FY 1999 with allowance for one quarterly loss of up to \$250,000	_____ :1.0	Yes	No
Minimum Debt Service Coverage Ratio	1.5:1.0 (commencing after DSC Event)	\$ _____ _____ :1.0	Yes	No

</TABLE>

COMMENTS REGARDING EXCEPTIONS:

=====

BANK USE ONLY

RECEIVED BY: _____

DATE: _____

REVIEWED BY: _____

COMPLIANCE STATUS: YES / NO

=====

Sincerely,

Signature

Date: _____

Title

Silicon Valley Bank
Representations & Warranties

EXHIBIT 5.3

<TABLE>
<CAPTION>

Equipment Leases:

<S> ???'ce' Copier	<C> Ikon Capital Corp.	<C> Leased from 10/01/96 through 10/01/01
AT&T/Lucent Definity Generic ?SI Comm. System	AT&T Credit Corp.	Leased from 08/31/97 - 08/31/02 (Est.)
Microspace	Transponder Lease Agreement From 3/97 - 4/02	Mr. Joseph L. Amor III Microspace Communications Group 3100 Highwoods Blvd. Raleigh, NC 27604
Paramount Financial Corporation	Movie Systems & TV Sets From 7/98 - 7/03	One Jericho Plaza Jericho, New York 11753

Property Leases:

OFFICE LOCATION CITY, STATE	PROPERTY ADDRESS	LANDLORD
Greenville, NH	47 Main Street, #1 Mill Greenville, NH 03048 (603) 878-5055	Alden T. Greenwood 773 Greenville Road Mason, NH 03048 (603) 878-2485
Fairfield, CT	3141 North Street Fairfield, CT 06430 (203) 259-4499	Thomas Franeta 3141 North Street Fairfield, CT 06430 (203) 259-4499
Baltimore, MD	38 Bellchase Court Baltimore, MD 21208 (410) 653-7175	Ira Goldfarb 38 Bellchase Court Baltimore, MD 21208 (410) 653-7175
Burlingame, CA	500 Airport Blvd., Suite 345 Burlingame, CA 94010 (415) 589-4499	The Horn Group Sabrina Horn 500 Airport Blvd. Burlingame, CA 94010
St. Louis, MO	710 North Second Street	Arch Equities II, LLC

Suite 350S
St. Louis, MO 63102
(314) 436-8989

319 No. Fourth St.
Suite 300
St. Louis, MO 63102

</TABLE>

EXHIBIT 5.3 (CONTINUED)

Property Leases:

OFFICE LOCATION CITY, STATE	PROPERTY ADDRESS	LANDLORD
Englewood, CO	6050 S. Greenwood Blvd. Suite 150 Englewood, CO 80111 (303) 694-0900	Dowd Systems, Inc. F/B/O Allstate Insurance Co.
Lawrenceville, GA (Updated 8/8/97) (Moved from Duluth, GA; see above)	1000 Hurricane Shoals Rd NE D- 1200 Lawrenceville, GA 30043	Ron H. Garrard 316 BC, LLC 1000 Hurricane Shoals Road Building D, Suite 100 Lawrenceville, GA 30243
St. Margarets Twickenham Middlesex (England) (Updated 8/8/97)	12 Sidney Road St. Margarets Twickenham Middlesex TW1 1JR ENGLAND	Anne Wright 78a Malborough Street Boston, MA 02116
Novato, CA	Digital Drive Novato, CA	Harding and Lawson
Singapore	10 Tannery Lane #03-02, Singapore 347773	IPC Corporation Singapore
Sophia Antipolis, France (Updated 8/8/97)	Centre International DE Communication Avancee De Sophia Antipolis (C.I.C.A.) FRANCE	Monsieur Alain ANDRE. C.I.COM.Organisation, S.A.R.L. 06560 Valbonne 2229 401 432 059 (France)

EXHIBIT 5.4

The following accounts receivable are adequately reserved for as part of SeaChange International's general account receivable reserve. They are specifically identified here for purposes of disclosure:

COX Cable	6,000.00
Cablerep Advertising	37,070.40
Continental Cablevision	25,191.40
Central Oregon Cable	14,352.00
Comcast Cablevision	6,293.90
Comcast Communications	9,452.00
Media One	27,511.24
Cosmos Broadcasting Corp.	10,729.75
Charter Communications	25,623.07
Time Warner Cable	13,500.00
Capital Networks	6,546.00
Cape Elegance, Singapore	207,000.00
HCI	150,000.00

EXHIBIT 5.5

Merchantable Inventory:

The inventory identified in the balance sheet of SeaChange International, Inc., is in all material respects, good and marketable quality and free from all material defects. The Company has, as part of general business practice, customer returned materials which undergoes evaluation for before final disposition. The Company also maintains a level of logistical materials for support of our installation base which generally is less than 13% of our total inventory value. This material is primarily used and is adequately reserved for.

EXHIBIT 5.8

Litigation:

The following actions or proceedings are pending with the Company, none of which either individually or in the aggregate would have a material adverse effect on the financial performance of the Company in the event the Company did not prevail:

Burst Communications	Vendor dispute		\$124,000
SeaGate	Vendor dispute		\$ 60,000
Karen Chernoff	Employee dispute	less than \$	5,000
The Columbia Group	Contract dispute	NTE \$	84,000

EXHIBIT 5.14

The Company has a certificate for 50,000 shares of \$0.1 par value common stock in Players Network. The Company accepted this certificate and other consideration for the loan of its system to Players Network. Pursuant to this transaction and given the speculative nature of this privately held company, SeaChange has not recorded the stock.

PERMITTED LIENS OF
SEACHANGE INTERNATIONAL, INC.

NAME AND ADDRESS OF CREDITOR	DESCRIPTION OF SECURED PROPERTY	LOCATION OF FILING	DATE OF FILING	FILE NUMBER
AT&T Credit Corporation Catehall Drive Parsippany, NJ 07054	AT&T/Lucent Definity Generic 3SI Communications System	Central Filing Office in the Commonwealth of Massachusetts	09/02/97	494205
AT&T Credit Corporation 2 Catehall Drive Parsippany, NJ 07054	AT&T/Lucent Definity Generic 3SI Communications System	Town of Maynard in the Commonwealth of Massachusetts	09/02/97	#1610-Bk-1
Xerox Corporation 800 Carillon Parkway St. Petersburg, FL 33716	One Xerox 5665SF Copier	Central Filing Office in the Commonwealth of Massachusetts	10/01/96	420118
Xerox Corporation 800 Carillon Parkway St. Petersburg, FL 33716	One Xerox 5665SF Copier	Town of Maynard in the Commonwealth of Massachusetts	10/11/96	#1502-Bk-1

SeaChange International, Inc.
List of Significant Subsidiaries

Subsidiary Name - -----	Subsidiary Jurisdiction -----
SeaChange Asia Pacific Operations Pte. Ltd.	Singapore
GuestServe Networks, Inc. (1)	Delaware

(1) Wholly-owned subsidiary of SeaChange Asia Pacific Operations Pte. Ltd.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-17379) of SeaChange International, Inc. of our report dated January 29, 1999 appearing on page F-1 of this form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page S-1 of this form 10-K.

PricewaterhouseCoopers LLP

Boston, Massachusetts
March 22, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF SEACHANGE INTERNATIONAL, INC. FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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