

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 0-21393

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

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

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

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

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

YES NO

The number of shares outstanding of the registrant's Common Stock on December 12, 2000 was 22,015,967.

SEACHANGE INTERNATIONAL, INC.

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Item 1. Financial Statements

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

| | October 31, ----- 2000 ----- <C> | December 31, ----- 1999 ----- <C> |
|--|--|---|
| <S> | | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 7,244 | \$11,318 |
| Accounts receivable, net of allowance for doubtful accounts of \$638 at October 31, 2000 and \$908 at December 31, 1999 | 23,457 | 17,840 |
| Inventories | 23,468 | 17,128 |
| Prepaid expenses and other current assets | 3,947 | 1,568 |
| Deferred income taxes | 3,399 | 2,243 |
| | ----- | ----- |
| Total current assets | 61,515 | 50,097 |
| Property and equipment, net | 14,171 | 10,538 |
| Other assets | 907 | 884 |
| Goodwill and intangibles, net | 2,605 | 785 |
| | ----- | ----- |
| | \$79,198 | \$62,304 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Current portion of equipment line of credit and obligations under capital lease | \$ 2,335 | \$ 1,048 |
| Accounts payable | 14,927 | 15,038 |
| Accrued expenses | 1,972 | 3,499 |
| Customer deposits | 3,873 | 2,092 |
| Deferred revenue | 6,701 | 4,380 |
| Income taxes payable | 437 | 675 |
| | ----- | ----- |
| Total current liabilities | 30,245 | 26,732 |
| | ----- | ----- |
| Long-term equipment line of credit and obligations under capital lease | 4,024 | 1,231 |
| | ----- | ----- |
| Commitments and contingencies (Note 8) | | |
| Stockholders' Equity | | |
| Common stock, \$.01 par value; 100,000,000 shares authorized; 21,956,614 and 21,285,855 shares issued at October 31, 2000 and December 31, 1999, respectively | 220 | 213 |
| Additional paid-in capital | 47,907 | 35,634 |
| Accumulated deficit | (3,033) | (1,440) |
| Treasury stock, 60,750 shares | (1) | (1) |
| Accumulated other comprehensive loss | (164) | (65) |
| | ----- | ----- |
| Total stockholders' equity | 44,929 | 34,341 |
| | ----- | ----- |
| | \$79,198 | \$62,304 |
| | ===== | ===== |

</TABLE>

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

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

| ended | Three months ended | | Nine months | |
|--------------------------------|--------------------|---------------|-------------|-------|
| -- | ----- | | ----- | |
| September 30, | October 31, | September 30, | October 31, | ----- |
| ----- | ----- | ----- | ----- | ----- |
| 1999 | 2000 | 1999 | 2000 | ----- |
| --- | --- | --- | --- | --- |
| <S> | <C> | <C> | <C> | <C> |
| Revenues | | | | |
| Systems | \$18,306 | \$17,507 | \$55,233 | |
| \$51,874 | | | | |
| Services | 5,916 | 4,202 | 16,892 | |
| 12,320 | ----- | ----- | ----- | ----- |
| --- | | | | |
| 64,194 | 24,222 | 21,709 | 72,125 | ----- |
| --- | ----- | ----- | ----- | ----- |
| Costs of revenues | | | | |
| Systems | 9,635 | 9,895 | 29,835 | |
| 29,848 | | | | |
| Services | 4,582 | 3,813 | 13,271 | |
| 10,890 | ----- | ----- | ----- | ----- |
| --- | | | | |
| 40,738 | 14,217 | 13,708 | 43,106 | ----- |
| --- | ----- | ----- | ----- | ----- |
| Gross profit | 10,005 | 8,001 | 29,019 | |
| 23,456 | ----- | ----- | ----- | ----- |
| --- | | | | |
| Operating expenses | | | | |
| Research and development | 5,101 | 3,979 | 14,456 | |
| 12,373 | | | | |
| Selling and marketing | 3,169 | 2,154 | 8,284 | |
| 6,181 | | | | |
| General and administrative | 1,675 | 1,332 | 4,977 | |
| 4,080 | ----- | ----- | ----- | ----- |
| --- | | | | |
| 22,634 | 9,945 | 7,465 | 27,717 | ----- |
| --- | ----- | ----- | ----- | ----- |
| Income from operations | 60 | 536 | 1,302 | |
| 822 | | | | |
| Interest income (expense), net | (54) | (13) | (30) | |
| 6 | ----- | ----- | ----- | ----- |
| --- | | | | |
| Income before income taxes | 6 | 523 | 1,272 | |
| 828 | | | | |
| Provision for income taxes | 2 | 231 | 407 | |
| 168 | ----- | ----- | ----- | ----- |
| --- | | | | |
| Net income | \$ 4 | \$ 292 | \$ 865 | \$ |
| 660 | ===== | ===== | ===== | ===== |
| ===== | | | | |

| | | | | |
|--|---------|---------|---------|----|
| Basic and diluted earnings per share 0.03 | \$ 0.00 | \$ 0.01 | \$ 0.04 | \$ |
| ===== | ===== | ===== | ===== | |
| Shares used in calculating: | | | | |
| Basic earnings per share 20,876 | 21,855 | 20,978 | 21,668 | |
| ===== | ===== | ===== | ===== | |
| Diluted earnings per share 21,607 | 23,218 | 22,063 | 23,170 | |
| ===== | ===== | ===== | ===== | |

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

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

<TABLE>
<CAPTION>

| | For the nine months ended | |
|---|---------------------------|---------------|
| | October 31, | September 30, |
| | 2000 | 1999 |
| | ---- | ---- |
| <S> | <C> | <C> |
| Cash flows from operating activities | | |
| Net income | \$ 865 | \$ 660 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 3,546 | 3,019 |
| Inventory valuation allowance | 149 | 558 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (6,528) | (1,950) |
| Inventories | (3,204) | (188) |
| Prepaid expenses, other current assets and other assets | (2,455) | 1,524 |
| Accounts payable | 4,476 | 1,371 |
| Accrued expenses | (804) | (327) |
| Customer deposits | 1,445 | 432 |
| Deferred revenue | 409 | 1,213 |
| Income taxes payable | 107 | 148 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | (1,994) | 6,460 |
| | ----- | ----- |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (7,367) | (1,918) |
| Increase in intangible assets | (2,209) | -- |
| | ----- | ----- |
| Net cash used in investing activities | (9,576) | (1,918) |
| | ----- | ----- |
| Cash flows from financing activities | | |
| Proceeds from borrowings under construction loan | 1,044 | -- |
| Proceeds from borrowings under equipment line of credit | 4,324 | 1,116 |
| Repayments under equipment line of credit | (1,017) | (2,245) |
| Repayments of obligation under capital lease | (181) | (250) |
| Proceeds from issuance of common stock | 11,923 | 931 |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 16,093 | (448) |
| | ----- | ----- |
| Net increase in cash and cash equivalents | 4,523 | 4,094 |
| Cash and cash equivalents, beginning of period | 2,721 | 5,442 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 7,244 | \$ 9,536 |
| | ===== | ===== |

Supplemental disclosure of noncash activity:

| | | | | |
|--|----|-----|----|-------|
| Transfer of items originally classified as inventories to fixed assets | \$ | -- | \$ | 2,576 |
| Transfer of items originally classified as fixed assets to inventories | \$ | 497 | \$ | 109 |
| Equipment acquired under capital leases | \$ | -- | \$ | 336 |

</TABLE>

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

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SEACHANGE INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; in thousands, except share and per share data)

1. Basis of Presentation

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

2. Revenue Recognition

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

3. Earnings Per Share

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

| ended | Three months ended | | Nine months |
|--|--------------------|---------------|-------------|
| | October 31, | September 30, | October 31, |
| September 30, | | | |
| ----- | | | |
| 1999 | 2000 | 1999 | 2000 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| <C> | | | |
| Weighted average shares used in calculating earnings per share- Basic..... | 21,855,000 | 20,978,000 | 21,668,000 |
| 20,876,000 | | | |
| Dilutive stock options..... | 1,363,000 | 1,085,000 | 1,502,000 |
| 731,000 | | | |
| ----- | | | |
| Weighted average shares used in calculating earnings per share- Diluted..... | 23,218,000 | 22,063,000 | 23,170,000 |
| 21,607,000 | | | |
| ===== | ===== | ===== | ===== |

</TABLE>

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SEACHANGE INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; in thousands, except share and per share data)

4. Inventories

Inventories consist of the following:

<TABLE>
<CAPTION>

| | October 31, 2000 | December 31, 1999 |
|---------------------------|---------------------|----------------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Components and assemblies | \$19,185 | \$ 14,739 |
| Finished products | 4,283 | 2,389 |
| | ----- | ----- |
| | \$23,468 | \$ 17,128 |
| | ===== | ===== |

</TABLE>

5. Comprehensive Income (Loss)

For the three months and nine months ended October 31, 2000 and September 30, 1999, the Company's comprehensive income (loss) was as follows:

<TABLE>
<CAPTION>

| | Three months ended October 31, September 30, | | Nine months ended October 31, September 30, | |
|--|---|--------|--|--------|
| | ----- | ----- | ----- | ----- |
| | 2000 | 1999 | 2000 | 1999 |
| | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| Net income | \$ 4 | \$ 292 | \$ 865 | \$ 660 |
| Other comprehensive income (expense), net of tax: | | | | |
| Foreign currency translation adjustment, net of tax of (\$8), \$--, (\$33) and \$2, respectively | (18) | 1 | (72) | 4 |
| | ----- | ----- | ----- | ----- |
| Other comprehensive income (expense) | (18) | 1 | (72) | 4 |
| | ----- | ----- | ----- | ----- |
| Comprehensive income (loss) | \$ (14) | \$ 293 | \$ 793 | \$ 664 |
| | ===== | ===== | ===== | ===== |

</TABLE>

6. New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, collectively referred to as derivatives, and for hedging activities. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment to SFAS No. 133. This accounting standard amended the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and hedging activities. To date the Company has not utilized derivative instruments or hedging activities and, therefore, the adoption of SFAS No. 133 is not expected to have a material impact on the Company's financial position or results of operations.

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

7. Segment Information

The Company has three reportable segments: broadband systems, broadcast systems and services. The broadband systems segment provides products to digitally manage, store and distribute digital video for television operators and telecommunications companies. The broadcast systems segment

provides products for the storage, archival, on-air playback of advertising and other video programming for the broadcast television industry. The service segment provides installation, training, product maintenance and technical support for all of the above systems and content which is distributed by the broadband product segment. 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 inter-segment sales or transfers. Long-lived assets are principally located in the United States. The Company has changed its reportable segments from the prior quarter and prior year-end and has reclassified prior period amounts to conform to these current segments. The following summarizes the revenues and cost of revenues by reportable segment:

| | | Three months ended | | Nine months ended | |
|-------------------|--------------|---------------------|-----------------------|---------------------|-------------------|
| | | October 31, 2000 | September 30, 1999 | October 31, 2000 | September 1999 |
| Revenues | | | | | |
| | Broadband | \$11,065 | \$12,648 | \$38,728 | \$39,689 |
| | Broadcast | 7,241 | 4,859 | 16,505 | 12,185 |
| | Services | 5,916 | 4,202 | 16,892 | 12,320 |
| | Total | \$24,222 | \$21,709 | \$ 72,125 | \$64,194 |
| Costs of revenues | | | | | |
| | Broadband | \$5,610 | \$7,024 | \$20,742 | \$23,004 |
| | Broadcast | 4,025 | 2,871 | 9,093 | 6,844 |
| | Services | 4,582 | 3,813 | 13,271 | 10,890 |
| | Total | \$14,217 | \$13,708 | \$43,106 | \$40,738 |

</TABLE>

The following summarizes revenues by geographic locations:

| | <C> | <C> | <C> | <C> |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | | | | |
| United States | \$16,882 | \$15,385 | \$58,109 | \$48,660 |
| Canada and South America | 1,075 | 1,993 | 2,868 | 4,342 |
| Europe | 2,864 | 3,385 | 5,123 | 8,375 |
| Asian Pacific and rest of world | 3,401 | 946 | 6,025 | 2,817 |
| | \$24,222 | \$21,709 | \$72,125 | \$64,194 |

</TABLE>

For the three and nine months ended October 31, 2000 and September 30, 1999 certain customers each accounted for more than 10% of the company's revenue. Individual customers each accounted for 12% of revenues in the three months ended October 31, 2000;

10% in the nine months ended October 31, 2000; and 17% and 12% in the nine months ended September 30, 1999. No individual customer accounted for more than 10% of revenues in the three months ended September 30, 1999.

8. Legal Proceedings

One of the Company's customers is subject to a lawsuit in Civil Action No.00-CV-195, pending in the federal courts in the Eastern District of Virginia, whereby a third party has made a claim of patent infringement against the Company's customer, which claim is believed to relate at least in part to such customer's use of the Company's products. On May 19, 2000, the Company filed a motion seeking to intervene in the action between its customer and the third party, and to transfer the case to the District Court of Massachusetts. On June 23, 2000, the Court granted the Company's

intervention motion and deferred ruling on the issue of transfer. Also on June 23, 2000, the Company filed its Intervenor Complaint in the action seeking, among other things, a declaratory judgment of non-infringement, invalidity and unenforceability regarding U.S. Patents Nos. 4,814,883 and 5,200,825. In addition, the Company has agreed to indemnify its customer for claims brought against the customer that are related to the customer's use of the Company's products. On October 23, 2000, the Court denied the Company's motion to transfer. While there are no direct allegations pending against the Company in connection with this matter at this time. On November 29, 2000, the third party filed a motion to amend its pleading to add claims against the Company seeking equitable relief and attorneys fees for willful patent infringement. The court has not yet ruled on the third party's motion to amend. This dispute has a scheduled trial date commencing April 11, 2001.

On June 13, 2000, the Company filed a lawsuit against one of its competitors, nCube Corp., for patent infringement. On September 25, 2000 the court upheld the validity of the Company's patent. At this time the Company is awaiting the court's decision regarding a permanent injunction. Damages will be determined in future proceedings.

On June 14, 1999, the Company filed a complaint against an investment banker, an investment bank and a competitor that alleges that the competitor conspired with the investment bankers to injure the business and reputation of the Company in the marketplace and to drive down the price of the Company's stock to benefit them. In addition, the complaint alleges that the competitor, through its employees, provided the investment bankers with inside information to further these efforts. On June 14, 2000, one of the defendants in this suit filed a counterclaim under seal against the Company seeking unspecified damages.

The Company cannot be certain of the outcome of the foregoing litigation, but does plan to oppose allegations against it and assert its claims against other parties vigorously.

9. Fiscal Year Change

In April 2000, the Company's Board of Directors voted to change the Company's fiscal accounting year from December 31 to January 31, such that the current fiscal accounting year began on February 1, 2000 and will end on January 31, 2001. The following unaudited condensed consolidated financial data summarizes the operating results and selected balance sheet information of the Company for the comparable three and nine months periods ended October 31, 1999 (in thousands, except per share data):

SEACHANGE INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; in thousands, except share and per share data)

<TABLE>
<CAPTION>

| | Three months ended October 31, 1999 | Nine months ended October 31, 1999 |
|---|--|---|
| <S> | <C> | <C> |
| Revenues | \$ 20,030 | \$ 63,947 |
| Gross profit | 6,544 | 22,471 |
| Operating expenses | 7,521 | 22,704 |
| Loss from operations | (977) | (233) |
| Loss before taxes | (989) | (238) |
| Net income (loss) | (614) | 200 |
| Basic earnings (loss) per common share | \$ (0.03) | \$ 0.01 |
| Diluted earnings (loss) per common share | \$ (0.03) | \$ 0.01 |
| Weighted average common shares outstanding- basic | 20,983 | 21,036 |
| Weighted average common shares outstanding- diluted | 20,983 | 22,030 |
| Working capital | \$ 20,535 | \$ 20,535 |
| Total assets | 52,772 | 52,772 |
| Deferred revenue | 4,617 | 4,617 |
| Long-term liabilities | 1,405 | 1,405 |
| Total liabilities | 22,402 | 22,402 |
| Total stockholders' equity | 30,370 | 30,370 |

</TABLE>

10. Construction Loan

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

11. Subsequent Event

On December 1, 2000, the Company and Comcast Cable Communications, Inc. ("Comcast") entered into a video-on-demand purchase agreement for the Company's interactive television video servers and related services. In connection with the execution of this commercial agreement, the Company entered into a common stock and warrant purchase agreement, dated as of December 1, 2000, with Comcast SC Investment, Inc. ("Comcast SC"), whereby Comcast SC agreed to purchase, subject to certain closing conditions including registration of the shares purchased thereby, 466,255 shares of the Company's common stock for approximately \$10 million and Comcast SC will receive a warrant to purchase 100,000 shares, exercisable at \$21.445 per share, of the Company's common stock. Under the terms of the purchase agreement, Comcast has committed to purchase the Company's equipment capable of serving a minimum of one million cable subscribers by approximately December 2002. In addition, Comcast may earn up to an additional 450,000 incentive common stock purchase warrants through December 2003 based on the number of cable subscribers in excess of one million who are served by the Company's equipment which has been purchased by Comcast. The Company will determine the intrinsic value, if any, of the common stock purchase and will measure the fair value of the 100,000 common stock purchase warrants at the closing date and will record these amounts as contra-equity. The contra-equity amount will be amortized in future periods as an offset to gross revenue in proportion to the revenue recognized with respect to the first one million subscribers Comcast has committed to under the agreement. The fair value of the additional incentive common stock purchase warrants will also be recorded as an offset to gross revenue as the warrants are earned by Comcast, if any.

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

Factors That May Affect Future Results

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

Overview

The Company develops, markets, licenses and sells broadband and broadcast systems and related services and movie content to television operators, telecommunications companies 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 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 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.

In April 2000, the Company's Board of Directors voted to change the Company's fiscal accounting year from December 31 to January 31, such that the Company's current fiscal year began on February 1, 2000 and will end on January 31, 2001. The Company has not recast the comparable prior year periods as there are no seasonal or other factors that affect the comparability of the periods presented.

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Three Months Ended October 31, 2000 Compared to the Three Months Ended September 30, 1999

Revenues

Systems. The Company's systems revenues consist of sales of its digital advertising and interactive television systems (collectively "broadband systems") and broadcast systems. Systems revenues increased 5% from \$17.5 million in the three months ended September 30, 1999 to \$18.3 million in the three months ended October 31, 2000. This increase in systems revenues resulted from a decrease of \$1.6 million and an increase of \$2.4 million in broadband and broadcast systems revenues, respectively. The Company expects future systems revenue growth, if any, to come from both its broadband and broadcast system products.

For the three-month periods ended October 31, 2000 and September 30, 1999, certain individual customers accounted for more than 10% of the Company's total revenues. A single customer accounted for 12% of total revenues in three months ended October 31, 2000. No individual customer accounted for more than 10% of total revenues in the three months ended September 30, 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 30% and 29% of total revenues in the three month period ended October 31, 2000 and September 30, 1999, respectively. The Company expects that international sales will remain a significant portion of the Company's business in the future. As of October 31, 2000, 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 and engineering support services and movie content. The Company's services revenues increased approximately 41% to \$5.9 million in three months ended October 31, 2000 from \$4.2 million in the three months ended September 30, 1999. This increase in services revenues primarily resulted from the renewals of maintenance and support contracts, price increases on certain annual maintenance contracts, the impact of a growing installed base of systems and a higher level of product development and technical support contracts.

Gross Profit

Systems. Costs of systems revenues consist primarily of the cost of purchased components and subassemblies, labor and overhead relating to the final assembly

and testing of complete systems and related expenses. Costs of systems revenues decreased 3% from \$9.9 million in the three months ended September 30, 1999 to \$9.6 million in the three months ended October 31, 2000. In the three months ended October 31, 2000, the decrease in costs of systems revenues reflects a reduction in material costs and an increase in sales of products with a higher gross margin.

Systems gross profit as a percentage of systems revenues was 47% and 44% in the three months ended October 31, 2000 and September 30, 1999, respectively. The increase in systems gross profit in the three months ended October 31, 2000 was primarily due to lower material and other manufacturing costs as a percentage of systems revenue. The gross profits in the three months ended October 31, 2000 were impacted by an increase of approximately \$120,000 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 engineering and support services provided by the Company and costs associated with providing movie content. Costs of services revenues increased 20% from \$3.8 million in the three months ended September 30, 1999 to \$4.6 million in the three months ended October 31, 2000, primarily as a result of increased revenues and the costs associated with the Company hiring and training additional service personnel to provide worldwide support for the growing installed base of broadband and broadcast systems and costs associated with providing movie content. Services gross profit as a percentage of services revenue was 23% in the three months ended October 31, 2000 and 9% in the three months ended September 30, 1999.

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Improvements in the services gross profit in the three months ended October 31, 2000 reflect the increase in the installed base of systems under service contracts, higher volume of technical support contracts, and price increases on certain annual maintenance contracts. 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 28% from \$4.0 million in the three months ended September 30, 1999 to \$5.1 million in the three months ended October 31, 2000. The increase in the dollar amount in the three months ended October 31, 2000 was primarily attributable to the hiring and contracting of additional development personnel which reflects the Company's continuing investment in new technology. The Company expects that research and development expenses will continue to increase in dollar amount as the Company continues its development of new technology and support of new and existing products.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses increased 47% to \$3.2 million in the three months ended October 31, 2000 from \$2.2 million in the three months ended September 30, 1999. The increase was primarily due to the hiring of additional sales personnel for the Company's product segments, increased sales commissions on higher revenues and higher marketing costs.

General and Administrative. General and administrative expenses consist primarily of compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. General and administrative expenses increased 26% from \$1.3 million in the three-month period ended September 30, 1999 to \$1.7 million in the three-month period ended October 31, 2000. This increase is primarily due to increased legal expenses associated with various litigation matters.

Interest Expense, net. Interest expense, net was approximately \$54,000 and \$13,000 in the three months ended October 31, 2000 and September 30, 1999, respectively. The increase in interest expense, net in the three months ended October 31, 2000 primarily resulted from an increase in interest expense on borrowings.

Provision for Income Taxes. The Company's effective tax provision rate was 32% and 44% in the three months ended October 31, 2000 and September 30, 1999, respectively. The effective tax provision for the three months ended October 31, 2000 was favorably impacted by the utilization of research and development tax credits.

The Company had net deferred tax assets of \$3.4 million at October 31, 2000 and \$2.2 million at December 31, 1999. The Company has made the determination it is

more likely than not that it will realize the benefits of the net deferred tax assets.

Nine Months Ended October 31, 2000 Compared to the Nine Months Ended September 30, 1999

Revenues

Systems. Systems revenues increased 6% from \$51.9 million in the nine months ended September 30, 1999 to \$55.2 million in the nine months ended October 31, 2000. This increased systems revenues resulted primarily from increased broadcast revenue of \$4.3 million offset by a decrease in broadband revenue of \$1.0 million. The Company expects future systems revenue growth, if any, to come from both its broadband and broadcast system products.

For the nine months ended October 31, 2000 and September 30, 1999, certain individual customers accounted for more than 10% of the Company's total revenues. A single customer accounted for 10% of revenues for the nine months ended October 31, 2000 and 17% and 12% of revenues in the nine months ended September 30, 1999. The Company believes that revenues from current and future large customers will continue to represent a significant portion of total revenues.

International sales accounted for approximately 20% and 24% of total revenues for the nine months ended October 31, 2000 and September 30, 1999, respectively. The Company expects that international sales will remain a significant portion of revenues of the Company in the future. As of October 31, 2000, substantially all sales of the Company's products were made in United States dollars. The Company does not expect any material change to 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.

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Services. The Company's services revenues increased over 37% from approximately \$12.3 million in the nine months ended September 30, 1999 to \$16.9 million in the nine months ended October 31, 2000. These increases in services revenues resulted primarily from increased systems revenues, renewals of maintenance and support contracts, the impact of a growing installed base of systems, and a higher level of product development and technical support contracts.

Gross Profit

Systems. Costs of systems revenues were \$29.8 million in the nine months ended October 31, 2000 which was unchanged from the nine months ended September 30, 1999.

Systems gross profit as a percentage of systems revenues was 46% and 43% in the nine months ended October 31, 2000 and September 30, 1999, respectively. The increase in systems gross profit in 2000 was primarily due to higher systems revenue and lower material and manufacturing costs as a percentage of systems revenues. The gross profits in the nine months ended October 31, 2000 was impacted by an increase of approximately \$149,000 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 increased nearly 22% from approximately \$10.9 million in the nine months ended September 30, 1999 to \$13.3 million in the nine months ended October 31, 2000, 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 broadband and broadcast systems and costs associated with providing movie content. Services gross profit as a percentage of services revenue increased to 21% in the nine months ended October 31, 2000 compared to a gross profit margin of 12% in the nine months ended September 30, 1999. 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 increased 17% from approximately \$12.4 million in the nine months ended September 30, 1999 to \$14.5 million in the nine months ended October 31, 2000. The increase in the dollar amount was primarily attributable to the hiring and contracting of additional development personnel which reflects the Company's continuing investment in new products. The Company expects that research and development expenses will continue to increase in dollar amount as the Company continues to focus on the development of new technology and support of new and existing products.

Selling and Marketing. Selling and marketing expenses increased 34% from \$6.2

million in the nine months ended September 30, 1999 to \$8.3 million in the nine months ended October 31, 2000. This increase is primarily due to the hiring of additional sales personnel for the Company's broadcast and interactive television products, increased sales commissions on higher revenues and higher marketing expenses.

General and Administrative. General and administrative expenses increased 22% from \$4.1 million in the nine months ended September 30, 1999 to \$5.0 million in the nine months ended October 31, 2000. This increase is primarily due to increased legal expenses associated with various litigation matters.

Interest Income, net. Interest income (expense), net, was approximately (\$30,000) and \$6,000 in the nine months ended October 31, 2000 and September 30, 1999, respectively. The decrease in 2000 in interest income, net, primarily resulted from interest expense on borrowings.

Provision for Income Taxes. The Company's effective tax provision rate was 32% and 20% in the nine months ended October 31, 2000 and September 30, 1999, respectively. The effective tax provision for both periods was favorably impacted by the utilization of research and development tax credits.

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 \$4.5 million from \$2.7 million at January 31, 2000 to \$7.2 million at October 31, 2000. Working capital increased from approximately \$19.8 million at January 31, 2000 to approximately \$31.8 million at October 31, 2000.

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Net cash used in operating activities was approximately \$2.0 million for the nine month period ended October 31, 2000. Net cash provided by operating activities was approximately \$6.5 million for the nine months ended September 30, 1999. The net cash used in operating activities in the nine months ended October 31, 2000 was the result of the net income adjusted for non-cash expenses including depreciation and amortization of \$3.7 million offset by changes in certain assets and liabilities. The significant net changes in assets and liabilities that used cash in operations included an increase in accounts receivable of \$6.5 million, an increase in inventories of \$3.2 million and an increase in prepaid expenses and other assets of \$2.5 million. These items that used cash in operations were partially offset by an increase in accounts payable of \$4.5 million and an increase in customer deposits of \$1.4 million.

Net cash used in investing activities was approximately \$9.6 million and \$1.9 million for the nine months ended October 31, 2000 and September 30, 1999, respectively. Investment activity consisted primarily of capital expenditures related to construction to expand the current manufacturing facility and the acquisition of computer equipment, office furniture, and other capital equipment required to support the expansion and growth of the business.

Net cash provided by financing activities was approximately \$16.1 million for the nine months ended October 31, 2000. Net cash used in financing activities was approximately \$450,000 for the nine months ended September 30, 1999. In the nine months ended October 31, 2000, the cash provided by financing included \$11.9 million received in connection with the issuance of common stock (\$10 million of which was issued to Microsoft Corporation) and \$5.4 million in borrowings under the equipment line of credit and the Company's construction loan. During the same period, cash used in financing activities included approximately \$1.2 million in principal payments under the Company's equipment line of credit and capital lease obligations.

In July 2000, the Company renewed its revolving line of credit and equipment line of credit with a bank. The revolving line of credit which expired in March 2000 was extended until March 2001 and borrowings under the facility increased to \$7.5 million. The equipment line of credit which also expired in March 2000 was extended to provide the Company additional equipment financing of \$4.0 million through March 2001. In addition, the Company entered into a \$3 million line of credit facility with the Export-Import Bank of the United States which allows the Company to borrow money based upon eligible foreign customer account balances. This facility also expires in March 2001. Borrowings under all 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 LIBOR rate plus 2% (9.05% at October 31, 2000). Loans under the EXIM line of credit bear interest as a rate per annum equal to the Prime rate (9.5% at October 31, 2000). Loans made under the equipment line of credit bear interest at a rate per annum equal to the bank's base rate plus 1.0% (10.5% at October 31, 2000). 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 October 31, 2000 the Company was in compliance with all covenants. As of October 31, 2000, there were no borrowings against either line of credit and borrowings outstanding under the equipment line of credit were \$4.9 million.

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

The Company believes that existing funds together with available borrowings under the lines 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 October 31, 2000.

Effects of Inflation

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

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Recent Accounting Pronouncements.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, collectively referred to as derivatives, and for hedging activities. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment to SFAS No. 133. This accounting standard amended the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and hedging activities. To date the Company has not utilized derivative instruments or hedging activities and, therefore, the adoption of SFAS No. 133 is not expected to have a material impact on the Company's financial position or results of operations.

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

ITEM 3. 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 October 31, 2000, the Company had \$5,917,000 outstanding related to variable rate U.S. dollar denominated debt. The carrying value of these short-term borrowings approximates fair value due to the short maturities of these instruments. Assuming a hypothetical 10% adverse change in the interest rate, interest expense on these short-term borrowings would increase by \$56,000.

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

The Company maintains investment portfolio holdings of various issuers, types, and maturities. The Company's cash and marketable securities include cash equivalents, which the Company considers investments to be purchased with original maturities of three months or less given the short maturities and investment grade quality of the portfolio holdings at October 31, 2000, 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.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

One of the Company's customers is subject to a lawsuit in Civil Action No.00-CV-195, pending in the federal courts in the Eastern District of Virginia, whereby a third party has made a claim of patent infringement against the Company's customer, which claim is believed to relate at least in part to such customer's use of the Company's products. On May 19, 2000, the Company filed a motion seeking to intervene in the action between its customer and the third party, and to transfer the case to the District Court of Massachusetts. On June 23, 2000, the Court granted the Company's intervention motion and deferred ruling on the issue of transfer. Also on June 23, 2000, the Company filed its Intervenor Complaint in the action seeking, among other things, a declaratory judgment of non-infringement, invalidity and unenforceability regarding U.S. Patents Nos. 4,814,883 and 5,200,825. In addition, the Company has agreed to indemnify its customer for claims brought against the customer that are related to the customer's use of the Company's products. On October 23, 2000, the Court denied the Company's motion to transfer. While there are no direct allegations

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pending against the Company in connection with this matter at this time. On November 29, 2000, the third party filed a motion to amend its pleading to add claims against the Company seeking equitable relief and attorneys fees for willful patent infringement. The Court has not yet ruled on the third party's motion to amend. This dispute has a scheduled trial date commencing April 11, 2001.

On June 13, 2000, the Company filed a lawsuit against one of its competitors, nCube Corp., for patent infringement. On September 25, 2000, the court upheld the validity of the Company's patent. At this time the Company is awaiting the court's decision regarding a permanent injunction. Damages will be determined in future proceedings.

On June 14, 1999, the Company filed a complaint against an investment banker, an investment bank and a competitor that alleges that the competitor conspired with the investment bankers to injure the business and reputation of the Company in the marketplace and to drive down the price of the Company's stock to benefit them. In addition, the complaint alleges that the competitor, through its employees, provided the investment bankers with inside information to further these efforts. On June 14, 2000, one of the defendants in this suit filed a counterclaim under seal against the Company seeking unspecified damages.

The Company cannot be certain of the outcome of the foregoing litigation, but does plan to oppose allegations against it and assert its claims against other parties vigorously.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 4.1: Certificate of Amendment, filed May 25, 2000 with the Secretary of State in the State of Delaware, to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 4.2 to the Company's registration statement on Form S-8 (File No. 333-17379) and incorporated herein by reference).

Exhibit 10.1: Video-on-Demand Purchase Agreement, dated as of December 1, 2000, by and between the Company and Comcast Cable Communications of Pennsylvania, Inc.

Exhibit 10.2: Loan Agreement, dated as of October 16, 2000, by and between the Company and the Bank of New Hampshire, N.A.

Exhibit 27: Financial Data Schedule (For SEC Edgar Filing Only; Intentionally Omitted)

(b) Reports on Form 8-K

None

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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: December 15, 2000

SEACHANGE INTERNATIONAL, INC.

by: /s/ William L. Fiedler

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

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SEACHANGE INTERNATIONAL, INC.

EXHIBIT INDEX

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CERTIFICATE OF AMENDMENT
OF
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
SEACHANGE INTERNATIONAL, INC.

SeaChange International, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of the Corporation adopted resolutions proposing and declaring advisable the following amendments to the Amended and Restated Certificate of Incorporation of the Corporation:

RESOLVED: That the first paragraph of Article FOURTH of the Corporation's Amended and Restated Certificate of Incorporation as amended to date shall be amended to read in its entirety as follows:

"FOURTH. The total number of shares of all classes of capital

stock which the Corporation shall have authority to issue is 105,000,000 shares, consisting of 100,000,000 shares of Common Stock with a par value of \$.01 per share (the "Common Stock") and 5,000,000 shares of Preferred Stock with a par value of \$.01 per share (the "Preferred Stock").

SECOND: The foregoing amendment to the Amended and Restated Certificate of Incorporation of the Corporation was duly adopted by vote of the stockholders of the Corporation in accordance with the applicable provisions of Section 242 of the General Corporation Law of the State of Delaware.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be executed by William C. Styslinger, III, its President, this 24th day of May, 2000.

By: /s/ William C. Styslinger, III

William C. Styslinger, III
President

VIDEO-ON-DEMAND PURCHASE AGREEMENT

This Video-On-Demand Purchase Agreement ("this Agreement") is made this 1st day of December, 2000, by and between SeaChange International, Inc., 124 Acton Street, Maynard, Massachusetts 01754 ("SeaChange"), and Comcast Cable Communications of Pennsylvania, Inc., 1500 Market Street, Philadelphia, PA 19102 ("Comcast") setting forth the terms and conditions governing the sale and licensing from time to time by SeaChange to Comcast of SeaChange's video-on-demand equipment (the "Equipment") and software (the "Software") and related documentation and services. The Equipment and Software are collectively referred to as "Product" or the "Products".

1. ORDERING PROCESS AND PROCEDURE

All purchases by Comcast hereunder shall be pursuant to a purchase order issued by Comcast and accepted by SeaChange ("Order"). SeaChange shall accept an Order by written acknowledgment or by commencement of performance. Comcast may issue Orders in writing, by facsimile, or, if available, by means of Electronic Data Interchange (EDI). All Orders shall be subject to the terms of this Agreement, whether or not this Agreement is referenced in such Order. No other terms shall apply to an Order, unless agreed upon by both parties in writing.

2. PRICES

2.1 The list prices and license fees applicable to the Products shall be SeaChange's then current prices and fees, including SeaChange's then standard discounts and allowances, set forth in SeaChange's published Price List in effect on the date of order. A copy of SeaChange's Price List in effect on the date of this Agreement is set forth in Attachment A. All prices and license fees are for delivery FOB Maynard, Massachusetts and are net of all taxes, duties and other governmental charges. All transportation, rigging and draying charges shall be paid by Comcast. There shall be added to the prices and license fees all taxes, and other governmental charges, however designated, levied or based on the sale or license of the Products or their use, including, without limitation, state and local privilege or excise taxes based on gross revenue and import or export duties, and any taxes or amounts in lieu thereof paid or payable by SeaChange in respect of the foregoing, exclusive, however, of taxes based on SeaChange's income. Any personal property taxes assessable on the Products after delivery to the carrier shall be borne by Comcast. Freight charges for shipments outside the continental United States shall be on a prepaid or collect basis only.

2.2 Service prices for integration of Comcast-owned equipment will be quoted on a case-by-case basis and will assume that such equipment meets SeaChange's specifications and that it is available and ready to install at time of system integration. Service charges for labor required to integrate or repair Comcast-

owned equipment or to dismantle and make such equipment ready for integration will be billed separately plus expenses.

2.3 In addition to SeaChange's standard discounts applicable to the Products, all Product prices and fees (other than fees for services of any kind) shall be subject to the additional discounts set forth in Attachment A during the term of this Agreement, including any renewals thereof.

2.4 Notwithstanding anything herein to the contrary, the prices and fees for Products hereunder shall be no greater than those offered to other SeaChange commercial customers under substantially similar terms and conditions for substantially similar volume purchases at the time of purchase, pursuant to the terms more fully set forth in Section 18 below.

3. PAYMENT TERMS

3.1 Payment for all Products and services ordered shall be made in United States Dollars in two installments as follows:

- (a) 50% with Comcast's Order;
- (b) 50% within thirty (30) days after the date of delivery as evidenced by SeaChange's notice of delivery and invoice.

3.2 All payments are to be paid to SeaChange at the address set forth in SeaChange's invoice.

4. TITLE AND RISK OF LOSS

Title to the Equipment shall pass to Comcast upon delivery at the FOB

point. Title to Software shall not pass to Comcast at any time, but shall remain with SeaChange or its licensor. The Products will be packaged in accordance with standard commercial practices for domestic shipment and will be shipped by means deemed most appropriate by SeaChange unless shipping instructions are otherwise specified in writing by Comcast. Comcast shall be responsible for all risk of loss or damage or destruction to the Products from and after delivery of the Products by SeaChange to the carrier at the FOB point.

5. SECURITY INTEREST

SeaChange reserves a purchase money security interest in all of the Products until the price and license fees shall have been paid in full. Comcast agrees to execute any documents requested by SeaChange to protect SeaChange's security interest.

6. INSTALLATION

SeaChange shall install the Products in accordance with its standard installation and testing procedures, which are set forth in Attachment B, and shall notify

Comcast of the successful completion of installation. Comcast shall provide a suitable installation environment with all necessary facilities, as specified by SeaChange, on or before the scheduled date of delivery of the Products and shall furnish all labor required for unpacking and placing the Products in the desired location in accordance with SeaChange's standard procedures. SeaChange shall be given reasonable access to the Products upon arrival of the Products at Comcast's installation site for the purpose of installation and testing of the Products. The "Installation Date" shall be the (a) date SeaChange furnishes Comcast with its certificate of successful completion of installation and testing procedures, or (b) if Comcast has not provided SeaChange with a suitable installation environment or installation support as required herein which results in a delay in commencement of installation, on the thirtieth (30/th/) day following delivery of the Products.

7. DOCUMENTATION

Two (2) sets of manuals for each Product will be provided by SeaChange on or before the Installation Date at no cost to Comcast. Additional copies of such manuals are available from SeaChange at prevailing prices.

8. MAINTENANCE SERVICE

SeaChange shall provide to Comcast maintenance service and technical support on all Products through December 31, 2002 in accordance with the terms set forth in Attachments A and C. Thereafter, pursuant to its standard maintenance agreement, a form of which is attached hereto as Attachment C, SeaChange will offer Comcast maintenance service for the Products at SeaChange's then current prices and fees in accordance with its then current published Price List.

9. LICENSE OF SOFTWARE

9.1 The Software provided hereunder is furnished to Comcast under a nontransferable, nonexclusive license for use solely on the Equipment on which first installed for the sole purpose of operating the Equipment. In the event SeaChange furnishes to Comcast media containing additional software programs or routines not specified as Software licensed hereunder, Comcast shall make no attempt to copy or otherwise use or disclose any such additional software program or routines for any purpose.

9.2 Comcast shall NOT remove any copyright, trademark, proprietary rights, legal or warning notice included on or embedded in any part of the Software.

9.3 Comcast will not sell, license, sublicense, rent, lease or otherwise transfer or assign the Software, whether by operation of law or otherwise, without the written permission of SeaChange, except that Comcast may transfer the Software to an affiliate of Comcast provided that the Equipment on which such Software is used is also transferred to such affiliate and such affiliate agrees in writing to be bound by the Software license terms set forth in this Agreement.

9.4 No reproduction rights in or to the Software or related documentation are granted hereunder to Comcast. Comcast agrees that it will not, except for archival purposes, copy, reproduce, duplicate by any means, or translate into a machine language the Software or any portion thereof without the prior written approval of SeaChange. Further, Comcast shall not, nor shall Comcast permit any other person to, compile, decompile, or reverse engineer the Software (except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation), or otherwise permit the unauthorized use of the Software, and any attempt to do so shall be a material breach of this Agreement.

9.5 The license granted hereunder to the Software shall be effective from the date of delivery of the Software and shall remain in force until terminated as provided herein. SeaChange reserves the right to terminate any license of the Software upon written notice in the event that Comcast shall fail to pay any portion of the purchase price or license fee for the Products when due, or Comcast shall make any improper use, transfer, duplication or disclosure of the Software or in any other way breach this Agreement, provided that Comcast shall have thirty (30) days from the date of such notice to cure such breach. If the breach is not cured within the applicable cure period, the applicable license shall terminate immediately and Comcast shall immediately return the applicable Software, documentation and any copies thereof to SeaChange. The opportunity to cure, however, shall not affect SeaChange's right to obtain injunctive relief immediately.

10. WARRANTY

10.1 SeaChange warrants that the Equipment shall be fully functional and free from defects in material and workmanship, and shall materially conform to the functional specifications set forth in Attachment D, for a period of two (2) years from the Installation Date. The foregoing warranty shall not apply unless the Products are operated in strict conformance with SeaChange's manuals furnished with the Products. Written notice of any claimed defect must be given within thirty (30) days after such defect is first discovered. SeaChange's obligation under this warranty is limited, at its option, to the repair or replacement of the Equipment, components, or parts thereof which prove to be other than as warranted above. Such repair or replacement will be made at SeaChange's designated plant or repair facility, and shall be at SeaChange's expense; however, transportation or inspection charges covering any Equipment, component or part returned that proves not to be defective in accordance with the terms of this warranty shall be paid by Comcast. No Equipment is to be returned to SeaChange without first receiving instructions regarding return procedures. This warranty does not extend to any labor charges for physical removal and/or replacement of defective Equipment or components or parts thereof.

10.2 SeaChange warrants that the Software furnished hereunder will perform in material conformance with its published specifications for a period of two (2) years from the Installation Date. In the event of any failure to so perform,

SeaChange will use all reasonable commercial efforts to repair or circumvent the defect, which shall be Comcast's sole remedy. It is understood that SeaChange does not warrant that the Software will be error-free.

10.3 Notwithstanding anything herein to the contrary, Products that are not manufactured or developed by SeaChange, but are supplied or sublicensed by SeaChange, and which are wholly or partially integrated into a system are warranted only to the extent, and subject to the terms, of the original warranty given by the manufacturer to SeaChange. Comcast must give prompt written notice to SeaChange of any defect or failure of such Products and provide satisfactory proof thereof.

10.4 The warranties set forth herein shall not apply to Products requiring adjustments, correction, repair, or replacement, or increase in service time, caused by:

- (a) electrical work external to the Products (discuss with Comcast & SeaChange), or the attachment or use of accessories or other devices, including networking devices, not furnished, approved or recommended by SeaChange; or failure to properly maintain the same;
- (b) accident, transportation, neglect or misuse;
- (c) alterations, including, but not limited to, any deviation from circuit or network designs or structural equipment recommended by SeaChange, installation or removal of Product features not recommended by SeaChange, and all other modifications not recommended by SeaChange, whenever any of the foregoing is performed by any person other than those authorized by SeaChange;
- (d) failure to provide and maintain a suitable installation environment with all facilities specified by SeaChange (including, but not limited to, failure of, or failure to provide, adequate electrical power, air-conditioning, humidity control) or from use of supplies or materials not meeting SeaChange's specifications;
- (e) repair or replacement of consumable supplies or parts which have reached the end of their useful life; or
- (f) the use of a Product for other than the purposes for which designed.

10.5 SEACHANGE MAKES NO REPRESENTATION OR WARRANTY OTHER THAN THOSE SET FORTH

IN THIS AGREEMENT. THE WARRANTY STATED HEREIN IS EXPRESSLY IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY EXPRESS OR IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

11. Infringement Indemnity

SeaChange shall, at its expense, defend, indemnify and hold harmless Comcast from and against any claim of infringement of any United States patents or copyrights by any Products manufactured or developed by SeaChange, provided that (i) SeaChange is promptly informed in writing of such claim and furnished a copy of each communication, notice or other action relating to the alleged infringement, (ii) SeaChange shall have control over the defense and negotiations for a settlement or compromise, (iii) SeaChange is given all reasonable authority, information and assistance from Comcast (at SeaChange's expense) necessary to defend or settle such suit or proceeding, and (iv) Comcast incurs no obligation or liability without the prior written consent of SeaChange. The foregoing obligation of SeaChange does not apply to Products or portions or components thereof (a) which are modified by persons or entities other than SeaChange (or persons or entities employed or contracted by SeaChange) if the alleged infringement relates to such modification unless such modification was recommended or approved by SeaChange or (b) combined with other products, processes or materials not supplied or recommended by SeaChange where the alleged infringement relates to such combination. If any claim that SeaChange is obligated to defend has occurred or, in SeaChange's opinion, is likely to occur, SeaChange may, at its option, either (i) procure for Comcast the right to continue to use the applicable Product, (ii) replace or modify the Product so it becomes non-infringing, or (iii) refund the undepreciated portion of the price paid by Comcast for such Product, assuming a 60-month straight-line depreciation schedule. This Section states the entire liability of SeaChange with respect to infringement of any copyrights, patents, or other intellectual property rights by the Products.

12. LIMITATION OF LIABILITY

Except with respect to SeaChange's obligations under Section 11 above, and except for personal injury or tangible property damage caused by the gross negligence or willful misconduct of SeaChange in the performance of services hereunder, SeaChange's liability in contract, tort or otherwise arising out of or in connection with the sale, license or use of the Product, shall not exceed the purchase price or license fee paid by Comcast with respect to the Product that is the subject of the claim. IN NO EVENT SHALL SEACHANGE OR ITS DEVELOPERS, DIRECTORS, OFFICERS, EMPLOYEES OR AFFILIATES BE LIABLE FOR SPECIAL, INDIRECT, EXEMPLARY, INCIDENTAL, MULTIPLE, CONSEQUENTIAL, OR TORT DAMAGES (INCLUDING ANY DAMAGES RESULTING FROM LOSS OF USE, LOSS OF DATA, LOSS OF PROFITS, LOSS OF SAVINGS, LOSS OF BUSINESS OR OTHER ECONOMIC LOSS) ARISING OUT OF OR IN CONNECTION WITH THE PERFORMANCE OF THE PRODUCT, CUSTOMER'S INABILITY TO USE THE PRODUCT OR SEACHANGE'S PERFORMANCE OF SERVICES, EVEN

IF SEACHANGE HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

13. CONFIDENTIALITY

13.1 It is anticipated that the parties may be required to exchange certain confidential information ("Information") to the other in the course of performing this Agreement. From the date of disclosure, and until two (2) years following such date, the recipient of Information ("Recipient") shall maintain the Information in confidence and limit its use to the performance of this Agreement, using at least the same degree of care as it employs to protect its own confidential information of a similar nature, but not less than a reasonable standard of care, provided the Information is identified in writing as confidential at the time of disclosure, or if orally disclosed is identified as confidential at the time of disclosure and confirmed in writing within 20 days after the oral disclosure. Recipient shall have no obligation hereunder with respect to any Information that is:

- (a) generally known to the public at the time of disclosure, or becomes known to the public without breach of this Agreement; or
- (b) known to the Recipient prior to the disclosure, or is independently developed by the Recipient without reference to or use of any other portion of the Information; or
- (c) obtained by the Recipient in good faith from a third party not under obligation of secrecy to the disclosing party (hereafter called "Discloser");
- (d) the subject of a court or government agency order to disclose, provided the Recipient gives prompt notice to the Discloser to allow the Discloser to contest such order.

The Recipient shall have the burden of proving that any of the above

exceptions apply by means of documentary evidence available at the time Recipient claims the exception first became applicable.

13.2 Title to all tangible forms of the Information, and all copies thereof, shall be and remain with Discloser. Recipient shall not copy or otherwise reproduce, in whole or in part, any Information without the prior written authorization of Discloser, except as may be reasonably necessary to fulfill the purpose of this Agreement. Recipient shall not disclose any Information to any third party other than employees and contractors having a need to know to support performance of this Agreement and who are subject to written confidentiality agreements whose terms are substantially similar to this Section. Recipient shall promptly return or destroy all tangible forms of the Information, and copies thereof, upon Discloser's request or termination of this Agreement.

13.3 It is understood, however, that SeaChange has performed substantial development relating to the design and manufacture of digital video and other products, and that SeaChange has relationships with other companies which may be competitors

of Comcast. It is further understood that Comcast has relationships with other companies that may be competitors of SeaChange. Neither this Agreement, nor receipt of Information hereunder, shall limit either party's independent development, manufacture, or marketing of products or systems involving technology or ideas similar to those disclosed, nor will this Agreement or receipt of Information hereunder prevent either party from undertaking similar efforts or discussions with third parties, including competitors of the other party.

14. TERM AND TERMINATION

14.1 This Agreement will become effective as of the date first above written and will continue for an initial term of four (4) years. This Agreement may be renewed by Comcast for an additional two (2) year period with written notice to SeaChange at least ninety (90) days prior to the expiration of the initial term. If Comcast renews this Agreement pursuant to the previous sentence, this Agreement shall be automatically renewed thereafter for successive one (1) year periods until terminated at the end of the then current renewal period by either party with at least ninety (90) days prior written notice.

14.2 Either party shall be in default of this Agreement if such party:

- (a) substantially fails to perform any material provision of this Agreement;
- (b) assigns this Agreement, or any obligation or right under this Agreement to a third party that is not an affiliate of such party; or
- (c) becomes insolvent or makes an assignment for the benefit of creditors, or a receiver or similar officer is appointed to take charge of all or part of that party's assets.

In the event of a default, the non-defaulting party may terminate the Agreement and any outstanding Orders if the other party has failed to cure such default within thirty (30) calendar days after its receipt of a notice of default and intent to terminate. Notwithstanding the previous sentence (except with respect to non-payment), if a cure is not possible within such thirty (30) days, and if the defaulting party diligently pursues a cure of such default during such thirty (30) day period and thereafter, then the cure period shall extend up to a total of sixty (60) calendar days.

14.3 Termination or expiration of this Agreement shall not relieve either party of any of its then-accrued obligations, including without limitation payment obligations for delivered Products or for any then applicable cancellation charges pursuant to this Agreement.

14.4 Notwithstanding any other provision of this Agreement, in the event that SeaChange and Comcast SC Investment, Inc. (the "Investor"), an affiliate of Comcast, terminate that certain Common Stock and Warrant Purchase Agreement of even date herewith prior to the consummation of the investment by the Investor in SeaChange as described therein, either SeaChange or Comcast may terminate

this Agreement upon fifteen (15) days prior written notice to the other party within ten (10) days of the date on which such Common Stock and Warrant Purchase Agreement is terminated, whereupon this Agreement shall become null and void and of no further force or effect and neither party shall have any further obligations to the other hereunder.

15. CANCELLATION OF AN ORDER AND RETURN OF PRODUCTS

15.1 Comcast may not cancel any Order within thirty (30) days of the scheduled delivery date. To the extent that SeaChange can not use the products to fulfill another Order from Comcast or another third party within a

reasonable time frame, cancellation of any Order by Comcast, other than as provided in Section 14.2 above, shall obligate Comcast to pay all expenses incurred in commitments made by SeaChange and all unrecoverable costs incurred by SeaChange. In the event of any such cancellation, SeaChange shall use reasonable commercial efforts to mitigate such costs and expenses.

15.2 Acceptance of goods for return shall be made only with prior written authorization by SeaChange and in accordance with SeaChange's standard policy relevant to restocking charges.

16. CHANGES

SeaChange reserves the right, at its option, to modify or change the Equipment in whole or in part, at any time prior to delivery thereof in order to include electrical or mechanical improvements deemed appropriate without incurring any liability to modify or change the Equipment previously delivered.

17. INSURANCE

SeaChange will provide the following insurance coverage at its own expense throughout the term of this Agreement:

- (a) Workers' compensation insurance, as required by law, and employer's liability insurance with at least a \$100,000.00 limit.
- (b) Personal injury, bodily injury, and property damage liability insurance, including automobile coverage, with personal injury and bodily injury of not less than \$1,000,000.00 combined single limit, and property damage of at least \$500,000.00 for any one occurrence.

SeaChange will also furnish upon request a certificate of insurance to Comcast for the required coverage's, which certificate shall name Comcast as an additional insured.

18. MOST FAVORED CUSTOMER PROVISION

18.1 Most Favored Customer Provision. Notwithstanding any other provision in

any other agreement entered into between SeaChange or any of its affiliates and Comcast or any of its affiliates, Comcast and each of its affiliates are hereby accorded the right to receive "most favored customer" terms and conditions from SeaChange and any of its affiliates, meaning that each of Comcast and its affiliates shall be entitled to such terms and conditions, including, but not limited to, price and any and all kinds of incentives (including any equity incentives awarded), with respect to the purchase of SeaChange's or any of its affiliates' Products and services hereunder, that are no less favorable than each of those terms and conditions offered by SeaChange or any of its affiliates to any other party, individually or collectively, at any time and from time to time, without regard to the size (through volume discounts or otherwise) or identity of such other parties or their ownership interests in SeaChange or any of its affiliates; provided that such "most favored customer" terms and conditions shall not apply to any existing customer agreements that were disclosed to Comcast prior to the date first above written in a written document referring specifically to this Section 18. Without limiting the generality of the foregoing, in the event that SeaChange enters into any agreement with any other party, which agreement contains a "most favored customer" provision that is superior to the provisions of this Section 18, Comcast and each of its affiliates shall be entitled to the benefit of such superior "most favored customer" provision. The "most favored customer" status afforded Comcast and its affiliates hereunder shall apply by comparison of complete offerings of Products and services offered Comcast and its affiliates on the one hand and a third party on the other, such that the overall contractual relationship between Comcast or any of its affiliates and SeaChange or any of its affiliates shall be on no less favorable terms than SeaChange's or its affiliates' contractual relationship with such third party, taken in its entirety. Comcast acknowledges that a third party may have more favorable terms with regard to a specific line item, and such shall not in and of itself constitute a violation or breach of this Section 18.

18.2 Audit Right. Comcast may, upon reasonable notice to SeaChange, instruct

an external independent auditor to audit the relevant books and records of SeaChange to ensure compliance with Section 18.1. In the event that SeaChange is found to be in violation of Section 18.1, SeaChange agrees to (i) pay the reasonable expenses of the independent auditor, (ii) refund or credit overpaid amounts to Comcast or its Affiliates, as the case may be, against future license fees (at the election of Comcast or the Affiliate) and (iii) to the extent possible, give retroactive and prospective effect to non-economic terms and conditions as required by Section 18.1.

19. HARDWARE AND SOFTWARE INTEGRATION

SeaChange shall provide to Comcast, at no additional charge, from the signing of this Agreement until December 31, 2002, all reasonable hardware and software integration services required to provide a fully functional SeaChange VOD system, as described in Attachment D, to Comcast including, but not limited to, the following integration:

- . Motorola headend controller and set top platform including DAC controller and DCT 2000 and DCT 5000 class set tops.
- . Scientific Atlanta headend controller and set top platform including DNCS controller and Explorer 2000 and Explorer 6000 class set tops.
- . PACE Genesis class set top.
- . Integrated QAM modulation equipment internal to the SeaChange Product.
- . Integrated Up-Conversion equipment internal to the Seachange Product.
- . Comcast VOD Navigator and User Interface.
- . Comcast Interactive Programming Guide.
- . Set top operating system software or Comcast chosen middleware software, including VRTX, Power TV, Liberate Technologies, Microsoft and WorldGate.
- . Comcast billing system, including Cable Data and Convergys.
- . Content encoding, encryption, distribution (digital linear tape and satellite), loading, tracking and auditing including requirements by content providers In Demand, Intertainer, TVN or an industry standard.

20. APPLICATION INTEGRATION

SeaChange shall make available to Comcast an application integration laboratory for Comcast and SeaChange to jointly develop new products such as User Interface design, interactive advertising with streaming media, Internet Protocol media storage and streaming, time shifted programming and personal video recording/streaming to a television through a set top box.

21. DEPLOYMENT COMMITMENT

- 21.1 Comcast shall commit to deploy SeaChange Equipment on two-way capable digital headends that serve 1 million basic subscribers by December 31, 2002 (the "Deployment Commitment"), subject to SeaChange's obligation to fulfill the conditions precedent set forth in Section 21.2. Should SeaChange fail to fulfill the conditions set forth in Section 21.2 by December 31, 2000, then the terms of the

Deployment Commitment and related provisions of this Agreement shall shift out in time, from December 31, 2002, proportionally to the time differential between December 31, 2000 and the date that SeaChange fulfills the conditions set forth in Section 21.2.

- 21.2 The Deployment Commitment shall not activate until SeaChange has provided to Comcast a fully functional VOD Product, as described in Attachment D, and met the following conditions precedent:

- (a) SeaChange VOD Product is integrated, with respect to all material functions, with the Motorola headend DAC controller and DCT 2000 set top platform.
- (b) SeaChange VOD Product is integrated, with respect to all material functions, with the Scientific Atlanta headend DNCS controller and Explorer 2000 set top platform.
- (c) SeaChange VOD Product has internal integrated QAM modulation equipment or an option for Comcast to accept an external High Density Integrated QAM/Up-Conversion solution at no additional cost to Comcast.
- (d) SeaChange VOD Product is integrated, with respect to all material functions, with the Power TV set top operating system software for the Scientific Atlanta Explorer 2000 set top platform, WorldGate Communications middleware software for the Motorola DCT 2000 set top platform, and Liberate Technologies middleware software for the Motorola DCT 2000 set top platform.
- (e) SeaChange VOD Product is integrated, with respect to all material functions, with the Cable Data Comcast billing system.

22. WARRANT ISSUANCE

- 22.1 On the terms set forth in this Section 22, and without any additional consideration therefor, SeaChange shall issue to Comcast Cable SC Investment, Inc. (the "Holder"), an affiliate of Comcast, warrants (each,

an "Incentive Warrant," and collectively, the "Incentive Warrants") to purchase shares of SeaChange's common stock, par value \$0.01 per share (the "Common Stock"), at a per share exercise price equal to the average of the Current Market Prices (as defined below) of the Common Stock for the fifteen consecutive Trading Days (as defined below) ending on the Determination Date (as defined below) with respect to which such Incentive Warrant is issued, or, if such Determination Date is not a Trading Day, then ending on the last Trading Day immediately prior to such Determination Date. Each Incentive Warrant shall be exercisable by the Holder for a period of five years from the date of issuance, and shall have such other rights, preferences, privileges and restrictions as are set forth in the form of Incentive Warrant attached hereto as Attachment E. The shares of Common

Stock purchasable upon exercise of each Incentive Warrant (the "Warrant Shares") shall have those registration rights set forth in that certain Registration Rights Agreement dated as of the date hereof among SeaChange, Comcast SC Investment, Inc. and the Holder, substantially in the form attached hereto as Attachment F.

22.2 Prior to the end of the calendar month immediately following each Determination Date, Comcast shall provide to SeaChange a certification signed by an officer of Comcast on behalf of Comcast of the number of Committed Subscribers (as defined below) as of such Determination Date and the applicable Warrant Number (as defined below) for the Incentive Warrant to be issued by SeaChange in respect thereof, if any. Promptly upon receipt of such certification, but in no event more than five Business Days (as defined below) thereafter, SeaChange shall issue to the Holder an Incentive Warrant to purchase a number of Warrant Shares equal to such Warrant Number.

22.3 The Warrant Factors (as defined below) shall be subject to adjustment from time to time as described in this Section 22.3.

(a) In case SeaChange shall pay or make a dividend or other distribution on the Common Stock of SeaChange in Common Stock or any other security convertible into or exchangeable for shares of Common Stock (other than any rights, options or warrants described in subsection (b) of this Section 22.3), the Warrant Factors shall each be adjusted by multiplying such Warrant Factor by a fraction of which (i) the numerator shall be the sum of (A) the number of shares of Common Stock outstanding at the close of business on the date fixed for the determination of stockholders entitled to receive such dividend or other distribution and (B) the total number of shares of Common Stock constituting such dividend or distribution (or, in the case of a dividend or distribution of securities convertible into or exchangeable for shares of Common Stock, the total number of shares of Common Stock underlying such securities), and (ii) the denominator shall be such number of shares referred to in clause (i) (A) above, such adjustment to become effective immediately prior to the opening of business on the next Business Day following the date fixed for such determination. For the purposes of this subsection (a), the number of shares of Common Stock at any time outstanding shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock.

(b) In case SeaChange shall hereafter issue rights, options or warrants to all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock or any other security convertible into or exchangeable for shares of Common Stock at a price per share less than the Current Market Price of the Common Stock on the date fixed for the determination of stockholders entitled to receive such rights, options or warrants (other than pursuant to a dividend reinvestment plan), (i) the

Warrant Factors shall each be adjusted by multiplying such Warrant Factor by a fraction of which (A) the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase (or such number of shares of Common Stock underlying any convertible securities so offered for subscription or purchase), and (B) the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock that the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such Current Market Price, such reduction to become effective immediately prior to the opening of business on the next Business Day following the date fixed for such determination (for the purposes of this subsection (b), the number of shares of Common Stock at any time outstanding shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock), and (ii) if any such rights, options or warrants expire or terminate without having been exercised or are exercised for a consideration different from that utilized in the computation of any

adjustment or adjustments on account of such rights, options or warrants, the Warrant Factors shall be readjusted such that each Warrant Factor would be the same as would have resulted had such adjustment been made without regard to the issuance of such expired or terminated rights, options or warrants or based upon the actual consideration received upon exercise thereof, as the case may be, which readjustment shall become effective upon such expiration, termination or exercise, as applicable; provided, however, that all readjustments in the Warrant Factors based upon any expiration, termination or exercise for a different consideration of any such right, option or warrant, in the aggregate, shall not cause the Warrant Factors to be less than the Warrant Factors immediately prior to the time such rights, options or warrants were initially issued (without regard to any other adjustments of such number under this subsection (b) that may have been made since the date of the issuance of such rights, options or warrants).

- (c) In case the outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Warrant Factors shall each be proportionately increased, such increase to become effective immediately prior to the opening of business on the next Business Day following the day upon which such subdivision occurs, and, conversely, in case the outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, the Warrant Factors shall each be proportionately decreased, such reduction to become effective immediately prior to the opening of business on the next Business Day following the day upon which such combination occurs.
- (d) In case SeaChange shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness or assets (including securities, but excluding any rights, options or warrants referred to in subsection (b) of this Section 22.3, any dividend or distribution paid exclusively in cash and any dividend referred to in subsection (a) of this Section 22.3), the Warrant Factors shall each be adjusted by multiplying such Warrant Factor by a fraction of which (i) the numerator shall be the Current Market Price at the close of business on the date fixed for such determination and (ii) the denominator shall be such Current Market Price less the then fair market value of the portion of the assets or evidences of indebtedness so distributed applicable to one share of Common Stock, such adjustment to become effective immediately prior to the opening of business on the next Business Day following the date fixed for the determination of stockholders entitled to receive such distribution.
- (e) In case of any reclassification, recapitalization or other change in the outstanding securities of any class issuable upon exercise of the Incentive Warrants thereafter issuable hereunder (including any such reclassification, recapitalization or other change upon a consolidation or merger in which SeaChange is the continuing corporation, but not including any transactions for which an adjustment is provided in subsection (c), (d) or (f) of this Section 22.3), the provisions of this Section 22 shall be immediately and automatically amended, without any further action on the part of SeaChange, Comcast or the Holder, to the extent necessary to provide that any Incentive Warrant issued thereafter shall entitle the Holder to exercise such Incentive Warrant into the kind and amount (if any) of securities, cash and other property receivable upon such reclassification, recapitalization or other change by a holder of the number of shares of Common Stock that would have otherwise been issuable upon exercise of such Incentive Warrant had it been issued and exercised immediately prior to such reclassification, recapitalization or other change, subject to any further adjustment as provided herein, at an exercise price equal to the fair market value of such securities, cash and other property on the date such Incentive Warrant is actually issued (calculated as described in Section 22.1 above). The above provisions of this subsection (e) shall similarly apply to successive reclassifications, recapitalizations and other changes in the outstanding securities of the class issuable upon exercise of the Incentive Warrants thereafter issuable hereunder.
- (f) In case of any consolidation of SeaChange with, or merger of SeaChange into, any other person, any merger of another person into SeaChange (other than a merger that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of the Common Stock) or any sale or transfer of all or substantially all of the assets of SeaChange, in each case in which this Agreement remains in full force and effect, the provisions of this Section 22.3 shall be immediately

and automatically amended, without any further action on the part of SeaChange, Comcast or the Holder, to the extent necessary to provide that any Incentive Warrant issued thereafter shall entitle the Holder to exercise such Incentive Warrant into the kind and amount (if any) of securities, cash and other property receivable upon such

consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock that would have otherwise been issuable upon exercise of such Incentive Warrant had it been issued and exercised immediately prior to such consolidation, merger, sale or transfer, subject to any further adjustment as provided herein, at an exercise price equal to the fair market value of such securities, cash and other property on the date such Incentive Warrant is actually issued (calculated as described in Section 22.1 above). If the holders of the Common Stock may elect from choices the kind or amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer, then for the purpose of this Section 22.3 the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer shall be deemed to be the choice specified by the Holder, which specification shall be made by the Holder by the later of (i) ten Business Days after the Holder is provided with a final version of all information required by law or regulation to be furnished to holders of Common Stock concerning such choice, or, if no such information is required, ten Business Days after the Holder is provided with a final version of all information that was otherwise furnished to the holders of Common Stock concerning such choice, and (ii) the last time at which holders of Common Stock are permitted to make their specification known to SeaChange. If the Holder fails to make any specification, the Holder's choice shall be deemed to be whatever choice is made by a plurality of holders of Common Stock not affiliated with SeaChange or the other person to the merger or consolidation. The above provisions of this subsection (f) shall similarly apply to successive consolidations, mergers, sales or transfers.

- (g) All calculations under this Section 22.3 shall be made to the fifth decimal place, and no adjustment to any Warrant Factor shall be required unless such adjustment (plus any adjustments not previously made by reason of this subsection (g)) would require an adjustment of at least 0.00001 to such Warrant Factor; provided, however, that any adjustments that by reason of this subsection (g) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.
- (h) Whenever the Warrant Factors are adjusted as herein provided, SeaChange shall (i) compute the adjusted Warrant Factors in accordance with the provisions of this Section 22.3, and (ii) mail to Comcast a notice stating that the Warrant Factors have been adjusted and setting forth the adjusted Warrant Factors.

22.4 SeaChange shall not, by amendment of its Certificate of Incorporation, through reorganization, consolidation, merger, dissolution or sale of assets, or any other voluntary act, avoid or seek to avoid the observance or performance of any of its obligations under this Section 22.

22.5 Once per 12 month period, SeaChange may, upon reasonable notice to Comcast, instruct an external independent auditor to audit the relevant books and records of Comcast to ensure the accuracy of the number of Committed Subscribers set forth in the certifications provided by Comcast pursuant to Section 22.2. In the event that any such Comcast certification is found to be incorrect as of the date with respect to which it was made, such that warrants covering a greater number of Warrant Shares were issued to Comcast than were actually earned, Comcast agrees to (i) pay the reasonable expenses of the independent auditor, and, at SeaChange's option, (ii) return to SeaChange for cancellation any such warrants to the extent of any unearned Warrant Shares, and, to the extent such warrants have been exercised with respect to such unearned Warrant Shares, sell to SeaChange at the exercise price, adjusted for any stock dividends or other distribution on the Common Stock of SeaChange, the number of Warrant Shares received by Comcast, adjusted for any such stock dividends or other distribution on the Common Stock of SeaChange and including any rights, options or warrants issued in respect thereof, as a result of the exercise of such warrants with respect to such unearned Warrant Shares.

22.6 In addition, at Comcast's option and to the extent that Comcast has not earned the maximum number of Warrant Shares underlying all Incentive Warrants issuable hereunder, Comcast may elect to (a) place on or before January 31, 2004 one or more noncancelable Orders for Equipment to be deployed (or in the process of being deployed) by it on or before June 30, 2004, (b) make a nonrefundable payment of 100% of the amount payable with respect to such Order(s) on or before January 31, 2004 and (c) submit to SeaChange on or before January 31, 2004 a good faith estimate of the number of Committed Subscribers with respect to which such Equipment so ordered will be deployed (or in the process of being deployed) on or before June 30, 2004, in which event SeaChange shall promptly, but in no event more than five Business Days after January 31, 2004, issue to the Holder an additional Incentive Warrant to purchase a number of Warrant Shares equal to the Warrant Number calculated in the manner described in the succeeding sentence, which additional Incentive Warrant shall have a per share exercise price equal to the average of the Current Market Prices of the Common Stock for the fifteen consecutive Trading Days ending on January 31,

2004, or, if such date is not a Trading Day, then ending on the last Trading Day immediately prior to such date. For purposes of this Section 22.6, the Warrant Number shall be calculated assuming that December 31, 2003 is the applicable Determination Date and the number of Committed Subscribers as of such Determination Date shall include the number of Committed Subscribers estimated in good faith by Comcast with respect to which the Equipment so ordered will be deployed (or in the process of being deployed).

22.7 For the purpose of this Section 22, the following terms shall have the following meanings:

- (a) "Business Day" shall mean any day except a Saturday, Sunday or any day on which banking institutions are authorized or required to close in the city of New York, New York.
- (b) "Committed Subscriber" shall mean a basic Comcast subscriber served by a two-way digital headend on which SeaChange's VOD Equipment is deployed, including any such subscriber who was served by a two-way digital headend on which SeaChange's VOD Equipment was deployed by Comcast as of the date on which such headend (and, therefore, such subscriber) was sold, traded or otherwise transferred by Comcast to another entity, but excluding any such subscriber who was served by a two-way digital headend on which SeaChange's VOD Equipment was deployed by another entity as of the date on which such headend (and, therefore, such subscriber) was sold, traded or otherwise transferred by such other entity to Comcast. "First Tier Committed Subscriber" shall mean each Committed Subscriber in excess of 1,000,000 but less than 2,000,001. "Second Tier Committed Subscriber" shall mean each Committed Subscriber in excess of 2,000,000 but less than 3,000,001. "Third Tier Committed Subscriber" shall mean each Committed Subscriber in excess of 3,000,000 but less than 4,000,001.
- (c) "Current Market Price" shall mean the closing price per share of Common Stock on the earlier of the day in question or the Ex Date (as defined below) with respect to the issuance, payment or distribution, where the closing price for each day shall be the reported last sale price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the Nasdaq National Market System or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on the Nasdaq National Market System, the average of the closing bid and asked prices in the over-the-counter market as furnished by any New York Stock Exchange member firm reasonably selected from time to time by the Board of Directors of SeaChange for that purpose.
- (d) The "Determination Dates" shall be June 30, 2001, December 31, 2001, June 30, 2002, December 31, 2002, June 30, 2003 and December 31, 2003.
- (e) "Ex Date" shall mean, with respect to any issuance or distribution, the first date on which the Common Stock trades regular way on the applicable securities exchange or in the applicable securities market without the right to receive such issuance or distribution.
- (f) "Trading Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday other than any day on which the Common Stock is not traded on the applicable securities exchange or in the applicable securities market.
- (g) "Warrant Factors" shall mean the First Tier Warrant Factor, the Second Tier Warrant Factor and the Third Tier Warrant Factor. The "First Tier Warrant Factor" shall equal 0.1, the "Second Tier Warrant Factor" shall equal 0.15 and the "Third Tier Warrant Factor" shall equal 0.2, each subject to adjustment as described in Section 22.3.
- (h) The "Warrant Number" for each Determination Date shall equal the sum of (i) the product obtained by multiplying the First Tier Warrant Factor by the difference between (A) the total number of First Tier Committed Subscribers as of such Determination Date minus (B) the highest number (as adjusted based upon the results of any audit conducted pursuant to Section 22.5) of First Tier Committed Subscribers counted on any previous Determination Date (provided that in no event shall the difference between (A) and (B) be less than zero), plus (ii) the product obtained by multiplying the Second Tier Warrant Factor by the difference between (A) the total number of Second Tier Committed Subscribers as of such Determination Date minus (B) the highest number (as adjusted based upon the results of any audit conducted pursuant to Section 22.5) of Second Tier Committed

Subscribers counted on any previous Determination Date (provided that in no event shall the difference between (A) and (B) be less than zero), plus (iii) the product obtained by multiplying the Third Tier Warrant Factor by the difference between (A) the total number of Third Tier Committed Subscribers as of such Determination Date minus (B) the highest number (as adjusted based upon the results of any audit conducted pursuant to Section 22.5) of Third Tier Committed Subscribers counted on any previous Determination Date (provided that in no event shall the difference between (A) and (B) be less than zero); provided, however, that in the event that the Warrant Number for any Determination Date (other than the last Determination Date) would not be a whole number, the Warrant Number shall be rounded down to the nearest whole number and the number of Committed Subscribers, or portions thereof, not counted towards the Warrant Number as a result of such rounding shall be counted on the next Determination Date. Applying the foregoing formula and based upon the initial Warrant Factors, which are subject to adjustment as described in Section 22.3, the maximum number of Warrant Shares underlying all Incentive Warrants issuable hereunder is 450,000 shares (100,000 shares with respect to the First Tier Committed Subscribers, 150,000 shares with respect to the Second Tier

Committed Subscribers and 200,000 shares with respect to the Third Tier Committed Subscribers).

23. PUBLIC ANNOUNCEMENT

SeaChange and Comcast shall agree on the form and content of any public announcement that shall be made concerning this Agreement and the transactions contemplated hereby, and neither SeaChange nor Comcast shall make any such public announcement without the consent of the other, except as required by law.

24. GENERAL

24.1 Force Majeure. Neither party shall be liable for delays in performance

arising out of or resulting from causes beyond such party's control. Such causes include, but are not restricted to, acts of God, any government authority, or the public enemy, fires, floods, epidemics, quarantine restrictions, strike, freight embargoes, shortages of materials, unusually severe weather, and default or delay of suppliers. In the event of such delay, the shipping date shall be extended for a period equal to the time lost by reason of the delay.

24.2 Governing Law. This Agreement shall be governed by the laws of the

Commonwealth of Massachusetts, without regard to its conflict of laws rules, except that the United Nations Convention on the International Sale of Goods shall not apply to this Agreement.

24.3 Survival. In addition to any provision of this Agreement which by its

nature is intended to survive expiration or termination of this Agreement, Sections 4, 5, 9, 10, 11, 12, 13, 14 and 15 shall survive the termination or expiration of this Agreement.

24.4 Assignment. This Agreement and the rights, duties and obligations under

this Agreement may not be assigned in whole or in part without the prior written consent of the other party, which shall not be unreasonably withheld, provided, however, that either party may assign, without the written consent of the other party, all or any part of this Agreement to any subsidiary or affiliate of such party or a purchaser of substantially all of the assets of the such party and such subsidiary, affiliate or purchaser agrees in writing to be bound by all the terms and provisions of this Agreement. Any attempted assignments of any rights, duties or obligations under this Agreement without such required consent shall be null and void. This Agreement shall be binding on each party's respective successors and permitted assigns.

24.5 Independent Contractors. Comcast and SeaChange are independent

contractors and have no power, right or authority to bind the other party or to assume or to create an obligation or responsibility, express or implied, on behalf of the other party. Nothing in this Agreement shall be construed as creating a partnership relationship between Comcast and SeaChange or as creating the relationships of

employer and employee, master and servant, or principal and agent between the parties hereto.

24.6 Waiver and Severability.. Any failure or delay by either party in

exercising any right or remedy provided by or relating to this Agreement in

one or many instances does not constitute a waiver and shall not prohibit that party from exercising such right or remedy at a later time within applicable statute of limitations or from exercising any right or remedy otherwise available. If any provision of this Agreement is deemed invalid by a court of competent jurisdiction, it shall, to that extent only, be deemed omitted from this Agreement.

24.7 Notice. Any notice required or permitted by this Agreement shall be in -----

writing and shall be hand delivered, or sent by prepaid registered or certified mail, return receipt requested (if available), or sent by prepaid courier service, in each case addressed to the other party at the address shown at the beginning of this Agreement or at such address for which such party gives notice hereunder. Copies of all notices to Comcast shall be sent to the attention of Comcast's General Counsel at the same address. Delivery shall be deemed completed upon receipt or refusal to accept such notice.

24.8 Entire Agreement. This Agreement, including all of its referenced -----

Attachments, constitutes the entire agreement between the parties with respect to its subject matter. It supersedes any terms or conditions contained on Comcast's purchase order, sales acknowledgment or invoice. It also supersedes all previous oral or written communications between the parties regarding the sale or license of the Products. Except as otherwise provided herein, this Agreement may not be modified except by a written document signed by an authorized representative of the party against whom enforcement is sought.

For SeaChange International, Inc.:

Signature: /s/ William L. Fiedler

Name: William L. Fiedler

Title: Vice President

For Comcast Cable Communications
of Pennsylvania, Inc.:

Signature: /s/ Mark E. Hess

Name: Mark E. Hess

Title: Vice President of Digital

Television

The following exhibits and schedules thereto have been omitted in accordance with Rule 601(B)(2) of Regulation S-K:

Attachment A: SeaChange's List Price
Attachment B: Standard Installation and Testing Procedures
Attachment C: Standard Maintenance Agreement
Attachment D: Functional Specifications of SeaChange VOD System
Attachment E: Form of Incentive Warrant
Attachment F: Registration Rights Agreement, dated as of December 1, 2000, by and among SeaChange, Comcast SC Investment, Inc. and Comcast Cable SC Investment, Inc.

The Company will furnish supplementally a copy of any omitted exhibit or schedule to the Securities and Exchange Commission (the "Commission") upon the Commission's request; provided, however that the Company may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

LOAN AGREEMENT

LOAN AGREEMENT (this "Agreement") dated as of October 16, 2000, by and between Bank of New Hampshire, N.A., a national banking association with a place of business at 28 Main Street, Jaffrey, New Hampshire 03452 (the "Bank"), and SeaChange International, Inc., a Delaware corporation with an address of 124 Acton Street, Maynard, Massachusetts 01754 (the "Borrower").

W I T N E S S E T H:

WHEREAS, the Bank is hereby making two loans to the Borrower of even date in the respective amounts of Five Hundred Forty-four Thousand Dollars (\$544,000.00) and Six Hundred Fifty-six Thousand Dollars (\$656,000.00) for the purposes of financing the construction/renovation of real estate of the Borrower at 32 Mill Street, Greenville, Hillsborough County, New Hampshire (the "Premises"); and

WHEREAS, the parties wish to set forth in writing the terms and conditions upon which the Bank is making said loans to the Borrower;

NOW, THEREFORE, in consideration of the foregoing and of the following mutual promises, the parties confirm and agree as follows.

SECTION 1. DEFINITIONS. The following terms as used in this Agreement shall

have the meanings set forth below.

1.1 Architect: Any and all architects now or hereafter engaged by the Borrower for the design of the Project.

1.2 Architect's Contracts: Any and all agreements by and between the Borrower and the Architect for, among other things, the design of the Project.

1.3 Closing: The date on which the Bank makes and the Borrower takes the Loans.

1.4 Collateral Assignment: The Collateral Assignment of Contracts, Plans and Permits of even date from the Borrower to the Bank.

1.5 Construction Contract: Any and all contracts by and between the Borrower and the Contractor for, among other things, the construction of the Project.

1.6 Construction Term: The period commencing on the date of this Agreement and continuing through the Conversion Date.

1.7 Contractor: Hutter Construction Corporation.

1.8 Contracts: All contracts relating to the design and construction of the Improvements and the Project.

1.9 Conversion Date: The date upon which the \$544,000.00 Note converts to an amortizing note pursuant to Section 2.5 of this Agreement.

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1.10 Environmental Indemnity: Environmental Indemnification Agreement of even date from the Borrower to the Bank.

1.11 Financial Statements: The most recent financial statements of the Borrower heretofore delivered to the Bank.

1.12 Improvements: The improvements to be constructed on the Premises in accordance with the Plans and Specifications with the proceeds of the Loans and all personal property, fixtures and appurtenances, additions, replacements and improvements, including site improvements and landscaping, constructed on or existing on the Premises, now or at any time hereafter, including substitutions therefor and the proceeds thereof.

1.13 Leases. Any and all leases with respect to the Premises to be entered into by the Borrower as Lessor.

1.14 Lease Assignments: The Collateral Assignments of Leases and Rents of even date from the Borrower to the Bank.

1.15 Loans: One or more advances to the Borrower by the Bank for the purpose of construction financing in accordance with the terms, provisions and conditions of this Agreement, in amounts as follows: (a) an amount not exceeding Five Hundred Forty-four Thousand Dollars (\$544,000.00) ("544,000.00 Loan"), and (b) an amount not exceeding Six Hundred Fifty-six Thousand Dollars (\$656,000.00)

("\$656,000.00 Loan").

1.16 Loan Documents: This Agreement, the Notes, the Mortgages, the Collateral Assignment, the Lease Assignments, the Environmental Indemnity, and any other documents now or hereafter executed by the Borrower or any endorser, and delivered to the Bank, the purpose of which is to evidence or secure the Borrower's repayment of the Loans and the performance of its obligations under this Agreement.

1.17 Mortgages: Mortgage, Security Agreement and Fixture Filings (and related U.C.C. Financing Statements) of even date executed by the Borrower as mortgagor, for the benefit of the Bank as mortgagee, granting the Bank valid and effectual first (\$544,000.00) and second (\$656,000.00) liens upon the Premises.

1.18 Notes: The promissory notes from the Borrower to the Bank of even date in the respective face amounts of Five Hundred Forty-four Thousand Dollars (\$544,000.00) and Six Hundred Fifty-six Thousand Dollars (\$656,000.00).

1.19 Permits: All federal, state and local governmental approvals, licenses and permits, including, without limitation, all building permits, variances, special exceptions, zoning approvals, subdivision approvals and site plan approvals, and all other approvals (including, without limitation, septic system approvals, subdivision approvals, water system approvals and "site specific" approvals) granted to the Borrower to enable the Borrower to construct the Improvements upon the Premises and to operate the same.

1.20 Permanent Terms: The period commencing on the date immediately following the Conversion Date and continuing through the date that is ten (10) years from the Conversion

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Date (for the \$544,000.00 Loan and through the date that is five (5) years from the Conversion Date (for the \$656,000.00 Loan).

1.21 Plans and Specifications: The plans and specifications approved by the Bank pursuant to which the Improvements are to be constructed on the Premises.

1.22 Premises: A certain tract or parcel of land, with the buildings and improvements thereon and the appurtenances thereto, located at 32 Mill Street, Greenville, Hillsborough County, New Hampshire more particularly described in Exhibit A attached hereto and incorporated herein by reference.

1.23 Project: The Improvements as constructed on the Premises.

1.24 Schedule of Sources and Uses of Funds: The schedule of sources and uses of funds for the construction of the Project and estimated timetable for the construction of the Project.

1.25 Security Interest: The security interest in the Borrower's personal property granted to the Bank by the Borrower pursuant to the Mortgage.

SECTION 2. THE LOANS. -----

2.1 The Loans: Subject to the terms of this Agreement, the Borrower will take and the Bank will make the Loans.

2.2 The Notes: To evidence its obligation to repay the Loans, the Borrower will execute and deliver the Notes to the Bank.

2.3 Security: The Borrower's obligations to repay the Loans as evidenced by the Notes and to perform its other obligations under the Loan Documents are secured by: (i) the Mortgage and the lien and Security Interest granted therein; (ii) the Collateral Assignment; (iii) the Lease Assignments, and the collateral granted to the Bank in such documents (the "Collateral").

2.4 Use of Loan Proceeds: The proceeds of the Loans shall be utilized by the Borrower only to construct the Project on the Premises in accordance with the amounts set forth in the Prologue to this Agreement and the Plans and Specifications.

2.5 Conversion to Amortizing Loan. During the Construction Term (i.e., until the Conversion Date), the Notes shall provide for monthly payments of interest only; at all times following the Conversion Date ("Permanent Term"), the Borrower shall make amortized payments of principal and interest as more specifically set forth in the Notes. The "Conversion Date" is hereby defined as the date upon which the full satisfaction of all of the "Conversion Conditions" (as hereinafter defined), occurs. The "Conversion Conditions" are defined as all of the following: (i) final lien waivers or releases from the Contractor and each and every subcontractor and supplier of materials who has supplied goods and/or services worth at least Two Thousand Dollars (\$2,000.00) with respect to the Project; (ii) final Certificate(s) of Occupancy issued by the Town of Greenville with respect to the Project and the Borrower (and

any tenants) shall have taken occupancy thereof; (iii) cash or certified funds from the Borrower to the Bank in an amount necessary to pay all accrued and outstanding interest and any other costs or charges outstanding under the Loans; (iv) the Improvements shall have been constructed upon the Premises without any mechanics' or materialmen's liens, and in strict conformity with the Plans and Specifications; and (v) no Event of Default shall have occurred or be continuing.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

In order to induce the Bank to make the Loans, the Borrower makes the following representations, warranties and promises:

3.1 The execution, delivery and performance of the Loan Documents are not in contravention of law or the terms of other documents, agreements or undertakings to which the Borrower is a party or by which such party is bound. No approval of any person, corporation, governmental body or other entity not provided herewith is a prerequisite to the execution, delivery and performance of the Loan Documents or any of the documents submitted to the Bank in connection with the Loans, or to insure the validity or enforceability thereof.

3.2 When executed by the Borrower, the Loan Documents will constitute the legally binding obligations of the Borrower, enforceable in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors' rights generally.

3.3 The construction of the Improvements upon the Premises and the use and operation of the Improvements and the Premises does and will comply with all applicable federal, state and local land use, environmental and other statutes, laws and regulations and the Project has received and will receive all necessary Permits.

3.4 Subject to any limitations stated therein or in connection therewith, the Financial Statements, all earning statements, projections, budgets and pro formas, cost certification documents, disbursement requests, invoices, loan applications, mechanics' lien affidavits, financial data and all other documents which have been or shall hereafter be furnished to the Bank to induce it to enter into this Agreement or to continue to perform and to make disbursements hereunder, do to the best of their knowledge and belief, or will, fairly represent the financial condition of the Borrower and are, or will be, accurate, true and complete in all material respects.

3.5 The Financial Statements have been prepared in accordance with generally accepted accounting principles, consistently applied, and fairly and completely set forth the financial position of the Borrower as of their respective dates. Except as previously disclosed in writing to the Bank, since the date of the Financial Statements, there has been no significant assignment of assets or material change or threatened change in the financial condition, operation or business prospects of the Borrower.

3.6 There is not now pending against the Borrower, nor is there threatened, any litigation, investigation, eminent domain or any proceedings before any court or administrative or governmental agency, the outcome of which might adversely affect the financial condition or the continued operation of the Borrower or the development or operation of the Premises and Improvements other than those listed in Schedule 3.6. There exists no unrepaired casualty with respect to the Project.

3.7 The Borrower is the owner of the Premises, in fee simple, and there are no liens or encumbrances which will be prior to the respective liens of the Mortgage and other Loan Documents, except for those acceptable to the Bank as shown on the commitment for title insurance. The liens, security interests and assignments created by the Loan Documents will, when granted, be valid, effective, properly perfected and enforceable liens, security interests and assignments.

3.8 To the Borrower's knowledge, the Premises have not been used for the generation, treatment, storage or transportation of "hazardous waste", as that term is defined under applicable federal and state law. In the event that the Borrower becomes aware of the presence of any such substance on the Premises or the Borrower becomes aware of the commencement of any state, federal, local or private environmental or land use investigation or enforcement proceeding or threat thereof, the Borrower will immediately provide written notice thereof to the Bank.

3.9 To the Borrower's knowledge, there are no underground fuel storage tanks located on the Premises.

3.10 The Premises are not located in a Flood Hazard Zone, so-called, or if they are so located, the Borrower will procure flood insurance and will deliver certificates for such insurance at closing.

3.11 All utility services necessary for the use and operation of the Project are available on or at the boundary of the Premises or by unencumbered easement and have sufficient capacity for the use and operation of the Project.

3.12 Any borrowings or payments made by the Borrower pursuant to the Loan Agreement do not and will not render the Borrower insolvent, the Borrower is not contemplating either the filing of a petition under any state or federal bankruptcy or insolvency laws or the liquidating of all or a major portion of its property, and the Borrower has no knowledge of any person contemplating the filing of any such petition against it, including the properties and assets reflected in its financial statement referred to herein.

3.13 No statement of fact made by or on behalf of the Borrower in this Agreement, or in any certificate or schedule furnished to the Bank pursuant hereto, contains any untrue statement of a material fact or omits to state any material fact necessary to make statements contained therein or herein not misleading. There is no fact presently known to the Borrower which has not been disclosed to the Bank which materially affects adversely, or as far as the Borrower can foresee, will materially affect adversely, the property, business, operations or condition (financial or otherwise) of the Borrower, the Premises or the Improvements.

3.14 The Borrower has filed all federal, state and local tax returns required to be filed and has paid or made adequate provision for the payment of all federal, state and local taxes, charges and assessments.

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3.15 The making of the Loans or the execution and delivery of the Loan Documents will not subject the Bank to any claim for a brokerage commission.

3.16 The Borrower has paid in full or has made other satisfactory arrangements for payment of all premiums for insurance policies being delivered to the Bank.

3.17 All warranties and representations heretofore made by the Borrower to the Bank in connection with efforts to obtain the Loans, including all projections, budgets and pro formas, are incorporated herein by reference and shall be deemed to be material and to have been relied upon by the Bank in making the Loans.

3.18 The Borrower is a corporation, duly authorized and validly existing under the laws of the State of Delaware, with powers adequate to own its properties, and to carry on its business as presently conducted by it (including, but not limited to, within the State of New Hampshire). The execution, delivery and performance of the Loan Documents to which the Borrower is a party are not in contravention of the Articles or By-laws of the Borrower, or of any provisions of law or the terms of any documents, agreements or undertakings to which the Borrower is a party or by which such party is bound.

SECTION 4. COVENANTS OF THE BORROWER

A. Affirmative Covenants

4.1 During the term of this Agreement, the Loan Documents and any extensions, replacements or renewals thereof, the Borrower will maintain insurance as follows:

- (a) The Borrower will provide and maintain insurance in full force and effect and will deposit all original policies with the Bank for the following:
 - (i) during the course of the construction of the Improvements and any additions or replacements to or for the Project, so-called "Builder's Risk" insurance with extended coverage in an amount not less than the replacement cost of all improvements upon the Premises, insuring all work accomplished on the Premises, including equipment and materials delivered to the Premises for incorporation into the Premises;
 - (ii) public liability insurance in such amount and with such coverage as is reasonably required by the Bank including, if requested by the Bank, liability insurance on vehicles owned or operated by the Borrower;
 - (iii) worker's compensation insurance as required by statute;
 - (iv) from and after the Conversion Date, fire and broad form extended coverage in an amount not less than the greater of (a) the replacement cost of all improvements upon the Premises, or (b) the entire unpaid

balance (principal, interest, outstanding costs or charges) of the Loans; and

(v) such other hazard insurance as the Bank may reasonably request including, but not limited to, flood insurance (if the Premises are located in a flood hazard zone), which flood insurance shall be in an amount not less

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than the lesser of (A) one hundred percent (100%) of the full replacement value of improvements on the Premises, (B) the outstanding balance (principal and accrued interest) of the Loan, or (C) the maximum amount of flood insurance available.

(b) All such insurance:

(i) shall be issued by companies satisfactory to the Bank and authorized to do business in the State of New Hampshire, and shall be satisfactory in all material respects to the Bank;

(ii) shall show the Borrower and the Bank as insured, as their interest may appear, or, where appropriate, showing the Bank as an additional named loss-payee and/or named insured; and

(iii) shall contain provisions providing for twenty (20) days' prior written notice to the Bank of any intended cancellation.

(c) In the event of failure to provide insurance as herein provided, the Bank may at its option, but without obligation to do so, and without waiving any of its rights hereunder, provide such insurance and charge the amount to the Borrower's Loan account.

(d) Original policies of insurance and/or insurance certificates satisfactory to the Bank and its counsel with coverage as aforesaid shall be delivered to and deposited with the Bank at Closing.

4.2 The Borrower shall notify the Bank in writing as soon as the Borrower has knowledge of any default hereunder, any casualty to the Project, in whole or in part, or of any actions, suits, eminent domain proceedings, investigations or proceedings at law, in equity or before any governmental authority, pending or threatened, against or affecting the Borrower or the security or involving the validity or enforceability of the Loan Documents or the priority of the liens created thereunder.

4.3 The Borrower agrees that, within thirty (30) days from the date real estate taxes, or any assessments, relative to the Premises must be paid without incurring a penalty, it will pay the same (except for such taxes or assessments which are either paid through the tax escrow provided for in the Mortgage or which are contested in good faith provided that adequate security is provided to the Bank to prevent injury or loss as a result of such contest), and will furnish to the Bank a receipted tax or assessment bill, as requested by the Bank.

4.4 The Borrower agrees to execute any and all documents required by the Bank to confirm the Bank's position as a first lienholder on the Premises and to faithfully comply with the terms of this Agreement and the Loan Documents.

4.5 The Borrower shall furnish the Bank:

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(i) Within ninety (90) days after the close of each fiscal year of each of the Borrower:

(A) a statement of members'/shareholders' equity and a statement of cash flow of the Borrower for such fiscal year;

(B) income statements of the Borrower for such fiscal year; and

(C) balance sheets of the Borrower as of the end of such fiscal year.

All such annual statements shall be prepared in accordance with generally accepted accounting principles, shall present fairly the financial position and results of operations of the Borrower and shall be prepared and audited by an independent certified public accountant selected by such parties and acceptable to the Bank (it being acknowledged that the Borrower's present accountant is acceptable to the Bank). The Bank shall have the right, from time to time, to discuss the affairs of the Borrower directly with such independent certified public accountants after notice to the Borrower and opportunity of the Borrower to be represented at any such discussions; and

(ii) Within ten (10) days of the filing thereof, true and complete copies of quarterly 10-Q reports of the Borrower; and

(iii) Such other financial information as the Bank shall reasonably request from time to time, including, but not limited to, evidence of compliance with all financial covenants set forth in this Agreement.

4.6 The Borrower agrees to pay all costs and reasonable expenses incidental to the Loans, the preservation of the Collateral, the collection of the Notes and the foreclosure of the Mortgages, including, but not limited to, any appraisals required or provided for hereunder, real estate transfer taxes, title examination and endorsement fees, title insurance premiums, recording fees, attorneys' fees (including those of the Bank's counsel), brokerage fees, architectural fees and site inspection fees.

4.7 The Borrower shall put and maintain the Premises and Improvements thereon in good repair, working order and condition, and from time to time shall make all needful and proper repairs, renewals and replacements.

4.8 The Borrower shall promptly pay for all labor, materials, equipment and fixtures used in connection with the construction of the Improvements and all other costs relating to the Improvements.

4.9 The Borrower shall strictly enforce the Construction Contracts to ensure that the Contractor is required to promptly and diligently perform all of its obligations thereunder and in such a manner as to preserve the Bank's security in the Premises and Improvements. No change, amendment or modification shall be made to such contract without prior written consent of the Bank.

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4.10 No materials, equipment, fixtures or any other part of the Improvements, or articles of personal property placed in the Improvements, shall be purchased or installed under any security agreement or other arrangements wherein the seller reserves or purports to reserve the right to remove or to repossess any such items or to consider them personal property after their incorporation into the Improvements.

4.11 The Borrower shall pay all bills when due, keep books and records in accordance with generally accepted accounting principals, consistently applied, and will permit a representative on behalf of the Bank to examine and audit the books of its business. The Borrower shall inform the Bank immediately of any litigation involving the Borrower, the adverse determination of which might prejudice repayment of either Loan.

4.12 After the execution of this Agreement, any and all publicity releases to newspapers of general or limited circulation or trade publications announcing any of the financing by the Bank provided for herein shall be issued by or subject to prior approval by the Bank. The Bank shall erect a sign upon the Premises indicating that the Bank is the source of the financing of the construction of the Improvements.

4.13 The Borrower shall use and operate the Project in compliance with all applicable laws.

4.14 The Borrower shall furnish the Bank with such appraisals of the Project as the Bank may reasonably request, from time to time, including without limitation, an appraisal of the Project, the Improvements and the Premises acceptable to the Bank upon completion of the Project.

4.15 The Borrower shall construct the Improvements in strict conformity with the Plans and Specifications and shall not make any change in the Project design or structure without the prior written approval of the Bank, which approval shall not be unreasonably withheld.

B. Negative Covenants.

4.16 The Borrower shall not transfer the Project, the Improvements or the Premises, or any interest therein, to any person without the prior written consent of the Bank, which consent shall not be unreasonably withheld.

4.17 The Borrower shall not permit any person to assume the Mortgage or any other lien described in this Agreement.

4.18 The Borrower shall not, without the prior written consent of the Bank (which shall not be unreasonably withheld), create, assume, incur or suffer to be created, assumed or incurred, any mortgage, lien, pledge, attachment or security interest or encumbrance of any kind in respect to the Premises, the Project or the Improvements during the term of either Loan, even if the same is subordinate to any lien given to the Bank to secure either Loan.

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4.19 The Borrower shall not sell or dispose of any of its assets except for reasonably equivalent consideration and in the ordinary and usual course of its business. In addition, the Borrower shall not permit the sale, transfer or

redemption of any of its membership interests without the prior, written consent of the Bank.

4.20 The Borrower shall not enter into any Lease without obtaining the Bank's prior, written approval thereof, such approval not to be unreasonably withheld, conditioned or delayed, and the Borrower shall upon execution thereof furnish a fully executed copy of each Lease entered into during the term of either Loan.

4.21 As long as either Loan remains outstanding, at the end of each fiscal year beginning with Fiscal Year 1999, the Borrower's Debt Service Coverage Ratio shall be no less than 1.5:1, calculated as follows: (A) net income, plus interest expense, plus depreciation, plus amortization expense, divided by (B) current maturity of long-term indebtedness, plus capital lease expense. The information set forth in the Borrower's financial statements and tax returns as required under this Agreement shall be conclusive in determining the Borrower's compliance with such ratio.

4.22 As long as either Loan remains outstanding, at the end of each fiscal year beginning with Fiscal Year 1999, the Borrower's Quick Ratio shall be no less than 1.0:1, calculated as follows: (A) cash on hand, plus accounts receivable not more than sixty (60) days past invoice date, divided by (B) current liabilities. The information set forth in the Borrower's financial statements and tax returns as required under this Agreement shall be conclusive in determining the Borrower's compliance with such ratio.

4.23 As long as either Loan remains outstanding, at the end of each fiscal year beginning with Fiscal Year 1999, the Borrower's Tangible Net Worth shall be no less than Thirty Million Dollars (\$30,000,000.00), calculated as follows: the Borrower's capital stock account, plus subordinated indebtedness of the Borrower, plus the Borrower's retained earnings, plus additional paid in capital, minus treasury stock, minus intangible assets. The information set forth in the Borrower's financial statements and tax returns as required under this Agreement shall be conclusive in determining the Borrower's compliance with such ratio.

SECTION 5. CONDITIONS PRECEDENT TO THE MAKING OF THE LOANS

The obligation of the Bank to make the Loans is subject to the satisfaction by the Borrower or its representatives of the following conditions precedent:

5.1 The Borrower's warranties and representations as contained in Section 3 hereof shall be accurate and complete as of the date of Closing.

5.2 No Event of Default (as defined herein or in either Note or any Loan Document) shall have occurred or be continuing.

5.3 The Borrower shall have executed and delivered all of the Loan Documents to which it is a party.

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5.4 The Borrower shall have delivered all of the documents and materials listed on the Closing Agenda attached hereto as Exhibit C to the Bank, all of which must be acceptable, in both form and substance, to the Bank and its counsel, including, but not limited to, the following:

- (a) Copies of all Permits;
- (b) Copies of all Contracts;
- (c) Copies of the Plans and Specifications;
- (d) Certificates of insurance as required by Section 4.1 hereof;
- (e) Evidence that the Premises are not located in a Flood Zone, so-called, or that the Project is covered by flood insurance acceptable to the Bank;
- (f) Receipted bills for real estate taxes and other charges or assessments against the Project;
- (g) The Financial Statements;
- (h) Evidence that utilities are available to the Premises and the Improvements at the boundary of the Premises or by way of unencumbered easement with sufficient capacity including, without limitation, such evidence as the following utilities: (i) water, (ii) sewer, (iii) electricity, (iv) telephone and (v) gas;
- (i) A title insurance policy (ALTA Loan Policy-1970) written with a company acceptable to the Bank, insuring that the Bank has a valid lien of record on the Premises subject only to the Bank's prior mortgages on the Premises and those exceptions approved by the Bank and (i) having all standard exceptions, so-called, deleted and (ii) including such other affirmative

insurance and endorsements as may be requested by the Bank;

(j) An opinion of counsel to the Borrower in the form of Exhibit B attached hereto and incorporated herein by reference;

(k) Satisfactory environmental site assessments by such environmental consultants as are acceptable to the Bank regarding the presence of hazardous waste and materials on the Premises;

(l) The Schedule of Sources and Uses of Funds; and

(m) Consents by the Architects and the Contractor to the Collateral Assignment of Contracts, Plan and Permits.

5.5 The Borrower shall have paid all costs incurred in connection with the Closing of the Loans including, without limitation, attorneys' fees of Bank's counsel and title insurance premiums. To the extent that such costs are not paid at Closing, the Borrower hereby authorizes the Bank to pay the same out of the proceeds of the Loans.

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5.6 The Borrower shall furnish the Bank with such other documents, opinions, certificates, evidence and other matters as may be requested by the Bank at or prior to Closing.

SECTION 6. DISBURSEMENT OF LOAN PROCEEDS

6.1 The obligation of the Bank to make disbursement of proceeds of the Loans to the Borrower for purposes of construction of the Improvements (the "Construction Disbursement") is subject to satisfaction of the following conditions precedent on or before each disbursement to the Borrower:

(a) The warranties and representations of the Borrower as contained in Section 3 hereof shall be accurate and complete as of the date that the Borrower request a disbursement of Loan proceeds from the Bank (the "Requisition Date");

(b) The Borrower shall not be in default under any of the covenants contained in Section 4 hereof as of the Requisition Date;

(c) All conditions precedent to the making of the Loans as set forth in Section 5 hereof shall continue to have been satisfied and the Borrower shall have notified the Bank of any changes in the status thereof, which changes shall have been approved by the Bank;

(d) In addition, if requested by the Bank, the Borrower shall furnish the Bank with the following, all of which shall be acceptable, in both form and substance, to the Bank:

(i) plans and specifications for the portion of the Improvements to be so funded, including (but not limited to) an updated survey of the Premises showing the location of the Improvements constructed thereon as of the Requisition Date;

(ii) affidavits and lien waivers from the Contractor and subcontractors and suppliers providing goods or services with a value greater than or equal to Two Thousand Dollars (\$2,000.00) sufficient to ensure that the priority of the lien of the Mortgages will not be subject to any mechanics' or materialmen's liens held by such Contractor or subcontractors;

(iii) an endorsement to the title insurance policy theretofore delivered to the Bank insuring that the Bank has a valid first lien on the Premises up to at least the amount of Loan proceeds the Bank has then disbursed to the Borrower (including the requested disbursement) subject only to such matters and exceptions as are acceptable to the Bank;

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(iv) an inspection of the Improvements constructed on the Premises by the Bank, or its architects, engineers or other representatives, at the Borrower's reasonable expense (to occur within five (5) business days from date of requisition), indicating (a) that the Improvements are being constructed in substantial compliance with the Plans and Specifications and in a good and workmanlike manner; (b) that the amount of loan proceeds requested at the Requisition Date, together with amounts requested at earlier Requisition Dates and sums contributed by the Borrower, accurately reflect the status of the construction of the Improvements; and (c) that the undistributed proceeds of the Loans as of the Requisition Date will be sufficient to complete the construction of the Improvements;

(v) the Borrower shall furnish the Bank with such other documents, opinions, certificates, evidence and other matters as may be requested by the Bank as conditions precedent to making the requested disbursement; and

(e) The Loan Documents shall remain in full force and effect.

6.2 All requests for disbursements of Loan proceeds for purposes of construction of the Improvements shall be made on AIA Forms, or forms substantially similar to AIA forms and satisfactory to the Bank, not less than ten (10) business days prior to the date of the requested disbursement, shall be made on forms approved by the Bank, with such detail and with such supplementary information as is acceptable to the Bank, and shall not be made more frequently than once per thirty (30) day period.

6.3 The Bank will make all disbursements pursuant to this Agreement to a commercial demand deposit account in the Borrower's name at the Bank, and the Borrower agree to make all payments on account of the construction of the Improvements from such account.

6.4 Upon receipt by the Bank of a disbursement request as set forth in Section 6.2, together with satisfactory evidence that the conditions precedent set forth in Section 6.1(i) through (v) have been satisfied, the Bank shall make advances as construction progresses, in amounts equal to: (a) ninety percent (90%) of expenditures for labor performed and material supplied under the Construction Contract for construction of the Improvements in accordance with the Plans and Specifications during the period immediately preceding the advance, plus (b) one hundred percent (100%) of indirect construction costs actually paid or incurred by the Borrower that have not been covered by previous advances. Indirect construction costs shall mean those costs related to the construction of the Improvements, other than the cost of labor and materials, and include, but are not limited to, title insurance premiums, permit fees, architect and engineering fees, legal fees, loan fees, taxes and interest during construction, but do not include any profit to the Borrower or any affiliate thereof.

6.5 In the event the Bank shall reasonably determine that the actual direct and indirect costs to complete the construction of the Improvements will exceed the proceeds of the Loans available for advance, the Bank may, at its option, refuse to make or approve

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further disbursements and may require the Borrower to make a cash deposit of an amount equal to such excess with the Bank for disbursement in accordance herewith. The Bank may commingle such deposited amounts with its own funds and such deposited amounts shall, if the Borrower is not in default hereunder beyond the applicable cure period, earn interest at then market rates. No Loan proceeds shall be advanced while amounts so deposited are available for disbursement. The deposit requirements of this paragraph are in addition to the deposit or escrow requirements in the Mortgage and may be required repeatedly as the Bank reasonably determines is necessary. The Bank's waiver of this right on any occasion shall not affect its right to impose the requirement at another time.

6.6 The making of any disbursement of any part thereof by the Bank shall not be deemed an approval or acceptance by the Bank of work theretofore performed or materials theretofore furnished.

6.7 The Bank's obligation to disburse proceeds of the Loans for construction purposes shall terminate on the Conversion Date.

SECTION 7. GENERAL CONDITIONS; MISCELLANEOUS

7.1 The Bank shall have the right to enter on the Premises for the purpose of inspecting the Project at all reasonable times and upon reasonable notice (with the exception of emergencies, in which event the Bank may enter at any time and without any notice). However, all inspections which may be made by the Bank or its agents are made solely to ascertain the condition of the Project and the Borrower agrees that the Bank does not thereby assume additional responsibilities, and agree that they will defend (with counsel reasonably acceptable to the Bank), indemnify and hold the Bank harmless from any liability asserted by reason of such inspections or by reason of this Agreement. The Bank may engage independent architect/engineer consultants, to aid in the inspection of the Project and to perform such other consulting responsibilities as may be required. All reasonable fees and expenses incurred by such architects or engineers shall be paid by the Borrower.

7.2 Upon discovery by the Bank of any deviation from the Plans and Specifications or of defective or unworkmanlike labor or materials being used in the construction of the Improvements, the Bank may immediately order stoppage of construction and demand that any unsatisfactory work be replaced and that the condition be corrected, whether or not any unsatisfactory work has already been incorporated into the Improvements. After issuance of such an order in writing,

the condition shall be corrected within fifteen (15) days from the date of stoppage by the Bank. No other work shall be done on the Improvements without the prior written consent of the Bank unless, and until, such condition has been fully corrected.

7.3 Except as expressly provided herein, all notices or other communications between the Borrower and the Bank shall be in writing and shall be hand delivered or given by registered or certified mail (return receipt requested) at the addresses for each given in the introductory paragraph hereof, and notices required herein shall be deemed to be given upon receipt of hand-delivered notices or upon deposit of mailed notices with the United States Post Office.

7.4 The Bank reserves the right to participate with another lending institution in the funding of the Loans, which shall be at no further cost to the Borrower.

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7.5 The Borrower shall comply with all statutory posting requirements under NHRSA 447.

7.6 This Agreement constitutes the complete understanding between the parties and may not be changed except by an agreement in writing signed by the parties. If any provision of this Agreement or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions which can be given effect without the invalid provision or application, and to this end, the provisions of this Agreement shall be severable.

7.7 The waiver of any of the terms and conditions hereof by the Bank shall not be deemed to constitute a subsequent waiver of the same or any other term or condition hereof.

7.8 At any time during construction the Bank may request (with 45 days prior written notice) the Borrower's most recent financial statements in form acceptable to the Bank.

7.9 The Borrower shall be solely responsible for any brokerage commission or fee which may be claimed or payable in connection with the making of the Loans and the Borrower shall defend (with counsel reasonably acceptable to the Bank), indemnify and hold the Bank harmless from and against all costs and expenses including reasonable attorneys' fees in connection with any such claim.

7.10 This Agreement shall be governed, construed and interpreted by, and in accordance with, the laws of the State of New Hampshire. The Borrower, to the extent that it may legally do so, hereby consents to the jurisdiction of the courts of the State of New Hampshire and the United States District Court for the State of New Hampshire, as well as to the jurisdiction of all courts from which an appeal may be taken from such courts for the purpose of any suit, action or other proceeding arising out of any of its obligations hereunder or with respect to the transactions contemplated hereby, and expressly waives any and all objections it may have to venue in any such courts.

7.11 If there is any conflict among the provisions of the Loan Documents, that provision which furnishes the Bank with the most security or protection shall apply.

7.12 The Bank alone shall be bound by the obligations imposed hereunder and under the Loan Documents on the Bank and neither the depositors, incorporators, trustees or directors nor any officer or agent of the Bank or any of its affiliates or subsidiaries shall be personally liable hereunder or thereunder and the Borrower or any other party having any rights hereunder or thereunder shall look solely to the Bank for payment of any claim under this Agreement or the Loan Documents.

7.13 It is understood by the parties hereto that the Bank's only relationship to the Borrower or to the Project is that of lender and the Bank has no obligation or responsibility for the Borrower's choices or use of contractors, subcontractors, services and/or materials. The Borrower shall indemnify and hold the Bank harmless from any claim of any third party arising out of the construction, use, occupancy or possession of the Premises and the Improvements.

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SECTION 8. EVENTS OF DEFAULT -----

8.1 The occurrence of any one or more of the following events shall constitute a default (an "Event of Default") under this Agreement:

(a) If any statement, representation or warranty made by the Borrower in the Loan Documents or in connection therewith or any financial statement, report, schedule, or certificate furnished by the Borrower or any of its officers or

accountants to the Bank during the term of this Agreement shall prove to have been false or misleading when made, or subsequently becomes false or misleading, in any material respect;

(b) Default by the Borrower in payment within ten (10) days of the due date of any principal or interest or other amounts called for under the Loan Documents, including the failure to make payment when due under the Notes;

(c) Default by the Borrower in the performance or observance of any of the provisions, terms, conditions, warranties or covenants of the Loan Documents;

(d) The occurrence of an event of default not cured within any applicable remedy period, under any other obligations of the Borrower to the Bank, whether created prior to, concurrent with, or subsequent to obligations arising out of the Loan Documents;

(e) The occurrence of an event of default not cured within any applicable remedy period, under any other obligation of the Borrower for borrowed money or under any lease in an aggregate amount of Fifty Thousand Dollars (\$50,000.00) or more;

(f) The dissolution or termination of existence (including, but not limited to, through merger or consolidation without the Bank's prior, written consent) of the Borrower, or a sale of all or substantially all of the assets of the Borrower out of the ordinary course of business; provided, however, that a merger or consolidation shall not constitute an Event of Default hereunder if the merged or consolidated entity meets the financial covenants hereinbefore set forth in Sections 4.21, 4.22 and 4.23 as of the date of merger/consolidation and at the end of each fiscal year thereafter;

(g) The Borrower shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator for any of its property, (ii) admit in writing its inability to pay its debts as they mature, (iii) make a general assignment for the benefit of creditors, (iv) be adjudicated a bankrupt or insolvent, (v) file a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization to take advantage of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law or (vi) offer or enter into any composition, extension or arrangement seeking relief or extension of its debts;

(h) In the event that proceedings shall be commenced or an order, judgment or decree shall be entered, without the application, approval or consent of the Borrower, in or by any court of competent jurisdiction, relating to the bankruptcy, dissolution, liquidation, reorganization or the appointment of a receiver, trustee or liquidator of the Borrower, of all or a substantial part of its assets, and such proceedings, order, judgment or decree shall continue undischarged or unstayed for a period of 60 days;

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(i) A final and unappealable judgment for the payment of money in excess of One Hundred Thousand Dollars (\$100,000.00) shall be rendered against the Borrower and the same shall remain undischarged for a period of 30 days, during which period execution shall not be effectively stayed;

(j) Any levy or execution upon, or judicial seizure of, any portion of any collateral or security for either Loan;

(k) Any attachment or garnishment of, or the existence or filing of any lien or encumbrance, other than any lien or encumbrance permitted by the Loan Documents against any portion of any collateral or security for either Loan, that is not removed or released within sixty (60) days after its creation;

(l) The institution of any legal action or proceedings to enforce any lien or encumbrance upon any portion of any collateral or security for either Loan, that is not dismissed within sixty (60) days after its institution;

(m) Title to the Premises is not satisfactory to the Bank by reason of any lien, charge, encumbrance, title condition or exception (other than exceptions permitted by the Bank to be contained in the title insurance policy to be issued to the Bank in connection with the Loans);

(n) The Premises are materially injured or destroyed by fire or otherwise which casualty is not insured, or the Premises or any portion thereof which renders the Premises unsuitable for their intended use or which has a material adverse effect upon the security for either Loan (as defined in the Loan Agreement), are taken by eminent domain; or

(o) Construction of the Project (as defined in the Loan Agreement), once commenced, shall cease for a period of sixty (60) consecutive days after a cessation caused by weather or acts of God or other event beyond the control of the Makers or, in any event, if the Project is not completed by January 31, 2001.

Upon the occurrence of any Event of Default (which, in the case of an event of default listed in paragraphs (a), (c), (d), (e) or (n) remains unremedied for a period of thirty (30) days after written notice thereof to the Borrower by the Bank), at the election of the Bank, (i) all of the obligations of the Borrower to the Bank, either under this Agreement or otherwise, will immediately become due and payable without further demand, notice or protest, all of which are hereby expressly waived; (ii) the Bank may proceed to protect and enforce its rights, at law, in equity, or otherwise, against the Borrower and any endorser or guarantor of the Borrower's obligations, either jointly or severally, and may proceed to liquidate and realize upon any of its collateral in accordance with the rights of a secured party or a mortgagee under the Uniform Commercial Code, any other applicable law, any Loan Document, any agreement between the Borrower and the Bank or any agreement between any guarantor or endorser of the Borrower's obligations to the Bank; and/or (iii) the Bank's commitment to make further loans under this Agreement or any other agreement with the Borrower will immediately cease and terminate.

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8.2 In addition to the provisions set forth above in Section 8.1, upon the occurrence of any one or more of the Events of Default enumerated in the Notes or a default of any of the Borrower's obligations hereunder, in each case beyond the applicable cure period without remedy, and at any time thereafter the Bank, at its option, may:

- (a) Exercise any or all remedies available to it under the Loan Documents including, without limitation, the Statutory Power of Sale provided in the Mortgage.
- (b) Occupy, take possession of, and use the Premises for such period of time as may be necessary to permit an orderly liquidation of the Premises or the Project or of any Collateral in and to which the Bank now has or hereafter acquires a security interest or other rights, title or interests, whether under this Agreement, any other Loan Document or any other agreement or document.
- (c) Make such alterations, additions, improvements, renovations and repairs to the Premises, in a commercially reasonable manner, as may in the Bank's opinion be reasonably necessary to (i) complete the Project and the construction of the Improvements in accordance with the Plans and Specifications, provided that the Bank shall have the right to discontinue at any time the work undertaken and shall be under no obligation to continue any work on the Project; (ii) prevent the termination of any existing lease of all, or any portion thereof; (iii) keep the same usable for the purposes for which such Premises were used by the Bank or (iv) keep the Premises in a safe condition. All sums expended hereunder shall be secured by the Loan Documents, payable on demand and, until so paid by the Borrower, bear interest at the highest rate then provided in the Notes.
- (d) Collect the rents, issues and profits arising from any part of the Premises, past due and thereafter becoming due, and apply the same in such order of priority as the Bank deems appropriate to the payment of the costs and expenses incurred by the Bank in collecting such rents and managing the Premises, the indebtedness evidenced by the Notes and any other indebtedness secured hereby. All monies advanced or expended by the Bank to collect such rents or manage the Premises shall be secured by the Loan Documents, payable on demand and, until so paid by the Borrower, bear interest at the highest rate provided for in the Notes. The taking of possession of the Premises and collection of rents by the Bank pursuant hereto shall not be construed as an affirmation of any lease of the Premises except such leases as the Bank has affirmed in writing, and the Bank or any other purchaser of the Premises at foreclosure sale may (if otherwise entitled to do so) exercise the right to terminate any such lease as though the taking of possession and collection of rents had not occurred pursuant hereto.
- (e) For the purpose of carrying out the provisions and exercising the rights, powers and privileges granted by the Notes and this Section 8.2, the Borrower hereby irrevocably constitutes and appoints the Bank its true and lawful attorney-in-fact, with full power of substitution, to execute, acknowledge and deliver any instruments and do and perform any acts which are referred to in the Notes and this

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Section 8.2 in the name and on behalf of the Borrower. The power vested in said attorney-in-fact is, and shall be deemed to be, coupled with an interest and irrevocable.

- (f) Upon demand or the occurrence of any of said Events of Default, the rights, powers and privileges provided in this Section 8 and all other remedies available to the Bank under this Agreement or under any of the Loan Documents or at law or in equity shall be cumulative and may be exercised by the Bank at any time and from time to time and shall not constitute a waiver of any of the Bank's right or remedies thereunder or hereunder, whether or not the indebtedness evidenced and secured by the Notes and the Loan

Documents shall be due and payable, and whether or not the Bank shall have instituted any foreclosure proceedings or other action for the enforcement of its rights under the Notes or any of the Loan Documents.

SECTION 9. COMPLETION GUARANTEE

9.1 If for any reason whatsoever, the Borrower (i) fails or neglects to complete construction of the Project and the Improvements contemplated by and described in this Agreement on or before January 31, 2001, (ii) fails to prosecute with diligence and continuity the construction of the Project and the Improvements in accordance with this Agreement, (iii) commits or permits to exist an Event of Default as defined in Section 8 of this Agreement, or (iv) is unable to satisfy any condition precedent to obtaining an advance of the Loans under this Agreement, then in any such event the Bank, in addition to the Bank's other rights, remedies and recourse whether existing hereunder, under any Loan Document, or otherwise, may proceed in accordance with the terms of this Section 9. Within five (5) days from the date that the Bank notifies the Borrower of the Borrower's failure to satisfy any condition enumerated in the first part of this Paragraph 9.1, the Borrower hereby binds itself, at its sole cost and expense, to commence completion of construction of the Project and the Improvements and to diligently pursue such construction in order to complete the Project and the Improvements within the time and in the manner specified in this Agreement. The Borrower shall pay all costs and expenses in connection with such construction and shall indemnify and hold harmless the Bank from any and all losses, costs, liabilities or expenses incurred in connection with such completion.

9.2 If the Borrower shall fail to commence completion of the Project and the Improvements and to diligently pursue such construction as provided in Paragraph 9.1, the Bank shall have (in addition to its other remedies under this Agreement, the Loan Documents and applicable law), the following rights and remedies:

(a) If such failure shall occur prior to a foreclosure sale of the Premises, the Bank shall have an immediate right to damages in an amount equal to the Borrower's indebtedness to the Bank arising under or in connection with the Loans, together with the right to obtain immediate judgement against the Borrower in that amount, and the Bank may exercise all remedies available under the laws of the State of New Hampshire for action on a matured contractual indebtedness;

(b) If such failure occurs after a foreclosure sale of the Premises, the Bank shall have an immediate right to damages in an amount which is equal to the sum necessary

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to complete construction of the Project and the Improvements, as such sum may be established by construction contracts, appraisals, or other competent evidence, without any necessity of completing construction, less the sum equal to the undisbursed balance of the Loans reduced by the amount of interest accruing under the Notes and all expenses incurred by the Bank in connection with the foreclosure sale and the related actions at law; and

(c) Regardless of whether such failure occurs before or after any foreclosure sale of the Premises, the Bank shall have the right, but shall have no obligation, to complete construction of the Project and the Improvements in the manner specified in this Agreement by or through any agent, contractor or subcontractor of its selection and to recover from the Borrower as damages the amount of any and all expenditures made in connection with such completion.

SECTION 10. RSA 399-B DISCLOSURE.

Pursuant to RSA 399-B, the Bank hereby discloses to the Borrower the following finance and other charges which the Borrower will incur in connection with the Loans to be made by the Bank to the Borrower on or near even date:

(a) Interest Rate Applicable to the Loans:

(i) \$544,000.00 Loan: During the Construction Term, interest shall accrue at a fixed rate equal to eight and seven-eighths percent (8.875%), based upon a banking year of actual/360 days. Upon the full satisfaction of the Conversion Conditions and the resultant commencement of the Permanent Term, interest shall accrue as follows: (i) for the first five (5) years of the Permanent Term, interest accrue at a fixed rate equal to eight and seven-eighths percent (8.875%), based upon a banking year of actual/360 days; and (ii) for the remaining five (5) years of the Permanent Term, interest shall accrue at an annually adjusted rate, to be set on the fifth (5th) anniversary date of the Conversion Date and on the corresponding day of each year thereafter at the "Base Rate" (as that term is hereinafter defined) in effect on such date, based upon a banking year of actual/360 days. The "Base Rate" is defined as the

interest rate per annum designated by the Bank as its "Base Rate", regardless of whether such rate is in fact the lowest rate charged to commercial customers of the Bank. In the event that the Base Rate is not available, the holder hereof will provide written notice to the Borrower of a comparable index.

(ii) \$656,000.00 Loan: Interest shall accrue at a fixed rate equal to eight and seven-eighths percent (8.875%), based upon a banking year of actual/360 days.

(b) Bank's Counsel Fees/Expenses \$ 7,300.00

(c) Bank Commitment Fee \$ 3,000.00

(d) Title Insurance Premium \$ 2,075.00

(e) Appraisal Fee \$ 3,000.00

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(f) Site Assessment Fee (Review) \$ 175.00

(g) Construction Progress Inspections \$ 425.00/visit (est.)

(h) Tax Monitoring/Flood Fee \$ 21.00

(i) Recording Fees (Estimate) \$ 400.00

By its signature below, the Borrower acknowledges receipt of this disclosure statement and receipt of copies of all documents prepared by the Bank in connection with the Loans.

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SECTION 11. DISBURSEMENT REQUEST.

The Borrower hereby requests disbursement of proceeds of the Loans as set forth on Exhibit D.

SECTION 12. CONSENT TO SECURITY INTEREST.

Notwithstanding anything to the contrary in any loan document, the Bank hereby consents to the blanket security interest granted by the Borrower to Silicon Valley Bank, which were partially subordinated to the lien granted by the Borrower to the Bank in the Mortgage.

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be executed on their behalf, all as of the day and year first hereinbefore written.

SeaChange International, Inc.
(the "Borrower")

By: /s/ William Fiedler

Witness

William Fiedler, its duly authorized
Chief Financial Officer

Bank of New Hampshire, N.A. (the "Bank")

By: /s/ Benjamin J. Wheeler

Witness

Benjamin J. Wheeler, its duly
authorized Vice President

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The following exhibits and schedules thereto have been omitted in accordance with Rule 601(B) (2) of Regulation S-K:

- Exhibit A Legal Description of Premises
- Exhibit B Form of Legal Opinion of Counsel to Borrower
- Exhibit C Closing Agenda
- Exhibit D Disbursement List

The Company will furnish supplementally a copy of any omitted exhibit or schedule to the Securities and Exchange Commission (the "Commission") upon the Commission's request; provided, however that the Company may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

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<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF SEACHANGE INTERNATIONAL, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

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| <INCOME-TAX> | 407 |
| <INCOME-CONTINUING> | 865 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 865 |
| <EPS-BASIC> | \$0.04 |
| <EPS-DILUTED> | \$0.04 |

</TABLE>