

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, 1999

Commission File Number: 0-21393

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

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3197974
(IRS Employer Identification No.)

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 13, 2000 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 \$638,971,146. The number of shares of the registrant's Common Stock outstanding as of the close of business on March 13, 2000 was 21,432,320.

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 1, 2000 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"), incorporated in Delaware in July 1993, develops, markets and supports products to manage, store and distribute digital video for television operators, including cable, broadcast, telecommunications and other new media companies. The Company's products utilize its proprietary distributed application software and standard computer 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, video-on-demand and other interactive

television services.

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 the United States, based on currently available industry sources and the Company's internal data. A majority of SeaChange's customers are 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 local or remote 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 advertising for the multichannel television market.

The Company has one existing movie product and two video-on-demand (VOD) products for interactive television markets. The Company sells the SeaChange Movie System which provides long-form video storage and delivery for the pay-per-view movie markets. The SeaChange GuestServe System delivers video-on-demand and other guest services, internet access and PC games in a hotel environment for cable television and telecommunications companies. In addition, SeaChange has developed the SeaChange ITV (Interactive Television) System to provide residential video-on-demand and other interactive services for cable television operators and telecommunications companies. During 1998 and 1999, SeaChange entered into agreements with several cable companies, including Time-Warner, Inc., Rogers Cablesystems and Telewest Communications, to provide SeaChange's ITV System for demonstration and testing of their video-on-demand systems. The Company also has agreements with leading producers of digital set-top boxes to test and integrate their products with SeaChange's ITV System.

The Company also sells its video server, which is designed to store and distribute video streams of various lengths, MediaCluster, SeaChange's proprietary software technology that enables multiple video servers to operate together as an integrated video server and a video streaming product for internet applications.

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 and 1999, the Company installed broadcast systems at customer locations including network affiliates and multi-channel operations in the United States and broadcast companies internationally.

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 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 video on demand, internet and other applications.

Cable Television Operators & Telecommunications Companies

According to industry sources, there are approximately 12,000 cable television systems currently in the United States, serving over 70 million subscribers. In 1999, 96% of all cable systems provided over 30 channels of programming to their subscribers and most systems provided fifty or more channels. Because cable television programming is sent over broadband lines, operators have the opportunity to 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 1999, 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 were a major factor which had 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 hotels and apartments using existing analog set-top boxes. The Company sells its SeaChange Guestserve System to cable operators including Cox Communications, Time Warner Inc. and AT&T Media Services in support of their hotel movie on demand business in New York, Chicago, Honolulu and San Diego. In addition, the Company directly supports specific hotel systems such as the Opryland in Nashville, Tennessee. In total, the Company currently supports approximately 20,000 hotel rooms with its SeaChange video-on-demand products. 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 Telecommunications Act of 1996 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. The Company believes that its patented video server technology is well suited to meet this market opportunity.

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 television 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. As television broadcasters continue to automate their entire programming in order to reduce overall operating costs and improve reliability, the Company believes the Broadcast Mediacenter products provide a unique solution that addresses these requirements.

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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 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 low cost standard computer industry 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 effective than individual functional products not specifically designed to work together. The Company believes that providing complete integrated 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, network and storage software and their complete integration. 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 computer hardware components wherever possible to maintain its focus on software development.

Provide Superior Customer Service and Support. The Company's products operate in customer 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 and maintaining 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, 1999 more than 37% 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 integrates hardware, software and television components into its products. These 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 files from the master video library and distributes them over the operator's data network to appropriate headends, where they are stored in video servers for future play.
- Insertion: Following a network cue, the SeaChange video switch module automatically inserts the video stream into the network feed (initiating the analog conversion, if necessary), where

they are then seen by television viewers.

Verification: After the video streams run, 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 a variety of different models of the spot system to support operators' differing requirements. The selling price for the SeaChange SPOT Systems ranges from under \$100,000 to several million dollars; the 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, remote control devices, 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 System. The Company has developed and is testing its ITV system. This system is sold to cable television operators and other telecommunications companies and is intended to enable them to offer video on demand and other interactive services to their subscribers who have digital set-top boxes and access two way cable plants. This system comprises MediaCluster servers which will reside at headends or nodes in the cable system, SeaChange's Command Center 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, movies and other programming 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.

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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 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, patented software technology that enables multiple Video Server 100s (and variants) to operate together as an integrated video server.

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.

Customer Service and Support

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. 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 1997, 1998 and 1999, revenues from the Company's five largest customers represented approximately 66%, 55% and 47% respectively, of the Company's total revenues. Customers accounting for more than 10% of total revenues consisted of Tele-Communications, Inc. (24%), Time Warner, Inc. (17%) and Comcast Corporation (10%) in 1997; Tele-Communications, Inc. (24%) and Time Warner, Inc. (15%) in 1998; and AT&T Media Services (15%) and Time Warner, Inc. (10%) in 1999. 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 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, 1999, the Company's selling and marketing organization consisted of 30 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 \$11.8 million, \$15.8 million and \$16.3 million for the years ended December 31, 1997, 1998 and 1999, respectively. At December 31, 1999, 106 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 Dresher, Pennsylvania. 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. In December 1999, the Company enhanced its research and development capabilities through the acquisition of Digital Video Arts, Ltd., a developer of custom software products specializing in digital video and interactive television. 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.

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 nCube (formerly SkyConnect, Inc.) In the market for long-form video products including video on demand, the Company competes with various companies offering video server platforms such as Concurrent Computer Corp., nCube, Diva Systems Corp. 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 Grass Valley Group, Inc., Pinnacle Systems, Inc., 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, 1999, the Company employed 336 persons, including 106 in research and development, 125 in customer service and support, 30 in selling and marketing, 45 in manufacturing and 30 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

If we are unable to manage our growth and the related expansion in our operations effectively, our business may be harmed.

Our ability to successfully offer products and services and implement our business plan in a rapidly evolving market requires effective planning and management. Our growth has placed, and our anticipated future operations will continue to place, a significant strain on our management, administrative, operational and other resources. To manage future growth effectively, we must continue to improve our management and operational controls, enhance our reporting systems and procedures, integrate new personnel and manage expanded operations.

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We may not be able to hire and retain highly skilled employees, particularly managerial, engineering, selling and marketing, finance and manufacturing personnel, which could affect our ability to compete effectively.

Our success depends to a significant degree upon the continued contributions of our key management, engineering, selling and marketing and manufacturing personnel, many of whom would be difficult to replace. We do not have employment contracts with our key personnel. We believe that our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, selling and marketing, finance and manufacturing personnel. Competition for such personnel is intense, and there can be no assurance that we 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 our business, financial condition and results of operations.

Our operating results are likely to fluctuate significantly.

As a result of our limited operating history and the rapidly evolving nature of the markets in which we compete, our quarterly and annual revenues and operating results are likely to fluctuate from period to period. These fluctuations may be caused by a number of factors, many of which are beyond our control, including:

- o the timing and recognition of revenue from significant orders;
- o the seasonality of the placement of customer orders;
- o the success of our products;

- o increased competition;
- o changes in our pricing policies or those of our competitors;
- o the financial stability of major customers;
- o new product introductions or enhancements by competitors;
- o delays in the introduction of our products or product enhancements;
- o customer order deferrals in anticipation of upgrades and new products;
- o the ability to access a sufficient supply of sole source and third party components;
- o the quality and market acceptance of new products we may develop or are in the process of developing;
- o the timing and nature of selling and marketing expenses, such as trade shows and other promotions;
- o personnel changes;
- o risks associated with our international sales; and
- o economic conditions affecting our customers.

Any significant cancellation or deferral of purchases of our products could have a material adverse effect on our business, financial condition and results of operations in any particular quarter, and to the extent significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected. Our expense levels are based, in part, on our expectations as to our future revenues, and we may be unable to adjust spending in a timely manner to compensate for any revenue shortfall. If our revenues are below our expectations, our operating results are likely to be adversely affected and net income may be disproportionately affected because a significant portion of our expenses do not vary with revenues.

Because of these factors, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of our future performance. In addition, due to all of the foregoing factors, in some future quarter our operating results may be below the expectations of public market analysts and investors.

Seasonal trends may cause our quarterly operating results to fluctuate which may adversely affect the market price of our common stock.

We have experienced significant variations in the revenue, expenses and operating results from quarter to quarter and such variations are likely to continue. We believe that fluctuations in the number of orders being placed from quarter to quarter are principally attributable to the buying patterns and budgeting cycles of television operators and broadcast companies, the primary buyers of the digital advertising systems and broadcast systems, respectively. We expect that there will continue to be fluctuations in the number and value of orders received. As a result, our results of operations have in the past and likely will, at least in the near future, fluctuate

in accordance with such purchasing activity. Operating expenses also vary with the number, timing and significance of our new product and product enhancement introductions and those of our 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 us to forecast, and these or other factors may materially adversely affect our business, financial condition and results of operations for one quarter or a series of quarters. Only a small portion of our expenses vary with revenues in the short-term and there would likely be a material adverse effect on our operating results if future revenues are lower than expectations.

Due to the lengthy sales cycle involved in the sale of our products, our quarterly results may vary and make period-to-period comparisons of our operating results meaningless.

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 our digital video, movie and broadcast products are typically lengthy and subject to a number of significant risks, including customer's budgetary constraints and internal acceptance reviews, over which we have little or no control. Based upon

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

Intense competition may adversely affect our financial condition and operating results.

The market for digital video, movie and broadcast products is highly competitive. If we are unable to compete effectively, our business, prospects, financial condition and operating results would be materially adversely affected. We currently compete 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, we compete against various computer companies offering video server platforms and television equipment manufacturers.

Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources, including computer hardware and software companies and television equipment manufacturers, may enter those markets, thereby further intensifying competition. Increased competition could result in price reductions and loss of market share which would adversely affect our business, financial condition and results of operations. Many of our current and potential competitors have greater financial, selling and marketing, technical and other resources than we do. Moreover, our competitors may also foresee the course of market developments more accurately than us. Although we believe that we have certain technological and other advantages over our competitors, realizing and maintaining such advantages will require a continued high level of investment by us in research and product development, marketing and customer service and support. There can be no assurance that we will have sufficient resources to continue to make such investments or that the we will be able to make the technological advances necessary to compete successfully with our existing competitors or with new competitors.

The success of our business model is dependent on the acceptance of the 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. Our 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 our business, financial condition and results of operations.

Our success is contingent on our ability to penetrate the broadcast television market.

To date our products have been purchased primarily by cable television operators and telecommunications companies. Our success depends in part on the penetration of new markets. In particular, we 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 we have not significantly addressed. There can be no assurance that we will be successful in marketing and selling broadcast products to customers in the broadcast television market. Any inability to penetrate this new market would have a material adverse effect on our business, financial condition and results of operations.

A decline in sales of our SPOT System could materially affect our revenues.

Sales of our SPOT System have historically accounted for a large percentage of our revenues, and this product and related enhancements are expected to continue to account for a significant portion of our revenues in 2000. Our success depends in part on continued sales of our SPOT System. A decline in demand or average selling prices for our 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 our business, financial condition and results of operations.

If we are unable to continue to develop successfully new products or enhance existing products, our financial condition and operating results will suffer.

Our future success requires that we develop and market additional products that achieve significant market acceptance and enhance our current products. There

can be no assurance that we 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 our 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 our existing products. Moreover, there can be no assurance that, despite testing by us, and by current and potential customers, errors or failures will not be found in our 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 our competitive position. Our 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 our business, financial condition and results of operations.

If we fail to respond to rapidly changing technologies related to digital video, our business, financial condition and results of operations would be materially adversely effected.

The markets for our products are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions and enhancements. Future technological advances in the television and video industries may result in the availability of new products or services that could compete with the solutions provided by us or reduce the cost of existing products or services, any of which could enable our existing or potential customers to fulfill their video needs better and more cost efficiently than with our products. Our future success will depend on our ability to enhance our existing digital video products, including the development of new applications for our technology and to develop and introduce new products to meet and adapt to changing customer requirements and emerging technologies. There can be no assurance that we will be successful in enhancing our digital video products or developing, manufacturing and marketing new products which satisfy customer needs or achieve market acceptance. In addition, there can be no assurance that services, products or technologies developed by others will not render our products or technologies uncompetitive, unmarketable or obsolete, or that announcements of currently planned or other new product offerings by either by us or our competitors will not cause customers to defer or fail to purchase our existing solutions.

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

Our customer base is highly concentrated among a limited number of large customers, and, therefore, a limited number of customers account for a significant percentage of our revenues in any year. In 1997, 1998 and 1999, revenues from our five largest customers represented approximately 66%, 54% and 47%, respectively, of our total revenues. In 1997, 1998 and 1999, three, two and two customers, respectively, each accounted for more than 10% of our revenues. We generally do not have written continuing purchase agreements with our customers and do not have any written agreements that require customers to purchase fixed minimum quantities of our products. Our sales to specific customers tend to vary significantly from year to year depending upon such customers' budgets for capital expenditures and new product introductions. In addition, we derive a substantial portion of our revenues from products that have a selling price in excess of \$200,000. We believe that revenue derived from current and future large customers will continue to represent a significant proportion of our total revenues. The loss of, or reduced demand for products or related services from, any of our major customers could have a material adverse effect on our business, financial condition and results of operations.

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

Certain key components of our 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 Optivision, Inc. We have in the past experienced quality control problems, where products did not meet specifications or were damaged in shipping, and delays in the receipt of such components. These problems were generally of short duration and did not have a material adverse effect on us. However, we may in the future experience similar types of problems which could be more severe or more prolonged. The inability to obtain sufficient key components as required, or to develop alternative sources if and as required in the future, could result in delays or reductions in product shipments which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

In addition, we rely on a limited number of third parties who manufacture certain components used in our products. While to date there has been suitable third party manufacturing capacity readily available at acceptable quality levels, there can be no assurance that such manufacturers will be able to meet our future volume or quality requirements or that such services will continue to be available to us 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 us could have a material adverse effect on our business, financial condition and results of operations.

The success of our business model depends on the continued deregulation of the telecommunications and television industries.

The telecommunications and television industries are subject to extensive regulation in the United States and other countries. Our 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 telecommunications companies will successfully enter this or related markets. Moreover, the growth of our 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 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 our business, financial condition and results of operations. The enactment by federal, state or international governments of new laws or regulations, changes in the interpretation of existing regulations or a reversal of the trend toward deregulation in these industries could adversely affect our customers, and thereby materially adversely affect our business, financial condition and results of operations.

If we are unable to protect our intellectual property we may lose a valuable asset or incur costly litigation to protect our rights.

Our success and ability to compete depend upon our intellectual property, including our proprietary technology and confidential information. We rely on patent, trademark, trade secret and copyright laws to protect our intellectual property. Despite our efforts to protect our intellectual property, a third party could copy or otherwise obtain our proprietary information without authorization. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, or duplicate our products or our other intellectual property. We may have to resort to litigation to enforce our intellectual property rights, to protect our trade secrets or know-how or to determine their scope, validity or enforceability. Enforcing or defending our proprietary technology is expensive, could cause the diversion of our resources, and may not prove successful. Our protective measures may prove inadequate to protect our proprietary rights, and any failure to enforce or protect our rights could cause us to lose a valuable asset.

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

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

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- o difficulties in assimilation of acquired personnel, operations, technologies or products;
- o unanticipated costs associated with acquisitions;
- o diversion of management's attention from other business concerns;
- o adverse effects on our existing business relationships with suppliers and customers; and
- o use of substantial portions of our available cash, including the proceeds of this offering, to consummate the acquisitions.

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

We are subject to risks of operating internationally.

International sales accounted for approximately 12%, 13% and 23% of our revenues in 1997, 1998 and 1999, respectively. We expect that international sales will account for a significant portion of our business in the future. However, there can be no assurance that we will be able to maintain or increase international sales of its products. International sales are subject to a variety of risks, including:

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

Our executive officers, directors and major stockholders possess significant control over us which may lead to conflicts with other stockholders over corporate governance matters.

Our officers, directors and their affiliated entities, and other holders of 5% or more of our outstanding capital stock, together beneficially owned approximately 45.17% of the outstanding shares of our common stock as of March 13, 2000. As a result, such persons will have the ability to elect our board of directors and to determine the outcome of corporate actions requiring stockholder approval, irrespective of how other of our stockholders may vote. This concentration of ownership may have the effect of delaying or preventing a change in control of us which may be favored by a majority of the remaining stockholders, or cause a change of control not favored by our other stockholders.

Year 2000 compliance issues could harm our business.

In prior years, we discussed the nature and progress of our plans to become Year 2000 ready. In late 1999, we completed our remediation and testing of our systems. As a result of those planning and implementation efforts, we experienced no significant disruptions in mission critical information technology and non-information technology systems and believe those systems successfully responded to the Year 2000 date change. We are not aware of any material problems resulting from Year 2000 issues, either with our products, our internal systems, or the products and services of third parties. We will continue to monitor our mission critical computer applications and those of our suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

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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 105,000 square feet under a lease which expires on March 31, 2005 with annual base rent of \$530,000. 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 purchased approximately 24,000 square feet of office and manufacturing space in Greenville, New Hampshire on February 15, 2000 for \$280,000. Also, the Company leases two facilities totaling approximately 13,000 square feet in Greenville, New Hampshire that are used for the development and final assembly of its video servers. Acquired in December with the acquisition of Digital Video Arts was approximately 3,442 square feet of office space in Dresher, Pennsylvania, which is primarily used for the development of custom software products for companies specializing in digital video and interactive television. The Company also leases small research and development and/or sales and support offices in Atlanta, Georgia, San Francisco, California, Denver, Colorado, Orlando, Florida, St. Louis, Missouri, Reno, Nevada, Valbonne, France, and Singapore.

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, 1999 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. All prices reflect the Company's 3-for-2 stock split which became effective on December 27, 1999.

<TABLE>
<CAPTION>

| | High ---- | Low --- |
|------------------------------|--------------|------------|
| <S> | <C> | <C> |
| Year ended December 31, 1999 | | |
| First Quarter | \$6.080 | \$4.000 |
| Second Quarter | 12.080 | 5.300 |
| Third Quarter | 14.220 | 8.750 |
| Fourth Quarter | 35.380 | 10.670 |
| Year ended December 31, 1998 | | |
| First Quarter | 5.667 | 4.417 |
| Second Quarter | 8.667 | 3.959 |
| Third Quarter | 7.833 | 3.833 |
| Fourth Quarter | 5.833 | 3.833 |

</TABLE>

On March 28, 2000, the last reported sale price of the Common Stock on the Nasdaq National Market was \$73.50. As of March 28, 2000, there were approximately 133 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.

On December 30, 1999, in connection with the acquisition by the Company of all of the issued and outstanding shares of capital stock of Digital Video Arts, Ltd., the Company issued an aggregate of 330,000 shares of common stock to the shareholders of Digital Video Arts, Ltd. and to Corum Group Ltd. pursuant to Section 4(2) of the Securities Act. No underwriter was used in connection with this private placement of securities.

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, 1995, 1996, 1997, 1998 and 1999 and the consolidated balance sheet data at December 31, 1995, 1996, 1997, 1998 and 1999 are detailed below.

<TABLE>
<CAPTION>

| | Year Ended December 31, | | | |
|--|-------------------------|-----------|-----------|-----------|
| | 1995 | 1996 | 1997 | 1998 |
| 1999 | | | | |
| - | | | | |
| <S> | <C> | <C> | <C> | <C> |
| <C> | | | | |
| Consolidated Statement of Operations Data: | | | | |
| Revenues | | | | |
| Systems | \$ 21,999 | \$ 45,745 | \$ 60,414 | \$ 58,033 |
| \$ 68,457 | | | | |
| Services | 1,965 | 4,378 | 8,268 | 14,891 |
| 16,764 | | | | |
| - | | | | |

(in thousands, except per share data)

| | | | | |
|--|----------|----------|------------|------------|
| 85,221 | 23,964 | 50,123 | 68,682 | 72,924 |
| - | ----- | ----- | ----- | ----- |
| Costs of revenues | | | | |
| Systems | 14,917 | 27,133 | 34,740 | 35,772 |
| 38,889 | | | | |
| Services | 2,014 | 4,538 | 7,898 | 13,611 |
| 14,962 | ----- | ----- | ----- | ----- |
| - | | | | |
| 53,851 | 16,931 | 31,671 | 42,638 | 49,383 |
| - | ----- | ----- | ----- | ----- |
| Gross profit | 7,033 | 18,452 | 26,044 | 23,541 |
| 31,370 | ----- | ----- | ----- | ----- |
| - | | | | |
| Operating expenses: | | | | |
| Research and development | 2,367 | 5,393 | 11,758 | 15,763 |
| 16,302 | | | | |
| Selling and marketing | 2,016 | 4,694 | 6,248 | 8,566 |
| 8,595 | | | | |
| General and administrative | 1,024 | 2,364 | 3,932 | 6,132 |
| 5,335 | | | | |
| Restructuring of operations | -- | -- | -- | 676 |
| -- | | | | |
| Write-off of acquired in-process research and development | -- | -- | 5,290 | -- |
| -- | | | | |
| Acquisition costs | -- | -- | -- | -- |
| 684 | ----- | ----- | ----- | ----- |
| - | | | | |
| 30,916 | 5,407 | 12,451 | 27,228 | 31,137 |
| - | ----- | ----- | ----- | ----- |
| Income (loss) from operations | 1,626 | 6,001 | (1,184) | (7,596) |
| 454 | | | | |
| Interest income, net | 121 | 375 | 663 | 235 |
| 28 | ----- | ----- | ----- | ----- |
| - | | | | |
| Income (loss) before income taxes | 1,747 | 6,376 | (521) | (7,361) |
| 482 | | | | |
| Provision (benefit) for income taxes | 713 | 2,483 | 1,776 | (2,789) |
| (15) | ----- | ----- | ----- | ----- |
| - | | | | |
| Net income (loss) | \$ 1,034 | \$ 3,893 | \$ (2,297) | \$ (4,572) |
| \$ 497 | ===== | ===== | ===== | ===== |
| ===== | | | | |
| Basic earnings (loss) per share (1) | \$.18 | \$.48 | \$ (.15) | \$ (.24) |
| \$.02 | ===== | ===== | ===== | ===== |
| ===== | | | | |
| Diluted earnings (loss) per share (1) | \$.06 | \$.22 | \$ (.15) | \$ (.24) |
| \$.02 | ===== | ===== | ===== | ===== |
| ===== | | | | |

</TABLE>

<TABLE>
<CAPTION>

December 31,

1995 1996 1997 1998

| | ----- | ----- | ----- | ----- | -- |
|--|----------|----------|----------|----------|-----|
| <S> | <C> | <C> | <C> | <C> | <C> |
| (in thousands) | | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Working capital | \$ 4,483 | \$26,943 | \$24,949 | \$22,871 | |
| \$23,365 | | | | | |
| Total assets | 14,651 | 46,467 | 52,512 | 54,527 | |
| 62,304 | | | | | |
| Long-term liabilities | -- | -- | -- | 1,027 | |
| 1,231 | | | | | |
| Deferred revenue | 767 | 2,192 | 3,851 | 3,939 | |
| 4,380 | | | | | |
| Total liabilities | 8,646 | 14,240 | 17,510 | 23,207 | |
| 27,963 | | | | | |
| Redeemable convertible preferred stock | 4,008 | -- | -- | -- | |
| -- | | | | | |
| Total stockholders' equity | 1,997 | 32,227 | 35,004 | 31,320 | |
| 34,341 | | | | | |

(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 title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed and determinable 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 30, 1999, the Company acquired all of the outstanding capital stock of Digital Video Arts, Ltd. ("DVA") in a stock for stock deal accounted for as a pooling of interests. DVA is a developer of custom software products

specializing in digital video and interactive television. As a result of the acquisition, DVA became a wholly-owned subsidiary of the Company. The accompanying consolidated financial statements for all the periods presented have been restated to include the results of operations, financial position and cash flows of DVA.

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, | | |
|--|-------------------------|--------|-------|
| | 1997 | 1998 | 1999 |
| | ---- | ---- | ---- |
| <S> | <C> | <C> | <C> |
| Revenues: | | | |
| Systems | | | |
| Digital advertising insertion | 81.5% | 60.5% | 52.3% |
| Movies | 6.5 | 13.3 | 7.7 |
| Broadcast | -- | 5.8 | 19.7 |
| ITV | -- | -- | .6 |
| Services | 12.0 | 20.4 | 19.7 |
| | ----- | ----- | ----- |
| | 100.0 | 100.0 | 100.0 |
| | ----- | ----- | ----- |
| Cost of revenues: | | | |
| Systems | | | |
| Digital advertising insertion | 47.1 | 36.4 | 29.7 |
| Movies | 3.5 | 9.3 | 4.8 |
| Broadcast | -- | 3.3 | 10.8 |
| ITV | -- | -- | .4 |
| Services | 11.5 | 18.7 | 17.6 |
| | ----- | ----- | ----- |
| | 62.1 | 67.7 | 63.3 |
| | ----- | ----- | ----- |
| Gross profit | 37.9 | 32.3 | 36.7 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Research and development | 17.1 | 21.6 | 19.1 |
| Selling and marketing | 9.1 | 11.7 | 10.1 |
| General and administrative | 5.7 | 8.4 | 6.3 |
| Restructuring of operations | -- | .9 | -- |
| Write-off of acquired in- process research and development | 7.7 | -- | -- |
| Acquisition costs | -- | -- | .8 |
| | ----- | ----- | ----- |
| | 39.6 | 42.6 | 36.3 |
| | ----- | ----- | ----- |
| Income (loss) from operations | (1.7) | (10.3) | .4 |
| Interest income, net | 1.0 | .3 | -- |
| | ----- | ----- | ----- |
| Income (loss) before income taxes | (.7) | (10.0) | .4 |
| Provision (benefit) for income taxes | 2.6 | (3.8) | -- |
| | ----- | ----- | ----- |
| Net income (loss) | (3.3)% | (6.2)% | .4% |
| | ===== | ===== | ===== |
| Gross profit: | | | |
| Systems | | | |
| Digital advertising insertion | 42.2% | 39.8% | 43.2% |

| | | | |
|-----------------|-------|-------|-------|
| Movies | 46.3% | 30.0% | 38.4% |
| Broadcast | -- | 42.7% | 45.3% |
| ITV | -- | -- | 35.2% |
| Services | 4.5% | 8.6% | 10.7% |

</TABLE>

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

Revenues

Systems. The Company's systems revenues consist of sales of its digital video insertion, movie, broadcast and interactive television system products. Systems revenues increased 18% from \$58.0 million in 1998 to \$68.5 million in 1999. The increased systems revenues in 1999 compared to 1998 resulted from an increase of \$12.6 million in broadcast systems revenues partially offset by a \$3.1 million decrease in movie systems revenues. In addition, the Company had revenues of \$500,000 related to first-time sales of residential ITV system sales. The Company expects future systems revenue growth, if any, to come principally from its broadcast and interactive television system products.

For the years ended December 31, 1998 and 1999, certain customers accounted for more than 10% of the Company's total revenues. Individual customers accounted for 24% and 15% of total revenues in 1998 and 15% and 10% of total revenues in 1999. 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 13% and 23% of total revenues in the years ended December 31, 1998 and 1999, respectively. The Company expects that international sales will remain a significant portion of the Company's business in the future. As of December 31, 1999, substantially 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 13% to \$16.8 million in 1999 from \$14.9 million in 1998. This increase in services revenues primarily resulted from the renewals of maintenance and support contracts and the impact of a growing installed base of systems.

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 9% from \$35.8 million in 1998 to \$38.9 million in 1999. In 1999, the increase in costs of systems revenues reflects the higher revenue level and increased manufacturing labor and overhead costs incurred to support changes in the product mix, including the introduction of the new broadcast and video on demand products.

Systems gross profit as a percentage of systems revenues were 38.4% and 43.2% in 1998 and 1999, respectively. The increase in systems gross profit in 1999 was primarily due to higher systems revenue and lower material and labor costs as a percentage of systems revenue. The gross profits in 1998 and 1999 were impacted by increases of approximately \$2.0 million and \$500,000, 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 10% from \$13.6 million in 1998 to \$15.0 million in 1999, 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, broadcast and video on demand systems and costs associated with providing movie content. Services gross profit margin as a percentage of services revenue was 9.0% in 1998 and 11% in 1999. The higher services gross profit in 1999 is primarily due to higher level of services revenue. 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 3% from \$15.8 million in 1998 to \$16.3 million in 1999. The increase in the dollar amount in 1999 was primarily attributable to the hiring and contracting of additional development personnel which reflects the Company's continuing investment in new

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products. 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 remained flat at \$8.6 million in 1998 and 1999.

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

Restructuring of Operations. In March 1998, 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.

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

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

Provision (Benefit) for Income Taxes. The Company's effective tax benefit rate was 37.9% and 3% in 1998 and 1999, respectively, due to the taxable loss in 1998 and the utilization of operating tax loss carryforwards associated with the acquisition of DVA in 1999.

The Company had net deferred tax assets of \$1,967,000 and \$2,900,000 at December 31, 1998 and 1999, respectively. The Company has made the determination it is more likely than not that it will realize the benefits of the net deferred tax assets. As a result of the acquisition of IPC, the Company acquired deferred tax assets of \$3.4 million, consisting primarily of net operating loss carryforwards. As discussed in Note 7 of the consolidated financial statements, the Company maintains a valuation allowance on the acquired net deferred tax assets.

Year ended December 31, 1997 Compared to the Year Ended December 31, 1998

Revenues

Systems. Systems revenues decreased 4% from \$60.4 million in 1997 to \$58.0 million in 1998. 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

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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.

For the years ended December 31, 1997 and 1998, certain customers accounted for more than 10% of the Company's total revenues. Individual customers accounted for 24%, 17% and 10% of total revenues in 1997 and 24% and 15% of total revenues in 1998. International sales accounted for approximately 12% and 13% of total revenues in the years ended December 31, 1997 and 1998, respectively.

Services. The Company's services revenues increased 80% to \$14.9 million in 1998 from \$8.3 million in 1997. 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 increased 3% from \$34.7 million in 1997 to \$35.8 million in 1998. In 1998, the increase in costs of systems revenues reflects 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 42.5% and 38.4% in 1997 and 1998, respectively. 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 system products. The gross profits in 1997 and 1998 were impacted by increases of approximately \$1.7 million and \$2.0 million, respectively, in the Company's inventory valuation allowance.

Services. Costs of services revenues increased 72% from \$7.9 million in 1997 to \$13.6 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. Services gross profit as a percentage of services revenue was 4.5% and 8.6% in 1997 and 1998, respectively. Improvements in the services gross profit in 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.

Research and Development. Research and development expenses increased 34% from \$11.8 million in 1997 to \$15.8 million in 1998. The increase in the dollar amount in 1998 was primarily attributable to the hiring and contracting of additional development personnel which reflects the Company's continuing investment in new products and the additional resources acquired with IPC.

Selling and Marketing. Selling and marketing expenses increased 37% from \$6.2 million in 1997 to \$8.6 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.

General and Administrative. General and administrative expenses increased 56% from \$3.9 million in 1997 to \$6.1 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.

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

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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 of December 31, 1998. Management has substantially completed this in-process development as of December 31, 1999 and expects to complete some features in 2000.

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.

Interest Income, net. Interest income, net was approximately \$663,000 and \$235,000 in 1997 and 1998, respectively. The decrease in interest income, net in 1998 primarily resulted from lower average invested balances in 1998.

Provision (Benefit) for Income Taxes. The Company's effective tax rate for 1997 was significantly impacted by the write-off of the 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 approximately \$1.8 million despite a book pre-tax operating loss. The Company's effective tax benefit rate was 37.9% in 1998 due to the taxable loss in 1998.

The Company had net deferred tax assets of \$1,091,000 and \$1,967,000 at December 31, 1997 and 1998, respectively. The Company has made the determination it is more likely than not that it will realize the benefits of the net deferred tax assets. As a result of the acquisition of IPC, the Company acquired deferred tax assets of \$3.4 million, consisting primarily of net operating loss carryforwards. As discussed in Note 7 of the consolidated financial statements, the Company maintains a valuation allowance on the acquired net deferred tax assets.

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Quarterly Results of Operations

The following table presents certain unaudited quarterly information for the eight quarters ended December 31, 1999. Gross profit shown for systems and services revenues at the bottom of the table is stated as a percentage of related revenues. This information is derived from unaudited financial statements and has been prepared on the same basis as the Company's audited financial statements which appear elsewhere in this Annual Report. In the opinion of the Company's management, this data reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information when read in conjunction with the Company's Consolidated Financial Statements and Notes thereto. The results for any quarter

are not necessarily indicative of future quarterly results, and the Company believes that period-to-period comparisons should not be relied upon as an indication of future performance.

<TABLE>
<CAPTION>

| | | Quarter Ended | | | | | | |
|---|-----------|----------------|-----------|-----------|-----------|-----------|-----------|-------|
| | | March 31, | June 30, | Sept. 30, | Dec. 31, | March 31, | June 30, | Sept. |
| 30, Dec. 31, | | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 1999 | | 1998 | 1998 | 1998 | 1998 | 1999 | 1999 | 1999 |
| | | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | (in thousands) | | | | | | |
| <S> | | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| <C> | | | | | | | | |
| Quarterly Financial Data (Unaudited): | | | | | | | | |
| Revenues | | | | | | | | |
| Systems | | \$ 14,807 | \$ 13,207 | \$ 14,240 | \$ 15,779 | \$ 16,924 | \$ 17,443 | \$ |
| 17,507 | \$ 16,583 | | | | | | | |
| Services | | 3,531 | 3,728 | 3,924 | 3,708 | 3,887 | 4,231 | |
| 4,202 | 4,444 | | | | | | | |
| | | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | 18,338 | 16,935 | 18,164 | 19,487 | 20,811 | 21,674 | |
| 21,709 | 21,027 | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | | | | | | | |
| Costs of revenues | | | | | | | | |
| Systems | | 8,967 | 8,223 | 8,897 | 9,685 | 9,873 | 10,080 | |
| 9,895 | 9,041 | | | | | | | |
| Services | | 3,092 | 3,206 | 3,861 | 3,452 | 3,444 | 3,633 | |
| 3,813 | 4,072 | | | | | | | |
| | | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | 12,059 | 11,429 | 12,758 | 13,137 | 13,317 | 13,713 | |
| 13,708 | 13,113 | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | | | | | | | |
| Gross profit | | | | | | | | |
| 8,001 | 7,914 | 6,279 | 5,506 | 5,406 | 6,350 | 7,494 | 7,961 | |
| | | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | | | | | | | |
| Operating expenses | | | | | | | | |
| Research and development | .. | 4,003 | 3,900 | 3,897 | 3,963 | 4,120 | 4,274 | |
| 3,979 | 3,929 | | | | | | | |
| Selling and marketing | | 1,921 | 2,158 | 2,013 | 2,474 | 1,996 | 2,031 | |
| 2,154 | 2,414 | | | | | | | |
| General and administrative | | 1,637 | 1,801 | 1,259 | 1,435 | 1,388 | 1,360 | |
| 1,332 | 1,255 | | | | | | | |
| Restructuring of operations | | 676 | -- | -- | -- | -- | -- | |
| -- | -- | | | | | | | |
| Acquisition costs | | -- | -- | -- | -- | -- | -- | |
| -- | 684 | | | | | | | |
| | | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | 8,237 | 7,859 | 7,169 | 7,872 | 7,504 | 7,665 | |
| 7,465 | 8,282 | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | | | | | | | |
| Income (loss) from operations | | | | | | | | |
| 536 | (368) | (1,958) | (2,353) | (1,763) | (1,522) | (10) | 296 | |
| Interest income, net | | 107 | 77 | 26 | 25 | 11 | 8 | |
| (13) | 22 | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | | | | | | | |
| Income (loss) before income taxes | | | | | | | | |
| 523 | (346) | (1,851) | (2,276) | (1,737) | (1,497) | 1 | 304 | |
| Provision (benefit) for | | (709) | (769) | (770) | (541) | 33 | (96) | |
| income taxes | | | | | | | | |

| 231 | (183) | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
|-------------------------|-----------|------------|------------|----------|----------|---------|---------|-------|
| Net income (loss) | | \$ (1,142) | \$ (1,507) | \$ (967) | \$ (956) | \$ (32) | \$ 400 | \$ |
| 292 | \$ (163) | | | | | | | |
| ===== | ===== | | | | | | | |
| Basic earnings (loss) | | | | | | | | |
| per share | | \$ (.06) | \$ (.08) | \$ (.05) | \$ (.05) | \$ 0.00 | \$ 0.02 | \$ |
| 0.01 | \$ (0.01) | | | | | | | |
| Diluted earnings (loss) | | | | | | | | |
| per share | | \$ (.06) | \$ (.08) | \$ (.05) | \$ (.05) | \$ 0.00 | \$ 0.02 | \$ |
| 0.01 | \$ (0.01) | | | | | | | |
| Gross profit | | | | | | | | |
| Systems | | 39.4% | 37.7% | 37.5% | 38.6% | 41.7% | 42.2% | |
| 43.5% | 45.5% | | | | | | | |
| Services | | 12.4% | 14.0% | 1.6% | 6.9% | 11.4% | 14.1% | |
| 9.3% | 8.4% | | | | | | | |

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.

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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.

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

The Company has financed its operations and capital expenditures primarily with the proceeds of the Company's common stock, borrowings and cash flows generated from operations. Cash, cash equivalents and marketable securities increased \$5.9 million from \$5.4 million at December 31, 1998 to \$11.3 million at December 31, 1999. Working capital increased from approximately \$22.9 million at December 31, 1998 to approximately \$23.4 million at December 31, 1999.

Net cash used in operating activities was approximately \$9.0 million and \$7.5 million for the years ended December 31, 1997 and 1998, respectively. Net cash provided by operating activities was approximately \$8.6 million for the year ended December 31, 1999. The net cash provided by operating activities during 1999 was the result of the net income adjusted for non-cash 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 provided cash in operations include an increase in accounts payable and a decrease in income taxes receivable, primarily resulting from a \$1.8 million federal income tax refund. These items that provided cash from operations was offset by an increase in inventories, principally attributable to the increase in the number of product lines.

Net cash used in investing activities was approximately \$10.8 and \$3.1 million for the years ended December 31, 1997 and 1999, 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 \$4.1 million and \$364,000 for the years ended December 31, 1998 and 1999, respectively. Net cash used in financing activities was approximately \$454,000 in the year ended December 31, 1997. In 1999, the cash provided by financing included \$1.1 million of borrowings under the equipment line of credit and \$2.0 million 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. During the same period, cash used by financing activities included the repayment of \$2.2 million outstanding under the revolving line of credit and the equipment line of credit and \$500,000 in principal payments under the Company's capital lease obligations.

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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 expired in October 1999 and was subsequently extended until March 31, 2000. The equipment line of credit expired in June 1999 and was subsequently extended until March 31, 2000. The Company is in the process of renewing both lines of credit. Borrowings under the lines of credit are secured by substantially all of the Company's assets. Loans made under the revolving line of credit would generally bear interest at a rate per annum equal to the bank's base rate plus .5%. Loans made under the equipment line of credit bear interest at a rate per annum equal to the bank's base rate plus 1.0% (9.5% at December 31, 1999). 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, 1999 the Company was in compliance with all covenants. As of December 31, 1999, there were no borrowings against the line of credit. As of December 31, 1999, borrowings against the equipment line of credit were \$2,332,000. Maturities of the equipment line of credit are \$859,000, \$614,000 and \$215,000 in 2000, 2001 and 2002, 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, 1999.

Impact of Year 2000.

In prior years, the Company discussed the nature and progress of its plans to become Year 2000 ready. In late 1999, the Company completed its remediation and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in mission critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company is not aware of any material problems resulting from Year 2000 issues, either with its products, its internal systems, or the products and services of third parties. The Company will continue to monitor its mission critical computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

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Effects of Inflation

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

Recent Accounting Pronouncements.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, collectively referred to as derivatives, and for hedging activities. The Company will adopt SFAS No. 133 as required by SFAS No. 137, "Deferral of the effective date of the FASB Statement No. 133," in fiscal year 2001. 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 our financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial

Statements." SAB 101 summarizes the SEC's view in applying generally accepted accounting principles to selected revenue recognition issues. The application of the guidance in SAB 101 will be required in the Company's second quarter of the fiscal year 2000. The effects of applying this guidance, if any, will be reported as a cumulative effect adjustment resulting from a change in accounting principle. The Company's evaluation of SAB 101 is not yet complete.

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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, 1999, the Company had \$1,704,000 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 \$16,000.

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, 1999 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 securities 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, 1999, 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-21, 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 1999 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:

<TABLE>
<CAPTION>

| | Page |
|---|------|
| <S> | ---- |
| Report of Independent Accountants | <C> |
| Consolidated Balance Sheet as of December 31, 1998 and 1999 | F-1 |
| Consolidated Statement of Operations for the years ended December 31, 1997, 1998 and 1999 | F-2 |
| Consolidated Statement of Stockholders' Equity for the years ended December 31, 1997, 1998 and 1999 | F-3 |
| Consolidated Statement of Cash Flows for the years ended December 31, 1997, 1998 and 1999 | F-4 |
| Notes to Consolidated Financial Statements | F-6 |
| </TABLE> | F-8 |

(a) (2) INDEX TO FINANCIAL STATEMENT SCHEDULES

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

<TABLE>
<CAPTION>

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

(c) 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 30, 2000

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 2000 ----- | <C> President, Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer) | <C> March 30, |
| | William C. Styslinger, III | | |
| | /s/ William L. Fiedler 2000 ----- | Vice President, Finance and Administration, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer) | March 30, |
| | William L. Fiedler | | |
| | /s/ Martin R. Hoffmann 2000 ----- | Director | March 30, |
| | Martin R. Hoffmann | | |
| | /s/ Paul Saunders 30, 2000 ----- | Director | March |
| | Paul Saunders | | |
| | /s/ Carmine Vona 30, 2000 ----- | Director | March |
| | Carmine Vona | | |

Exhibit Index

| Exhibit No. | Description |
|-------------|--|
| 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 | 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 | 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 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 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. (incorporated by reference to the Company's Annual Report on Form 10-K filed March 24, 1999)
- 10.4 Sublease agreement dated June 20, 1996 between Harding Lawson Associates, Inc. and the Company. (incorporated by reference to the Company's Annual Report on Form 10-K filed March 24, 1999)
- 10.5 Loan and Security Agreement dated November 10, 1990 between Silicon Valley Bank and the Company. (incorporated by reference to the Company's Annual Report on Form 10-K filed March 24, 1999)
- 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 2.1 to the Company's Current Report on Form 8-K filed December 24, 1997).
- 10.9 Stock Purchase Agreement, dated as of December 30, 1999, by and among the Company, Digital Video Arts, Ltd., the stockholders of Digital Video Arts, Ltd. and Corum Group Ltd. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed January 14, 2000).
- 10.10 Registration Rights Agreement, dated as of December 30, 1999, by and among the Company, Digital Video Arts, Ltd., the stockholders of Digital Video Arts, Ltd. and Corum Group Ltd. (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed January 14, 2000).
- 10.11 Escrow Agreement, dated as of December 30, 1999, by and among the Company, Digital Video Arts, Ltd., the stockholders of Digital Video Arts, Ltd. and State Street Bank and Trust Company as escrow agent (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed January 14, 2000).
- 10.12* First Loan Modification Agreement, dated as of March 27, 2000, by and between the Company and Silicon Valley Bank.
- 10.13* Revolving Line of Credit Amendment, dated as of March 1, 2000, by and between the Company and Silicon Valley Bank.
- 21.1* List of Significant Subsidiaries
- 23.1* Consent of PricewaterhouseCoopers LLP.
- 27.1* Financial Data Schedule (For SEC Edgar Filing Only; Intentionally Omitted).
- 27.2* Financial Data Schedule (For SEC Edgar Filing Only; Intentionally Omitted).

* Filed herewith.

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, 1998 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally

accepted in the United States 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
 Boston, Massachusetts
 January 31, 2000

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

<TABLE>
 <CAPTION>

| | December 31, | |
|---|--------------|-----------|
| | 1998 | 1999 |
| | ----- | ----- |
| | <C> | <C> |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 5,442 | \$ 11,318 |
| Accounts receivable, net of allowance for doubtful accounts of \$870 at December 31, 1998 and \$908 at December 31, 1999 | 17,663 | 17,840 |
| Inventories | 16,157 | 17,128 |
| Income taxes receivable | 2,117 | 60 |
| Prepaid expenses | 1,705 | 1,508 |
| Deferred income taxes | 1,967 | 2,243 |
| | ----- | ----- |
| Total current assets | 45,051 | 50,097 |
| Property and equipment, net | 8,050 | 10,538 |
| Other assets | 229 | 884 |
| Goodwill and intangibles, net | 1,197 | 785 |
| | ----- | ----- |
| | \$ 54,527 | \$ 62,304 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Line of credit | \$ 2,000 | \$ -- |
| Current portion of equipment line of credit and obligations under capital lease | 555 | 1,048 |
| Accounts payable | 10,103 | 15,038 |
| Accrued expenses | 3,404 | 3,499 |
| Customer deposits | 1,704 | 2,092 |
| Deferred revenue | 3,939 | 4,380 |
| Income taxes payable | 475 | 675 |
| | ----- | ----- |
| Total current liabilities | 22,180 | 26,732 |
| | ----- | ----- |
| Long-term equipment line of credit and obligations under capital lease | 1,027 | 1,231 |
| | ----- | ----- |
| Commitments (Note 11) | | |
| Stockholders' Equity | | |
| Common stock, \$.01 par value; 50,000,000 shares authorized; 20,918,260 shares and 21,285,855 shares issued at December 31, 1998 and 1999, respectively | 209 | 213 |
| Additional paid-in capital | 33,107 | 35,634 |
| Accumulated deficit | (1,937) | (1,440) |
| Treasury stock, 60,750 shares | -- | (1) |
| Accumulated other comprehensive income | (59) | (65) |
| | ----- | ----- |
| Total stockholders' equity | 31,320 | 34,341 |
| | ----- | ----- |
| | \$ 54,527 | \$ 62,304 |
| | ===== | ===== |

</TABLE>

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

F-2

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

<TABLE>
<CAPTION>

| | Year ended December 31, | | |
|---|-------------------------|------------|------------|
| | 1997 | 1998 | 1999 |
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Revenues | | | |
| Systems | \$ 60,414 | \$ 58,033 | \$ 68,457 |
| Services | 8,268 | 14,891 | 16,764 |
| | ----- | ----- | ----- |
| | 68,682 | 72,924 | 85,221 |
| | ----- | ----- | ----- |
| Costs of revenues | | | |
| Systems | 34,740 | 35,772 | 38,889 |
| Services | 7,898 | 13,611 | 14,962 |
| | ----- | ----- | ----- |
| | 42,638 | 49,383 | 53,851 |
| | ----- | ----- | ----- |
| Gross profit | 26,044 | 23,541 | 31,370 |
| | ----- | ----- | ----- |
| Operating expenses | | | |
| Research and development | 11,758 | 15,763 | 16,302 |
| Selling and marketing | 6,248 | 8,566 | 8,595 |
| General and administrative | 3,932 | 6,132 | 5,335 |
| Restructuring of operations | -- | 676 | -- |
| Write-off of acquired in-process research and development | 5,290 | -- | -- |
| Acquisition costs | -- | -- | 684 |
| | ----- | ----- | ----- |
| | 27,228 | 31,137 | 30,916 |
| | ----- | ----- | ----- |
| Income (loss) from operations | (1,184) | (7,596) | 454 |
| Interest income, net | 663 | 235 | 28 |
| | ----- | ----- | ----- |
| Income (loss) before income taxes | (521) | (7,361) | 482 |
| Provision (benefit) for income taxes | 1,776 | (2,789) | (15) |
| | ----- | ----- | ----- |
| Net income (loss) | \$ (2,297) | \$ (4,572) | \$ 497 |
| | ===== | ===== | ===== |
| Basic and diluted earnings (loss) per share | \$ (.15) | \$ (.24) | \$.02 |
| | ===== | ===== | ===== |
| Shares used in calculating: | | | |
| Basic earnings (loss) per share | 15,716,000 | 18,982,000 | 20,883,000 |
| | ===== | ===== | ===== |
| Diluted earnings (loss) per share | 15,716,000 | 18,982,000 | 21,774,000 |
| | ===== | ===== | ===== |

</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>

| Comprehensive income (loss) | Common Stock | | Additional paid-in capital | Retained earnings (accumulated deficit) | Cumulative translation adjustment | Treasury stock | Total stockholders' equity |
|---|---------------------|--------------|----------------------------------|--|---|-------------------|----------------------------------|
| | Number of shares | Par value | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance at December 31, 1996, (prior to split and acquisition) \$ 4,262 | 12,859,234 | \$ 129 | \$26,167 | \$ 5,534 | \$ -- | \$ -- | \$31,830 |
| Issuance of common stock in connection with 3:2 stock split | 6,429,616 | 64 | (64) | -- | -- | -- | -- |
| Issuance of common stock in connection with acquisition of Digital Video Arts, Ltd. | 312,922 | 3 | 998 | (602) | -- | -- | 399 |
| Balance at December 31, 1996 \$ 4,262 | 19,601,772 | 196 | 27,101 | 4,932 | -- | -- | 32,229 |
| Purchase of treasury stock | (13,500) | -- | -- | -- | -- | -- | -- |
| Compensation expense associated with stock issuance | -- | -- | 45 | -- | -- | -- | 45 |
| Issuance of common stock pursuant to exercise of stock options | 133,499 | 1 | 203 | -- | -- | -- | 204 |
| Issuance of common stock in connection with employee stock purchase plan | 44,042 | 1 | 478 | -- | -- | -- | 479 |
| Issuance of common stock in connection with acquisition of IPC Interactive, Pte. Ltd. | 937,500 | 9 | 4,321 | -- | -- | -- | 4,330 |
| Translation adjustment 14 | -- | -- | -- | -- | 14 | -- | 14 |
| Net loss (2,297) | -- | -- | -- | (2,297) | -- | -- | (2,297) |
| Comprehensive loss \$(2,283) | | | | | | | |
| Balance at December 31, 1997 | 20,703,313 | 207 | 32,148 | 2,635 | 14 | -- | 35,004 |
| Issuance of common stock pursuant to exercise of stock options | 135,790 | 1 | 507 | -- | -- | -- | 508 |
| Issuance of common stock in connection with employee stock purchase plan | 79,157 | 1 | 405 | -- | -- | -- | 406 |
| Compensation expense associated with stock issuance | -- | -- | 47 | -- | -- | -- | 47 |
| Translation adjustment (73) | -- | -- | -- | -- | (73) | -- | (73) |
| Net loss (4,572) | -- | -- | -- | (4,572) | -- | -- | (4,572) |
| Comprehensive loss | | | | | | | |

\$ (4,645)

Balance at
December 31, 1998 20,918,260 \$ 209 \$33,107 \$ (1,937) \$ (59) \$ -- \$31,320

</TABLE>

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

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

<TABLE>
<CAPTION>

| Comprehensive income (loss) | Common Stock | | Additional paid-in capital | Retained earnings (accumulated deficit) | Cumulative translation adjustment | Treasury stock | Total stockholders' equity |
|--|------------------|-----------|----------------------------|---|-----------------------------------|----------------|----------------------------|
| | Number of shares | Par value | | | | | |
| | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Issuance of common stock pursuant to exercise of stock options | 310,753 | \$ 3 | \$ 1,195 | \$ -- | \$ -- | \$ -- | \$ 1,198 |
| Issuance of common stock in connection with employee stock purchase plan | 87,014 | 1 | 422 | -- | -- | -- | 423 |
| Issuance of common stock in connection with Digital Video Arts, Ltd. acquisition | 17,078 | -- | 528 | -- | -- | -- | 528 |
| Purchase of treasury stock | (47,250) | -- | -- | -- | -- | (1) | (1) |
| Tax benefit from stock options | -- | -- | 382 | -- | -- | -- | 382 |
| Translation adjustment (6) | -- | -- | -- | -- | (6) | -- | (6) |
| Net income 497 | -- | -- | -- | 497 | -- | -- | 497 |
| Comprehensive income \$ 491 | | | | | | | |
| Balance at December 31, 1999 | 21,285,855 | \$ 213 | \$35,634 | \$ (1,440) | \$ (65) | \$ (1) | \$34,341 |

</TABLE>

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

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

<TABLE>
<CAPTION>

| December 31, | Year ended | |
|--------------|------------|------|
| | 1997 | 1998 |
| 1999 | | |

| <S> | <C> | <C> |
|---|------------|--------|
| <C> | | |
| Cash flows from operating activities | | |
| Net income (loss) | \$ (2,297) | \$ |
| (4,572) \$ 497 | | |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,816 | 4,813 |
| 4,218 | | |
| Inventory valuation allowance | 1,730 | |
| 2,016 458 | | |
| Compensation expense associated with stock and stock options | 45 | 47 |
| -- | | |
| Write-off of acquired in-process research and development | 5,290 | -- |
| -- | | |
| Acquisition costs | -- | -- |
| 684 | | |
| Deferred income taxes | (516) | |
| (876) (933) | | |
| Changes in assets and liabilities, net of the effect of the acquisition of IPC Interactive Pte. Ltd. in 1997: | | |
| Accounts receivable | (4,410) | |
| (6,525) (177) | | |
| Inventories | (7,049) | |
| (4,368) (4,257) | | |
| Income taxes receivable | (1,131) | |
| (986) 2,057 | | |
| Prepaid expenses and other assets | (331) | |
| (624) 192 | | |
| Accounts payable | (1,179) | |
| 1,255 4,935 | | |
| Accrued expenses | (87) | |
| 656 (61) | | |
| Customer deposits | (3,260) | |
| (345) 388 | | |
| Deferred revenue | 1,273 | |
| 1,644 441 | | |
| Income taxes payable | 85 | |
| 390 200 | | |
| -- | ----- | ----- |
| Net cash provided by (used in) operating activities | (9,021) | |
| (7,475) 8,642 | ----- | ----- |
| -- | | |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (2,187) | |
| (3,816) (3,130) | | |
| 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 te. Ltd., net of transaction costs | | |
| | 665 | -- |
| -- | ----- | ----- |
| Net cash provided by (used in) investing activities | (10,832) | 5,494 |
| (3,130) | ----- | ----- |
| -- | | |
| Cash flows from financing activities | | |
| Proceeds from borrowings under equipment line of credit | -- | 1,226 |
| 1,106 | | |
| Proceeds from borrowings under line of credit | -- | 2,000 |
| -- | | |
| Repayments under line of credit and equipment line of credit | (1,137) | -- |
| (2,245) | | |
| Repayment of obligation under capital lease | -- | |
| (18) (500) | | |
| Proceeds from issuance of common stock | 683 | 914 |
| 2,003 | ----- | ----- |
| -- | | |
| Net cash provided by (used in) financing activities | (454) | 4,122 |
| 364 | ----- | ----- |

| | | | |
|-----------|-------|--|-------------------|
| -- | ----- | | |
| | | Net increase (decrease) in cash and cash equivalents | (20,307) 2,141 |
| 5,876 | | | |
| | | Cash and cash equivalents, beginning of year | 23,608 3,301 |
| 5,442 | | | |
| -- | ----- | | |
| | | Cash and cash equivalents, end of year | \$ 3,301 \$ 5,442 |
| \$ 11,318 | | | |
| | | | ===== |
| ===== | ===== | | |

</TABLE>

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

F-6

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

<TABLE>
<CAPTION>

| | Year ended December 31, | | |
|---|-------------------------|--------|----------|
| | 1997 | 1998 | 1999 |
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Supplemental disclosure of cash flow information: | | | |
| Income taxes paid | \$ 1,691 | \$ 132 | \$ 81 |
| Interest paid | \$ -- | \$ 35 | \$ 210 |
| Supplemental disclosure of noncash activity: | | | |
| Transfer of items originally classified as inventories to fixed assets | \$ 1,829 | \$ 584 | \$ 227 |
| Transfer of items originally classified as fixed assets to inventories | \$ -- | \$ 668 | \$ 3,055 |
| Equipment acquired under capital lease | \$ -- | \$ 374 | \$ 336 |
| 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.

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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, 1999, 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 title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed and determinable and collection of the related receivables is probable. 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. 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, 1998 and 1999, the Company had an allowance for doubtful accounts of \$870,000 and \$908,000, respectively, to provide for potential credit losses and such losses to date have not exceeded management's expectations.

In 1997, 1998 and 1999, revenues from the Company's five largest customers represented approximately 66%, 55% and 47%, respectively, of the Company's total revenues. In 1997, 1998 and 1999 three, two 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 1997, 1998 and 1999.

Use of Estimates

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

Cash, Cash Equivalents and Marketable Securities

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. Marketable securities are classified as available-for-sale and are carried at market value, and any unrealized gains or losses are recorded as a part of stockholders' equity. Gross unrealized gains and losses on securities for the years ended December 31, 1997, 1998 and 1999, the cost of which is based upon the specific identification method, were not significant.

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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 carrying value of goodwill and intangible assets is reviewed on a quarterly basis for the existence of facts and circumstances both internally and externally that may suggest impairment or that the useful lives of these assets are no longer appropriate. To date, no such impairment has occurred. The Company determines whether an impairment has occurred based on gross expected future cash flows and measures the amount of impairment based on the related future estimated discounted cash flows. The cash flow estimates used to determine the impairment, if any, contain management's best estimates, using appropriate and customary assumptions and projections at that time.

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. Amortization is based on the straight-line method over the remaining estimated life of the product. 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. Non-employee 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.

Comprehensive Income

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

of cumulative translation adjustments.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising costs were \$659,000, \$624,000 and \$857,000 for the years ended December 31, 1997, 1998 and 1999 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, 702,467 and 360,966 common shares issuable upon the exercise of stock options, respectively, and 3,992,738 and 1,791,732 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, | | |
|---|-------------------------|------------|------------|
| | 1997 | 1998 | 1999 |
| <S> | <C> | <C> | <C> |
| Weighted average shares used in calculating earnings per share- Basic | 15,716,000 | 18,982,000 | 20,883,000 |
| Shares attributable to unvested restricted common stock | -- | -- | 2,000 |
| Acquisition escrow shares | -- | -- | 1,000 |
| Dilutive stock options | -- | -- | 888,000 |
| Weighted average shares used in calculating earnings per share- Diluted | 15,716,000 | 18,982,000 | 21,774,000 |

</TABLE>

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, collectively referred to as derivatives, and for hedging activities. The Company will adopt SFAS No. 133 as required by SFAS No. 137, "Deferral of the effective date of the FASB Statement No. 133," in fiscal year 2001. To

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

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 our financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes the SEC's view in applying generally accepted accounting principles to selected revenue recognition issues. The application of the guidance in SAB 101 will be required in the Company's second quarter of the fiscal year 2000. The effects of applying this guidance, if any, will be reported as a cumulative effect adjustment resulting from a change in accounting principle. The Company's evaluation of SAB 101 is not yet complete.

Inventories consist of the following:

<TABLE>
<CAPTION>

| | December 31, | |
|---------------------------|--------------|--------------|
| | 1998 | 1999 |
| <S> | <C> | <C> |
| Components and assemblies | \$14,592,000 | \$14,739,000 |
| Finished products | 1,565,000 | 2,389,000 |
| | ----- | ----- |
| | \$16,157,000 | \$17,128,000 |
| | ===== | ===== |

</TABLE>

Property and equipment consist of the following:

<TABLE>
<CAPTION>

| | Estimated useful life (years) | December 31, | |
|---|-------------------------------------|--------------|--------------|
| | | 1998 | 1999 |
| <S> | <C> | <C> | <C> |
| Office furniture and equipment | 5 | \$ 1,602,000 | \$ 1,645,000 |
| Computer and demonstration equipment | 3 | 9,139,000 | 12,213,000 |
| Deployed assets | 3-7 | 1,789,000 | 4,065,000 |
| Service and spare components | 5 | 2,584,000 | 2,584,000 |
| Leasehold improvements | 1-7 | 760,000 | 1,096,000 |
| Automobiles | 5 | 56,000 | 56,000 |
| | | ----- | ----- |
| | | 15,930,000 | 21,659,000 |
| | | | |
| Less -- Accumulated depreciation and amortization | | 7,880,000 | 11,121,000 |
| | | ----- | ----- |
| | | \$ 8,050,000 | \$10,538,000 |
| | | ===== | ===== |

</TABLE>

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

Depreciation expense was \$2,529,000, \$3,857,000 and \$3,806,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

Accrued expenses consist of the following:

<TABLE>
<CAPTION>

| | December 31, | |
|-------------------------------|--------------|-------------|
| | 1998 | 1999 |
| <S> | <C> | <C> |
| Accrued software license fees | \$1,206,000 | \$1,565,000 |
| Accrued sales and use taxes | 733,000 | 647,000 |
| Other accrued expenses | 1,465,000 | 1,287,000 |
| | ----- | ----- |
| | \$3,404,000 | \$3,499,000 |
| | ===== | ===== |

</TABLE>

4. Segment Information

The Company has five reportable segments: digital advertising insertion, movies systems, broadcast systems, interactive television systems (ITV) and services. The digital advertising insertion systems segment provides products to digitally manage, store and distribute digital video for television operators and telecommunications companies. The 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 ITV segment comprises products to provide long-form video storage and delivery for television operators and telecommunication companies for the residential market. 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, | | |
|-------------------------------|-------------------------|--------------|--------------|
| | 1997 | 1998 | 1999 |
| <S> | <C> | <C> | <C> |
| Revenues | | | |
| Digital advertising insertion | \$55,977,000 | \$44,088,000 | \$44,553,000 |
| Movies | 4,437,000 | 9,722,000 | 6,582,000 |
| Broadcast | -- | 4,223,000 | 16,793,000 |
| ITV | -- | -- | 529,000 |
| Services | 8,268,000 | 14,891,000 | 16,764,000 |
| | ----- | ----- | ----- |
| | \$68,682,000 | \$72,924,000 | \$85,221,000 |
| | ----- | ----- | ----- |
| Costs of revenues | | | |
| Digital advertising insertion | \$32,356,000 | \$26,551,000 | \$25,302,000 |
| Movies | 2,384,000 | 6,801,000 | 4,057,000 |
| Broadcast | -- | 2,420,000 | 9,187,000 |
| ITV | -- | -- | 343,000 |
| Services | 7,898,000 | 13,611,000 | 14,962,000 |
| | ----- | ----- | ----- |
| | \$42,638,000 | \$49,383,000 | \$53,851,000 |
| | ----- | ----- | ----- |

</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, | | |
|--------------------------|-------------------------|--------------|--------------|
| | 1997 | 1998 | 1999 |
| <S> | <C> | <C> | <C> |
| Revenues | | | |
| United States | \$60,650,000 | \$63,497,000 | \$65,730,000 |
| Canada and South America | 2,696,000 | 691,000 | 5,371,000 |
| Europe | 4,481,000 | 4,272,000 | 9,777,000 |
| Rest of world | 855,000 | 4,464,000 | 4,343,000 |
| | ----- | ----- | ----- |
| | \$68,682,000 | \$72,924,000 | \$85,221,000 |
| | ===== | ===== | ===== |

</TABLE>

For the years ended December 31, 1997, 1998 and 1999, certain customers accounted for more than 10% of the Company's revenues. Individual customers accounted for 24%, 17% and 10% in 1997; 24% and 15% in 1998; and 15% and 10% in 1999.

5. Acquisitions and Restructuring of Operations

Acquisitions

On December 30, 1999, the Company acquired all of the authorized and outstanding common stock of Digital Video Arts, Ltd. ("DVA") in exchange for 330,000 shares of the Company's common stock using an exchange ratio of 0.033 of one share of the Company's common stock for each DVA share. The acquisition was accounted for as a pooling of interests. DVA is a developer of custom software products specializing in digital video and interactive television. As a result of the acquisition, DVA became a wholly-owned subsidiary of the Company. Total revenues of \$85.2 million for the year ended December 31, 1999 consisted of \$84.2 million of the Company's revenues and \$1.0 million of DVA's revenues. Net income of \$497,000 for the same period consisted of the Company's net income of \$1.1

million and DVA's net loss of \$592,000. Included in net income were acquisition costs of \$684,000 consisting primarily of professional service fees. All intercompany transactions were eliminated in consolidation. Due to the acquisition, DVA's previously unrecognized tax benefits of operating loss carryforwards were recognized by the combined Company in the applicable period. The accompanying consolidated financial statements for all the periods presented have been restated to include the results of operations, financial position and cash flows of DVA.

On December 10, 1997, the Company exchanged 937,500 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 consideration, 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> | |
|-------------------------------------|--------------|
| <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 | \$61,229,000 | \$76,368,000 |
| Net income (loss) | \$716,000 | \$(3,280,000) |
| Basic earnings (loss) per share | \$.09 | \$ (.21) |
| Diluted earnings (loss) per share | \$.04 | \$ (.21) |

</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 had 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 expired in October 1999 and was subsequently extended until March 31, 2000. The equipment line of credit expired in June 1999 and was subsequently extended until March 31, 2000. Borrowings under the lines of credit are secured by substantially all of the Company's assets. Loans made under the revolving line of credit bear interest at a rate per annum equal to the bank's base rate plus .5%. Loans made under the equipment line of credit bear interest at a rate per annum equal to the bank's base rate plus 1.0% (9.5% at December 31, 1999). 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, 1999 the Company was in compliance with all covenants. As of December 31, 1999, there were no borrowings under the revolving line of credit. As of December 31, 1999, borrowings against the equipment line of credit were \$1,688,000. Maturities of the equipment line of credit are \$859,000, \$614,000 and \$215,000 in 2000, 2001 and 2002, respectively.

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

7. Income Taxes

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

<TABLE>
<CAPTION>

| | Year ended December 31, | | |
|----------|-------------------------|----------------|------------|
| | 1997 | 1998 | 1999 |
| <S> | <C> | <C> | <C> |
| Domestic | \$ (521,000) | \$ (7,361,000) | \$ 331,000 |
| Foreign | -- | -- | 151,000 |
| | ----- | ----- | ----- |
| | \$ (521,000) | \$ (7,361,000) | \$ 482,000 |
| | ===== | ===== | ===== |

</TABLE>

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

<TABLE>
<CAPTION>

| | Year ended December 31, | | |
|------------------------------|-------------------------|----------------|-------------|
| | 1997 | 1998 | 1999 |
| <S> | <C> | <C> | <C> |
| Current provision (benefit): | | | |
| Federal | \$ 1,920,000 | \$ (1,913,000) | \$ 532,000 |
| State | 371,000 | -- | 354,000 |
| Foreign | -- | -- | 56,000 |
| | ----- | ----- | ----- |
| | 2,291,000 | (1,913,000) | 942,000 |
| | ----- | ----- | ----- |
| Deferred benefit: | | | |
| Federal | (394,000) | (124,000) | (586,000) |
| State | (121,000) | (752,000) | (371,000) |
| Foreign | -- | -- | -- |
| | ----- | ----- | ----- |
| | (515,000) | (876,000) | (957,000) |
| | ----- | ----- | ----- |
| | \$ 1,776,000 | \$ (2,789,000) | \$ (15,000) |
| | ===== | ===== | ===== |

</TABLE>

The components of deferred income taxes are as follows:

<TABLE>
<CAPTION>

| | December 31, | |
|--|--------------|-------|
| | 1998 | 1999 |
| | ----- | ----- |
| | 1998 | 1999 |
| | ----- | ----- |

| <S> | <C> | <C> |
|--|--------------|--------------|
| Deferred tax assets: | | |
| Inventories | \$ 1,299,000 | \$ 1,282,000 |
| Allowance for doubtful accounts | 320,000 | 405,000 |
| Deferred revenue | 126,000 | 115,000 |
| Software | 111,000 | 107,000 |
| Accrued expenses | 153,000 | 135,000 |
| Property and equipment | -- | 104,000 |
| Research and development credit carryforwards | -- | 198,000 |
| State net operating loss carryforwards | 398,000 | 554,000 |
| Acquired net operating loss carryforwards and basis differences | 3,361,000 | 3,361,000 |
| | ----- | ----- |
| | 5,768,000 | 6,261,000 |
| Valuation allowance | (3,361,000) | (3,361,000) |
| | ----- | ----- |
| Total deferred tax assets | 2,407,000 | 2,900,000 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Property and equipment | 430,000 | -- |
| Other | 10,000 | -- |
| | ----- | ----- |
| Total deferred tax liabilities | 440,000 | -- |
| | ----- | ----- |
| Net deferred income taxes | \$ 1,967,000 | \$ 2,900,000 |
| | ===== | ===== |

</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, 1998 and 1999 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.

U.S. federal income taxes are not provided for on the earnings of the non-U.S. subsidiaries which are expected to be reinvested indefinitely in operations outside the U.S.

At December 31, 1999, the Company had state net operating loss carryforwards of approximately \$5,127,000 which expire at various dates through 2013.

The income tax provision (benefit) 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, | | |
|-----|-------------------------|-------|-------|
| | ----- | ----- | ----- |
| | 1997 | 1998 | 1999 |
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |

| | | | |
|---|--------------|----------------|-------------|
| Statutory U.S. federal tax rate | \$ (91,000) | \$ (2,552,000) | \$ 164,000 |
| State taxes after state tax credits, net of federal tax benefits | 165,000 | (496,000) | (12,000) |
| Other | 145,000 | 355,000 | 98,000 |
| Research and development tax credits | (334,000) | (316,000) | (446,000) |
| Non-deductible acquisition costs | -- | -- | 233,000 |
| Acquired net operating losses | -- | -- | (192,000) |
| Nondeductible expenses, including write-off of acquired in-process research and development in 1997 | 1,891,000 | 220,000 | 140,000 |
| | ----- | ----- | ----- |
| | \$ 1,776,000 | \$ (2,789,000) | \$ (15,000) |
| | ===== | ===== | ===== |

</TABLE>

The Company's effective tax benefit rate was 37.9% and 3% in 1998 and 1999, respectively. In the second quarter of 1999, the separate return limitation year (SRLY) regulations were finalized to allow for the use of acquired net operating loss carryforwards where an ownership change and an acquisition has taken place within a six month period. As a result of the Company's acquisition of DVA, the Company recorded a tax benefit of \$192,000 in the second quarter of 1999 related to the use of DVA's net operating loss carryforwards. In the fourth quarter of 1999, the federal research and development tax credit was retroactively extended through June 30, 2004. As a result, the Company recorded a tax benefit of \$446,000 in the fourth quarter of 1999 related to the utilization of these tax credits.

8. Common Stock

Stock Split

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

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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, 1999, 59,738 of such shares are unvested.

Treasury Stock

In 1997 and in 1999, the Company repurchased 13,500 and 47,250 shares of its common stock, respectively, from employees of the Company. The 1997 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, 1999, the Company had 1,475,575 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 450,000 shares of common stock to participating employees who meet eligibility requirements. Employees who would immediately after the grant own 5% or more of the total combined voting power or value of 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, 1998, and 1999, 44,042, 79,157, and 87,014 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 2,925,000 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 45,000 shares of common stock under the Director Option Plan. Under the Director Option Plan, participating directors receive an option to purchase 5,062 shares of common stock per annum. Options granted under the Director Option Plan vest as to 33-1/3% of the shares underlying the option immediately upon the date of the grant, and vest as to an additional 8-1/3% of the shares underlying the option at the end of each of the next 8 quarters, provided that the optionee remains a director. Directors will also receive, on each three-year anniversary of such director's option grant date, an additional option to purchase 5,062 shares of common stock, provided that such director continues to serve on the Board of Directors. All options granted under the Director Option Plan have an exercise price equal to the fair value of the common stock on the date of grant and a term of ten years from the date of grant.

Transactions under the 1995 Stock Option Plan and the Director Option Plan during the years ended December 31, 1997, 1998 and 1999 are summarized as follows:

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

<TABLE>
<CAPTION>

Year ended December 31,

| | 1997 | 1998 |
|------|------|------|
| 1999 | | |

| Weighted average exercise price | Shares | Weighted average exercise price | Shares | Weighted average exercise price | Shares |
|--|-----------|--|-----------|--|-----------|
| - | ----- | ----- | ----- | ----- | ----- |
| <S> <C> | <C> | <C> | <C> | <C> | <C> |
| Outstanding at beginning of period \$5.34 | 1,109,001 | \$3.91 | 1,714,586 | \$7.60 | 2,113,824 |
| Granted 14.76 | 878,304 | 12.02 | 1,334,594 | 4.95 | 524,739 |
| Exercised (310,753) 3.94 | (133,499) | 1.53 | (135,790) | 3.71 | |
| Cancelled (287,757) 6.00 | (139,220) | 11.87 | (799,566) | 9.99 | |
| ===== | ===== | ===== | ===== | ===== | ===== |
| Outstanding at period end \$7.79 | 1,714,586 | \$7.60 | 2,113,824 | \$5.34 | 2,040,053 |
| ===== | ===== | ===== | ===== | ===== | ===== |
| Options exercisable at period end | 307,797 | | 473,465 | | 594,265 |
| Weighted average fair value of options granted during the period \$7.11 | | \$7.33 | | \$3.54 | |

The following table summarizes information about employee and director stock options outstanding at December 31, 1999:

<TABLE>
<CAPTION>

| Options outstanding at December 31, 1999 | | | |
|--|-----------------------|---|---------------------------------------|
| | Number outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price |
| <S> | <C> | <C> | <C> |
| Range of exercise prices | | | |
| \$0.33 | 32,192 | 5.65 | \$0.33 |
| 0.82 to 0.91 | 114,624 | 3.05 | 0.87 |
| 2.80 to 4.00 | 546,740 | 8.60 | 3.87 |
| 4.45 to 6.25 | 704,431 | 8.10 | 5.48 |
| 6.58 to 10.00 | 287,492 | 8.58 | 7.47 |
| 10.33 to 14.33 | 145,233 | 9.26 | 11.55 |
| 19.17 to 35.375 | 209,341 | 8.87 | 28.52 |
| | ----- | | |
| | 2,040,053 | | |
| | ===== | | |

<CAPTION>

| Options exercisable at December 31, 1999 | | |
|--|-----------------------|---------------------------------------|
| | Number exercisable | Weighted average exercise price |
| <S> | <C> | <C> |
| Range of exercise prices | | |
| \$0.33 | 26,496 | \$0.33 |
| 0.82 to 0.91 | 88,704 | 0.87 |
| 2.80 to 4.00 | 149,150 | 3.74 |
| 4.45 to 6.25 | 233,144 | 5.41 |
| 6.58 to 10.00 | 46,179 | 7.63 |
| 10.33 to 14.33 | 11,757 | 12.90 |
| 19.17 to 35.375 | 38,835 | 19.35 |
| | ----- | |
| | 594,265 | |
| | ===== | |

</TABLE>

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

Fair Value Disclosures

The Company applies APB 25 in accounting for employee stock awards. Compensation expense of \$45,000, \$47,000 and \$-- has been recorded for the years ended December 31, 1997, 1998 and 1999, 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:

<TABLE>
<CAPTION>

| | Year ended December 31, | | |
|-----------------------------------|-------------------------|---------------|-----------|
| | 1997 | 1998 | 1999 |
| <S> | <C> | <C> | <C> |
| Net income (loss) | | | |
| As reported | \$(2,297,000) | \$(4,572,000) | \$497,000 |
| Pro forma | \$(3,167,000) | \$(6,456,000) | \$122,000 |
| Basic earnings (loss) per share | | | |
| As reported | \$ (.15) | \$ (.24) | \$.02 |
| Pro forma | \$ (.20) | \$ (.34) | \$.01 |
| Diluted earnings (loss) per share | | | |
| As reported | \$ (.15) | \$ (.24) | \$.02 |
| Pro forma | \$ (.20) | \$ (.34) | \$.01 |

</TABLE>

The fair value of each option granted was estimated on the date of grant assuming a weighted average volatility factor of 67% for the years ended December 31, 1997 and 1998 and 46% for the year ended December 31, 1999. Additional weighted average assumptions used for grants during the years ended December 31, 1997, 1998 and 1999 included: dividend yield of 0.0% for all periods; risk-free interest rates of 5.70% to 6.75% for options granted during the year ended December 31, 1997, 6.00% for options granted during the year ended December 31, 1998, and 5.54% for options granted during the year ended December 31, 1999; and an expected option term of 5 years for all periods.

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

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 long-term incentive to employees. Accordingly, the Committee granted those employees whose options were between \$10.00 and \$16.42 per share an opportunity to cancel their existing options for new options on a 1-for-1 basis, with a new five-year vesting schedule beginning on January 23, 1998. Employees whose options were above \$16.42 were offered an opportunity to cancel their existing options for new options on a 2-for-3 basis, with no change in their original vesting schedule. As a result of this stock option repricing, new options were granted to purchase 319,169 shares of common stock and the average exercise price of such options was reduced from \$14.79 per share to \$5.50 per share, the fair market value of 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 \$5.50 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 non-cancelable capital and operating leases, which expire at various dates through 2005. Rental expense under operating leases was approximately \$600,000,

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

\$1,341,000 and \$1,681,000 for the years ended December 31, 1997, 1998 and 1999, respectively. Future commitments under minimum lease payments as of December 31, 1999 are as follows:

<TABLE>
<CAPTION>

| <S> | | Capital <C> | Operating <C> |
|------------------------------------|------------|----------------|------------------|
| Year ended December 31, 2000 | | \$ 236,000 | \$1,680,000 |
| | 2001 | 221,000 | 1,411,000 |
| | 2002 | 156,000 | 895,000 |
| | 2003 | 67,000 | 714,000 |
| | 2004 | -- | 687,000 |
| | Thereafter | -- | 171,000 |
| | | ----- | |
| Minimum lease payments | | 680,000 | |
| Less: Amount representing interest | | 89,000 | |
| | | ----- | |
| | | \$ 591,000 | |
| | | ===== | |

</TABLE>

The Company had non-cancelable purchase commitments for inventories of approximately \$1,600,000 at December 31, 1999.

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, 1998 and 1999, the Company contributed \$68,000, \$189,000 and \$225,000, respectively, 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 31, 2000 appearing in the 1999 Annual Report to Shareholders of SeaChange International, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10K) 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.

/s/PricewaterhouseCoopers LLP
Boston, Massachusetts
January 31, 2000

FIRST LOAN MODIFICATION AGREEMENT

The First Loan Modification Agreement is entered into as of _____, 2000, by and between SEACHANGE INTERNATIONAL, INC., a Delaware corporation with its principal place of business at 124 Acton Street, Maynard, Massachusetts ("Borrower"), and SILICON VALLEY BANK, a California-chartered bank ("Lender"), with its principal place of business at 3003 Tasman Drive, Santa Clara, CA 95054 and with a loan production office located at Wellesley Office Park, 40 William Street, Suite 350, Wellesley, MA 02481, doing business under the name "Silicon Valley East."

1. DESCRIPTION OF EXISTING INDEBTEDNESS. Among other indebtedness which may

 be owing by Borrower to Lender, Borrower is indebted to Lender pursuant to, among other documents, a Loan and Security Agreement dated November 10, 1998 (as may be amended, the "Loan Agreement"). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Agreement.

Hereinafter, all indebtedness owing by Borrower to Lender shall be referred to as the "Indebtedness".

2. DESCRIPTION OF COLLATERAL AND GUARANTIES. Repayment of the Indebtedness is

 secured by the Collateral as described in the Loan Agreement (together with any other collateral security granted to Lender, the "Security Documents").

Hereinafter, the Security Documents, together with all other documents evidencing or securing the Indebtedness shall be referred to as the "Existing Loan Documents".

3. DESCRIPTION OF CHANGE IN TERMS.

 A. Modification(s) to Loan Agreement.

1. The Loan Agreement shall be amended by deleting the following definition for Committed Equipment Line:

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

and substituting therefor the following:

"Committed Equipment Line" means a credit extension of up to Three Million Dollars (\$3,000,000.00) for Equipment Line No. 1, and Equipment Line No. 2, plus Two Million Dollars (\$2,000,000.00) for Equipment Line No. 3.

2. The Loan Agreement shall be amended by inserting into Section 1.1, the following definitions:

"Equipment Line No. 1" has the meaning set forth in Section 2.1.2.

"Equipment Line No. 2" has the meaning set forth in Section 2.1.2.

"Equipment Line No. 3" has the meaning set forth in Section 2.1.2.

"Equipment Availability End Date No. 3" has the meaning set forth in Section 2.1.2.

"Equipment Maturity Date No. 3" means March 31, 2003.

3. The Loan Agreement shall be amended by deleting the following Section 2.1.2:

"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 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.

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- (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."

and substituting therefor the following:

"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 once advance to take place
-
- days after the Closing Date (the "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"), and (iii) at any time

and from time to time from March 13, 2000 through March 31, 2000 (the "Equipment Availability End Date No. 3") in the aggregate outstanding amount not to exceed Two Million Dollars (\$2,000,000.00) (the "Equipment Line No. 3"). 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. Equipment Advance requests under Equipment Line No. 3 shall be used only for Equipment purchased through March 31, 2000. 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, and Equipment Line No. 3, each of (i) and (ii) excluding taxes, shipping, warrant charges, freight discounts, and installation expense.

- (b) Interest shall accrue from the date of each Equipment Advance at the per annum rate of: (i) for Equipment Line No. 1, and Equipment Line No. 2, one percent (1.0%) above the Prime Rate, and (ii) for Equipment Line No. 3, at one half of one percent (.50%) above the Prime Rate. Interest shall be payable monthly on the Payment Date of each month. Any Equipment

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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. Any Equipment Advances made pursuant to the Equipment Line No. 3 that are outstanding on the Equipment Availability End Date No. 3 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. 3 and ending on the Equipment Maturity Date No. 3. 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. The Loan Agreement shall be amended by deleting the following in Section 6.3:

"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

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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."

and inserting in lieu thereof the following:

"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 one hundred twenty (120) 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 effects 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 quarterly financial statements a Compliance Certificate signed by a Responsible Officer in substantially the form of Exhibit D hereto.

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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."

3. The Loan Agreement shall be amended by deleting the following financial covenants appearing as Sections 6.8 through 6.12:

"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."

and substituting the following:

"6.8 [Intentionally Deleted]

6.9 [Intentionally Deleted]

6.10 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 1.0 to 1.0.

6.11 Tangible Net Worth. Borrower shall maintain, measured as of the last day of each quarter, a Tangible Net Worth of not less than Thirty Million (\$30,000,000.00) as of the month ending December 31, 1999, and as of the last day of each month thereafter.

6.12 Profitability. Borrower shall maintain, measured as of the last day of each quarter: (i) a profit of One Hundred Thousand Dollars (\$100,000.00) as of the last day of the first quarter of fiscal year 2000; (ii) a profit of Two Hundred Thousand

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Dollars (\$200,000.00) as of the last day of the second and third quarters of fiscal year 2000; and (iii) a profit of Three Hundred Thousand Dollars (\$300,000.00) as of the last day of the fourth quarter of fiscal year 2000, with an allowance for one quarterly loss during such fiscal year of no greater than One Hundred Thousand Dollars (\$100,000.00). Notwithstanding the foregoing, the Borrower shall maintain a profit for fiscal year

2. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

3. RATIFICATION OF LOAN DOCUMENTS. Borrower hereby ratifies, confirms, and reaffirms all terms and conditions of all security or other collateral granted to the Lender, and confirms that the indebtedness secured thereby includes, without limitation, the Indebtedness.

4. NO DEFENSES OF BORROWER. Borrower agrees that, as of this date, it has no defenses against the obligations to pay any amounts under the Indebtedness.

5. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Indebtedness, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Lender's agreement to modifications to the existing Indebtedness pursuant to this Loan Modification Agreement in no way shall obligate Lender to make any future modifications to the Indebtedness. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Indebtedness. It is the intention of Lender and Borrower to retain as liable parties all makers and endorsers of Existing Loan Documents, unless the party is expressly released by Lender in writing. No maker, endorser, or guarantor will be released by virtue of this Loan Modification Agreement. The terms of this Paragraph apply not only to this Loan Modification Agreement, but also to all subsequent loan modification agreements.

6. JURISDICTION/VENUE. 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 Loan Modification Agreement; provided, however, that if for any reason Lender cannot avail itself of the courts of the Commonwealth of Massachusetts, then venue shall lie in Santa Clara County, California.

7. COUNTERSIGNATURE. This Loan Modification Agreement shall become effective only when it shall have been executed by Borrower and Lender (provided, however, in no event shall this Loan Modification Agreement become effective until signed by an officer of Lender in California).

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This Loan Modification Agreement is executed as of the date first written above.

BORROWER:

SEACHANGE INTERNATIONAL, INC.

By: /s/ WL FIEDLER

Name: WL FIEDLER

Title: Vice President

LENDER:

SILICON VALLEY BANK, doing business as
SILICON VALLEY EAST

By: _____
Name: _____
Title: _____

SILICON VALLEY BANK

By: _____
Name: _____
Title: _____

February 25, 2000

Seachange International, Inc.
124 Acton Street
Maynard, Massachusetts 02481
Attn: Mr. William Fiedler, Chief Financial Officer

Re: Silicon Valley Bank Loan Arrangement with
Seachange International, Inc.

Dear Sir/Madam:

Reference is made to a certain loan arrangement dated November 10, 1998 by and between Seachange International, Inc. (the "BORROWER") and Silicon Valley Bank (the "BANK"), evidenced by, among other documents, a certain Loan and Security Agreement between the Borrower and the Bank dated as of November 10, 1998 (as the same has been amended and extended to date, the "LOAN AGREEMENT"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement.

Notwithstanding anything to the contrary contained in the Loan Agreement or otherwise, the term "Revolving Maturity Date" as set forth in the Loan Agreement shall now mean and refer to the date March 31, 2000. Any and all Credit Extensions made pursuant to the Loan Agreement shall (i) continue to be secured by all Collateral, and (ii) be repaid in full at the earlier of (A) the occurrence of any Event of Default, or (B) March 31, 2000.

All other terms and conditions contained in the Loan Agreement shall remain in full force and effect.

Sincerely,

SILICON VALLEY BANK,
d/b/a SILICON VALLEY EAST

By: /s/ John K. Peck

Name: John K. Peck

Title: Vice President

ACCEPTED AND AGREED:

SEACHANGE INTERNATIONAL, INC.

By: /s/ WL Fiedler

Name: WL Fiedler

Title: Vice President

February 25, 2000

Silicon Valley Bank
40 William Street, Suite 350
Wellesley, Massachusetts 02181

Re: Silicon Valley Bank Loan Arrangements with
Seachange International, Inc.

Gentlemen:

Reference is made to a certain loan arrangement (the "Loan Arrangement") entered into as of November 10, 1998 by and between Seachange International, Inc. (the "Borrower") and Silicon Valley Bank (the "Bank"), evidenced by, among other documents, a certain Loan and Security Agreement dated as of November 10, 1998 by and between the Borrower and Bank (as amended and extended to date, the "Loan Agreement").

Reference is further made to a certain Unconditional Guaranty (the "Guaranty") dated November 10, 1998, executed and delivered by the undersigned (the "Guarantor"), pursuant to which the undersigned unconditionally guaranteed the prompt, punctual and faithful payment and performance of the obligations and liabilities of the Borrower to the Bank (the "Obligations").

The Guarantor hereby;

- (a) ratifies, confirms and reaffirms, all and singular, the terms and conditions for the Guaranty;
- (b) acknowledges, confirms and agrees that the Guaranty shall remain in full force and effect; and
- (c) acknowledges, confirms and agrees that the obligations and liabilities for Borrower to Bank under the Guaranty include, without limitation, the Loan Agreement and 2000 Agreement.

Further, the undersigned acknowledges, confirms and agrees that it has no offsets, defenses, claims or counterclaims against the Bank with respect to the Borrower's and/or the undersigned's respective liabilities and obligations due and owing to the Bank, and that to the extent that the undersigned has or has ever had any such offsets, defenses, claims or counterclaims, the undersigned hereby specifically WAIVES and RELEASES any and all rights to same.

This letter shall take effect as a sealed instrument under the laws of the Commonwealth of Massachusetts as of the date first written above.

Very truly yours,

("Guarantor")

GUESTSERVE NETWORKS, INC.

By: /s/ William L. Fiedler

Name: William L. Fiedler

Title: Vice President

(duly authorized)
February 25, 2000

Silicon Valley Bank
40 William Street, Suite 350
Wellesley, Massachusetts 02181

Re: Silicon Valley Bank Loan Arrangements with
Seachange International, Inc.

Gentlemen:

Reference is made to a certain loan arrangement (the "Loan Arrangement") entered into as of November 10, 1998 by and between Seachange International, Inc. (the "Borrower") and Silicon Valley Bank (the "Bank"), evidenced by, among other documents, a certain Loan and Security Agreement dated as of November 10, 1998 by and between the Borrower and Bank (as amended and extended to date, the "Loan Agreement").

Reference is further made to a certain Unconditional Guaranty (the "Guaranty") dated November 10, 1998, executed and delivered by the undersigned (the "Guarantor"), pursuant to which the undersigned unconditionally guaranteed the prompt, punctual and faithful payment and performance of the obligations and liabilities of the Borrower to the Bank (the "Obligations").

The Guarantor hereby;

- (a) ratifies, confirms and reaffirms, all and singular, the terms and conditions for the Guaranty;
- (b) acknowledges, confirms and agrees that the Guaranty shall remain in full force and effect; and
- (c) acknowledges, confirms and agrees that the obligations and liabilities for Borrower to Bank under the Guaranty include, without limitation, the Loan Agreement and 2000 Agreement.

Further, the undersigned acknowledges, confirms and agrees that it has no offsets, defenses, claims or counterclaims against the Bank with respect to the Borrower's and/or the undersigned's respective liabilities and obligations due and owing to the Bank, and that to the extent that the undersigned has or has ever had any such offsets, defenses, claims or counterclaims, the undersigned hereby specifically WAIVES and RELEASES any and all rights to same.

This letter shall take effect as a sealed instrument under the laws of the Commonwealth of Massachusetts as of the date first written above.

Very truly yours,

("Guarantor")

GUESTSERVE NETWORKS, INC.

By: /s/ William L. Fiedler

Name: William L. Fiedler

Title: Vice President

(duly authorized)

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 31, 2000 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 31, 2000 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP
Boston, Massachusetts
March 29, 2000

<TABLE> <S> <C>

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF SEACHANGE INTERNATIONAL, INC. FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

| <S> | <C> |
|------------------------------|-------------|
| <PERIOD-TYPE> | YEAR |
| <FISCAL-YEAR-END> | DEC-31-1999 |
| <PERIOD-START> | JAN-01-1999 |
| <PERIOD-END> | DEC-31-1999 |
| <CASH> | 11,318 |
| <SECURITIES> | 0 |
| <RECEIVABLES> | 18,846 |
| <ALLOWANCES> | (1,006) |
| <INVENTORY> | 17,128 |
| <CURRENT-ASSETS> | 50,097 |
| <PP&E> | 21,659 |
| <DEPRECIATION> | (11,121) |
| <TOTAL-ASSETS> | 62,304 |
| <CURRENT-LIABILITIES> | 26,732 |
| <BONDS> | 0 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 0 |
| <COMMON> | 213 |
| <OTHER-SE> | 34,128 |
| <TOTAL-LIABILITY-AND-EQUITY> | 62,304 |
| <SALES> | 85,221 |
| <TOTAL-REVENUES> | 85,221 |
| <CGS> | 53,851 |
| <TOTAL-COSTS> | 0 |
| <OTHER-EXPENSES> | 30,916 |
| <LOSS-PROVISION> | 0 |
| <INTEREST-EXPENSE> | (28) |
| <INCOME-PRETAX> | 482 |
| <INCOME-TAX> | (15) |
| <INCOME-CONTINUING> | 497 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 497 |
| <EPS-BASIC> | .02 |
| <EPS-DILUTED> | .02 |

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<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF SEACHANGE INTERNATIONAL INC. FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998 AND 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<RESTATED>

<MULTIPLIER> 1,000

| <S> | <C> | <C> |
|------------------------------|-------------|-------------|
| <PERIOD-TYPE> | YEAR | YEAR |
| <FISCAL-YEAR-END> | DEC-31-1998 | DEC-31-1997 |
| <PERIOD-START> | JAN-01-1998 | JAN-01-1997 |
| <PERIOD-END> | DEC-31-1998 | DEC-31-1997 |
| <CASH> | 5,442 | 3,301 |
| <SECURITIES> | 0 | 9,310 |
| <RECEIVABLES> | 18,553 | 13,253 |
| <ALLOWANCES> | (870) | 12,694 |
| <INVENTORY> | 16,157 | 13,721 |
| <CURRENT-ASSETS> | 45,051 | 42,459 |
| <PP&E> | 15,930 | 12,369 |
| <DEPRECIATION> | (7,880) | 4,023 |
| <TOTAL-ASSETS> | 54,527 | 52,512 |
| <CURRENT-LIABILITIES> | 22,180 | 17,510 |
| <BONDS> | 0 | 0 |
| <PREFERRED-MANDATORY> | 0 | 0 |
| <PREFERRED> | 0 | 0 |
| <COMMON> | 209 | 207 |
| <OTHER-SE> | 31,111 | 34,797 |
| <TOTAL-LIABILITY-AND-EQUITY> | 54,527 | 52,527 |
| <SALES> | 72,924 | 68,682 |
| <TOTAL-REVENUES> | 72,924 | 68,682 |
| <CGS> | 49,383 | 42,638 |
| <TOTAL-COSTS> | 0 | 0 |
| <OTHER-EXPENSES> | 31,137 | 27,228 |
| <LOSS-PROVISION> | 0 | 0 |
| <INTEREST-EXPENSE> | (235) | (663) |
| <INCOME-PRETAX> | (7,361) | (521) |
| <INCOME-TAX> | (2,789) | 1,776 |
| <INCOME-CONTINUING> | (4,572) | (2,297) |
| <DISCONTINUED> | 0 | 0 |
| <EXTRAORDINARY> | 0 | 0 |
| <CHANGES> | 0 | 0 |
| <NET-INCOME> | (4,572) | (2,297) |
| <EPS-BASIC> | (.24) | (.15) |
| <EPS-DILUTED> | (.24) | (.15) |

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