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 July 31, 2004

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 incorporation or organization)	**(IRS Employer Identification No.)**

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

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

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 preceding 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** ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in 12b-2 of the Exchange Act). YES ☒ NO ☐

The number of shares outstanding of the registrant's Common Stock on September 7, 2004 was 27,572,714

SEACHANGE INTERNATIONAL, INC.

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ITEM I. Financial Statements

SEACHANGE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	July 31, 2004	January 31, 2004
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 98,539	$ 87,597
Restricted cash	1,000	—
Marketable securities	12,559	7,777
Accounts receivable, net of allowance for doubtful accounts of $773 at July 31, 2004 and $1,197 at January 31, 2004	30,720	16,572
Inventories	18,880	19,738
Prepaid expenses and other current assets	2,980	3,640
Total current assets	164,678	135,324
Property and equipment, net	14,074	14,757
Marketable securities	19,464	26,669
Investments in affiliates	3,556	3,809
Intangible assets, net	1,217	1,293
Goodwill	1,629	253
Other assets	168	151
	$ 204,786	$ 182,256
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of lines of credit and obligations under capital lease	$ 411	$ 399
Accounts payable	12,326	2,367
Income taxes payable	982	1,336
Accrued litigation reserve	7,633	7,604
Other accrued expenses	7,711	7,616
Customer deposits	673	401
Deferred revenue	20,806	16,437
Total current liabilities	50,542	36,160
Long-term portion of lines of credit and obligations under capital lease	—	209
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Convertible preferred stock, 5,000,000 shares authorized, none outstanding	—	—
Common stock, $.01 par value; 100,000,000 shares authorized; 27,525,994 and 27,279,365 shares issued and outstanding at July 31, 2004 and January 31, 2004, respectively	275	273
Additional paid-in capital	167,491	165,410
Accumulated deficit	(12,842)	(19,393)
Accumulated other comprehensive loss	(680)	(403)
Total stockholders' equity	154,244	145,887
	$ 204,786	$ 182,256

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

SEACHANGE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three months ended		Six months ended	
	July 31, 2004	July 31, 2003	July 31, 2004	July 31, 2003
	(unaudited)			
Revenues:				
Systems	$ 32,444	$ 27,453	$ 63,620	$ 53,458
Services	10,583	8,894	21,046	17,663
	43,027	36,347	84,666	71,121
Cost of revenues:				
Systems	16,839	15,849	33,803	31,115
Services	6,408	5,649	12,297	11,438
	23,247	21,498	46,100	42,553
Gross profit	19,780	14,849	38,566	28,568
Operating expenses:				
Research and development	7,128	6,464	14,202	12,709
Selling and marketing	4,450	4,197	8,625	8,351
General and administrative	2,640	2,857	5,324	5,705
	14,218	13,518	28,151	26,765
Income from operations	5,562	1,331	10,415	1,803
Interest income	383	480	922	922
Interest expense	—	(38)	(17)	(91)
Impairment loss in investments in affiliate	—	(313)	—	(313)
Income before income taxes and equity loss in earnings of affiliates	5,945	1,460	11,320	2,321
Income tax expense	2,378	513	4,516	777
Equity loss in earnings of affiliates	223	5	253	40
Net income	$ 3,344	$ 942	$ 6,551	$ 1,504
Basic income per share	$ 0.12	$ 0.04	$ 0.24	$ 0.06
Diluted income per share	$ 0.12	$ 0.03	$ 0.23	$ 0.05
Weighted average common shares outstanding:				
Basic	27,490	26,903	27,415	26,836
Diluted	28,745	27,813	28,776	27,556

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

SEACHANGE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(in thousands)

	Six months ended	
	July 31, 2004	July 31, 2003
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 6,551	$ 1,504
Adjustments to reconcile net income to net cash provided by (used) in operating activities:		
Depreciation and amortization	3,751	3,768
Equity loss in earnings of affiliates	253	40
Impairment loss on investment in affiliate	—	313
Inventory valuation charge	653	370
Amortization of deferred equity discount	—	1,587
Changes in operating assets and liabilities:		
Accounts receivable	(14,132)	(18,627)
Inventories	(151)	475
Prepaid expenses and other assets	458	918
Accounts payable	9,921	423
Income taxes payable	(171)	(377)
Accrued expenses	(925)	807
Customer deposits	272	316
Deferred revenue	4,369	3,270
Net cash provided by (used in) operating activities	10,849	(5,213)
Cash flows from investing activities:		
Purchases of property and equipment	(1,840)	(1,844)
Purchases of marketable securities	(530)	(2,320)
Proceeds from sale and maturity of marketable securities	2,496	2,143
Acquisition of business, net of cash acquired	(919)	—
Restricted cash	(1,000)	—
Net cash used in investing activities	(1,793)	(2,021)
Cash flows from financing activities:		
Repayment of borrowings under construction loan	—	(83)
Repayment of obligations under capital lease	(197)	(43)
Proceeds from issuance of common stock	2,083	854
Net cash provided by financing activities	1,886	728
Net increase (decrease) in cash and cash equivalents	10,942	(6,506)
Cash and cash equivalents, beginning of period	87,597	68,776
Cash and cash equivalents, end of period	$ 98,539	$ 62,270
Supplemental disclosure of noncash activities:		
Transfer of items originally classified as equipment to inventories	$ 53	$ 74
Transfer of items originally classified as inventories to equipment	$ 409	$ 1,248

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

SEACHANGE INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of SeaChange International, Inc. and its subsidiaries ("SeaChange" or the "Company"). SeaChange believes that the unaudited condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments), necessary for a fair statement of SeaChange's financial position, results of operations and cash flows at the dates and for the periods indicated. The results of operations for the periods presented are not necessarily indicative of results expected for the full fiscal year or any other future periods. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended January 31, 2004, included in SeaChange's Annual Report on Form 10-K for such fiscal year. The balance sheet at January 31, 2004 was derived from audited financial statements.

2. Revenue Recognition

Revenues from sales of systems and software license arrangements that do not require significant modification or customization of the underlying software are recognized when title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is probable. Installation, project management and training revenue is deferred and recognized as these services are performed. Revenue from technical support and maintenance is deferred and recognized ratably over the period of the related agreements. Customers are billed for installation, project management, training and maintenance at the time of the product sale. If a portion of the sales price is not due until installation of the system is complete, that portion of the sales price is deferred until installation is complete. Revenue from movie content services is recognized based on the volume of monthly purchases that are made by hotel guests. Revenue from product development contract services is recognized based on the efforts expended in relation to the overall efforts for the project. Efforts are measured based on the time expected to be incurred. Shipping and handling costs and other out-of-pocket expenses reimbursed by customers are included in revenues and cost of revenues.

SeaChange's transactions frequently involve the sales of systems, software and services under multiple element arrangements. Systems sales always include at least one year of free technical support and maintenance services. Revenue under multiple element arrangements is allocated to all undelivered elements of the sales arrangement based upon the fair value of those elements. The amounts allocated to training, technical support and maintenance are based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation and project management revenue is based upon standard hourly billing rates and the estimated time required to complete the service. The amount allocated to the sales of systems and software reflects the residual method basis. Under this method, the total arrangement value is allocated first to undelivered elements, based on their fair values, with the remainder being allocated to the delivered elements. Installation and training services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple element arrangements including software licenses and services where vendor-specific objective evidence of the fair value does not exist to allocate a portion of the fee to the only undelivered elements, where the only undelivered element are technical support and maintenance services, the entire fee under the arrangement is recognized ratably over the period which technical support and maintenance is expected. For transactions in which consideration, including equity instruments, is given to a customer, SeaChange accounts for the value of this consideration as a reduction in revenue in the Consolidated Statement of Operations (see Note 12).

Certain reclassifications have been made to conform the prior period amounts to the current period presentation. In the fourth quarter of the fiscal year ended January 31, 2004, the Company reclassified reimbursable service expenses to be consistent with EITF 01-14, "Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred." As a result, amounts billed to customers for reimbursable out-of-pocket expenses of $379,000 for the three months ended July 31, 2003 and $942,000 for the six months ended July 31, 2003 have been reclassified from being an offset to cost of services revenue to an addition to services revenue. The amounts reclassified had no effect on current or previously reported income from operations, net income or earnings per share.

3. Stock Compensation

SeaChange accounts for its stock option plans and stock purchase plan under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and related interpretations and provides pro forma footnote disclosures as though the fair value method under SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, An Amendment of SFAS No. 123", was followed. Non-employee stock awards are accounted for in accordance with SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". SeaChange's employee stock purchase plan is a non-compensatory plan and its stock option plans are accounted for using the intrinsic value method under the provisions of APB 25. Had compensation for SeaChange's stock based

SEACHANGE INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

compensation plans been accounted for under the fair value method as proscribed by SFAS No. 123, the amounts reported in the Condensed Consolidated Statements of Operations for the three and six months ended July 31, 2004 and 2003, would have been:

	Three months ended		Six months ended	
	July 31, 2004	July 31, 2003	July 31, 2004	July 31, 2003
	(in thousands, except per share data)			
Net income, as reported	$ 3,344	$ 942	$ 6,551	$ 1,504
Less: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	1,760	2,060	3,616	4,167
Pro forma net income (loss)	$ 1,584	$ (1,118)	$ 2,935	$ (2,663)
Basic income (loss) per share				
As reported	$ 0.12	$ 0.04	$ 0.24	$ 0.06
Pro forma	$ 0.06	$ (0.04)	$ 0.11	$ (0.10)
Diluted income (loss) per share				
As reported	$ 0.12	$ 0.03	$ 0.23	$ 0.05
Pro forma	$ 0.06	$ (0.04)	$ 0.10	$ (0.10)

The fair value of each option granted was estimated on the date of grant assuming a weighted average volatility factor of 100% for the three and six months ended July 31, 2003 and July 31, 2004. Additional weighted average assumptions used for grants during the three and six months ended July 31, 2003 and July 31, 2004, included: dividend yield of 0.0% for all periods; risk-free interest rates of 2.0% for options granted during the three and six months ended July 31, 2003; 2.5% for options granted during the three and six months ended July 31, 2004; and an expected option term of 7.5 years for all periods.

Because additional option grants are expected to be made each period and options vest over several periods, the above pro forma disclosures are not representative of pro forma effects on reported net income (loss) for future periods.

4. Earnings Per Share

Earnings per share is presented in accordance with SFAS No. 128, “Earnings Per Share”, (“SFAS 128”) which requires the presentation of “basic” earnings per share and “diluted” earnings per share. Basic earnings per share is computed by dividing earnings available to common shareholders by the weighted-average shares of common stock outstanding during the period. For the purposes of calculating diluted earnings per share, the denominator includes both the weighted average number of shares of common stock outstanding during the period and the weighted average number of shares of potential common stock, such as stock options and warrants, calculated using the treasury stock method.

For the three and six months ended July 31, 2004, 2,593,000 and 2,440,000, respectively, of common shares issuable upon the exercise of stock options have been excluded from the diluted income per share computation as the exercise prices of these options were above the market price of the common stock during the period indicated. For the three and six months ended July 31, 2003, 3,186,000 and 3,191,000, respectively, of common shares issuable upon the exercise of stock options have been excluded from the diluted income per share computation as the exercise prices of these options were above the market price of the common stock during the period indicated.

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

	Three months ended		Six months ended	
	July 31, 2004	July 31, 2003	July 31, 2004	July 31, 2003
	(in thousands)			
Weighted average shares used in calculating earnings per share—Basic	27,490	26,903	27,415	26,836
Dilutive common stock options	1,099	784	1,214	609
Common stock warrants	156	126	147	111
Weighted average shares used in calculating earnings per share—Diluted	28,745	27,813	28,776	27,556

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Inventories

Inventories consist of the following:

	July 31, 2004	January 31, 2004
	(in thousands)	
Components and assemblies	$13,101	$ 13,994
Finished products	5,779	5,744
	$18,880	$ 19,738

6. Comprehensive Income

SeaChange's comprehensive income was as follows:

	Three months ended		Six months ended	
	July 31, 2004	July 31, 2003	July 31, 2004	July 31, 2003
	(in thousands)			
Net income	$ 3,344	$ 942	$6,551	$1,504
Other comprehensive expense, net of tax:				
Foreign currency translation adjustment, net of tax of $2, $7, $2, and $23 respectively	(3)	(12)	(3)	(46)
Unrealized loss on marketable securities, net of tax of $65, $101, $183 and $75, respectively	(97)	(188)	(274)	(133)
Other comprehensive loss	(100)	(200)	(277)	(179)
Comprehensive income	$ 3,244	$ 742	$6,274	$1,325

7. Income Taxes

During the six months ended July 31, 2004, SeaChange recorded income tax expense of $4.5 million, at an annual effective income tax rate of 40%. During the six months ended July 31, 2003, SeaChange recorded income tax expense of $777,000, at an annual effective income tax rate of 34%. For the six months ended July 31, 2003, the effective tax rate was favorably impacted by the utilization of the Company's remaining federal net operating loss carryforwards. As of July 31, 2004, SeaChange has a full valuation allowance against its net deferred tax assets due to the uncertainty of their realization. SeaChange will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. If the Company generates sufficient future pre-tax income, some portion or all of the valuation allowance would be reversed and a corresponding increase in net income would be reported in the future.

8. Segment Information

SeaChange has three reportable segments: broadband systems, broadcast systems and services. The broadband systems segment develops, markets and sells products to digitally manage, store and distribute digital video for cable system operators and telecommunications companies. The broadcast systems segment develops, markets and sells products for the storage, archival, on-air playback of advertising and other video programming for the broadcast television industry. The services segment provides installation, training, product maintenance and technical support for all of the above systems and movie content, which is distributed by the broadband product segment. SeaChange does not measure the assets allocated to the segments, other than the intangible assets and goodwill in connection with the acquisition of ZQ Interactive (see Note 9). SeaChange measures profitability of the segments based on their respective gross profits. There were no inter-segment sales or transfers. Long-lived assets are principally located in the United States. The following summarizes the revenues and cost of revenues by reportable segment:

	Three months ended		Six months ended	
	July 31, 2004	July 31, 2003	July 31, 2004	July 31, 2003
	(in thousands)			
Revenues				
Broadband	$ 28,666	$ 22,941	$ 57,037	$ 46,581
Broadcast	3,778	4,512	6,583	6,877
Services	10,583	8,894	21,046	17,663
Total	$ 43,027	$ 36,347	$ 84,666	$ 71,121

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Costs of revenues				
Broadband	$ 14,215	$ 12,978	$ 29,218	$ 26,460
Broadcast	2,624	2,871	4,585	4,655
Services	6,408	5,649	12,297	11,438
Total	$ 23,247	$ 21,498	$ 46,100	$ 42,553
Gross profit				
Broadband	$ 14,451	$ 9,963	$ 27,819	$ 20,121
Broadcast	1,154	1,641	1,998	2,222
Services	4,175	3,245	8,749	6,225
Total	$ 19,780	$ 14,849	$ 38,566	$ 28,568

The following summarizes revenues by geographic locations:

Revenues				
United States of America	$ 36,113	$ 31,097	$ 71,603	$ 61,279
Canada and South America	2,215	774	4,715	2,756
Europe	2,688	1,402	5,046	2,676
Asia Pacific and rest of world	2,011	3,074	3,302	4,410
Total	$ 43,027	$ 36,347	$ 84,666	$ 71,121

The following summarizes revenues by significant customer where such revenue exceeded 10% of total revenues for the indicated period:

	Three months ended		Six months ended	
	July 31, 2004	July 31, 2003	July 31, 2004	July 31, 2003
Customer A	61%	49%	58%	50%

International sales accounted for approximately 16% and 14% of total revenues in the three-month periods ended July 31, 2004 and July 31, 2003, respectively. International sales accounted for approximately 15% and 14% in the six-month periods ended July 31, 2004 and July 31, 2003, respectively. For the three and six month periods ended July 31, 2004 and 2003, substantially all sales of the Company's systems were made in United States dollars. Therefore, SeaChange has not experienced any material impact from fluctuations in foreign currency exchange rates on our results of operations or financial position. If this practice changes in the future, the Company will reevaluate its foreign currency exchange rate risk.

At July 31, 2004, one customer accounted for 60% of the accounts receivable and at January 31, 2004 the same customer accounted for 22% of the accounts receivable.

9. Acquisition

On May 17, 2004, SeaChange acquired all of the outstanding stock of ZQ Interactive, Ltd., a company incorporated in the British Virgin Islands with its principal office in Shanghai, China, for $2.0 million in cash. According to the terms of the purchase agreement, $1.0 million was paid to the sellers at the signing of the purchase agreement and the remaining $1.0 million will be paid to the sellers in two equal annual installments of $500,000 on the first and second anniversary dates of the signing of the purchase agreement. The acquisition was accounted for under the purchase method of accounting. Accordingly, the financial position and results of operations of ZQ Interactive have been consolidated subsequent to the acquisition date. SeaChange allocated $56,000 of the purchase price to the acquired tangible net assets and liabilities including accounts receivable, prepaid expenses and accounts payable. In addition, $520,000 of the purchase price was allocated to the acquired intellectual property. The Company determined the value of the intellectual property based on the net present value of the expected cash flows over the expected life of the intellectual property of five years. The intellectual property intangible asset will be amortized over a five year period on an accelerated basis, reflecting the expected period that the assets will be consumed. The remaining purchase price of $1.6 million including related acquisition costs was determined to be goodwill and will be periodically reviewed in accordance with Statement of Financial accounting Standards 142, "Goodwill and Other Intangible Assets". The acquired assets are part of the broadband segment. Pro forma results of operations are not presented as the amounts are not material to the Company's condensed consolidated financial statements.

SEACHANGE INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Goodwill and Intangible Assets

At July 31, 2004, the Company had goodwill of $1.9 million which included $1.6 million of goodwill acquired as part of the ZQ Interactive acquisition in the second quarter of fiscal 2005 (see Note 9). Goodwill is reported as part of the broadband reporting segment.

The Company's intangible assets consist of patent costs and intellectual property, which are part of the broadband reporting segment. At July 31, 2004, the gross carrying value of these intangible assets was $6.2 million and the accumulated amortization was $5.3 million. At January 31, 2004, the gross carrying value of these intangible assets was $5.7 million and the accumulated amortization was $4.4 million**.** SeaChange's intangible assets are amortized on both a straight-line and accelerated basis over a period of up to 5 years, reflecting the expected period that the assets will be consumed. Amortization expense for intangible assets was $450,000 and $400,000 for the three months ended July 31, 2004 and 2003, respectively. Amortization expense for intangible assets was $850,000 and $800,000 for the six months ended July 31, 2004 and 2003, respectively, and is estimated to be approximately $1.3 million in fiscal 2005, $225,000 in fiscal 2006, $175,000 in fiscal 2007, $50,000 in fiscal 2008 and $20,000 in fiscal 2009.

11. Commitments and Contingencies

Litigation Regarding SeaChange Patent No. 5,862,312.

On June 13, 2000, SeaChange filed in the United States District Court for the District of Delaware a lawsuit against one of SeaChange's competitors, nCube Corp., whereby SeaChange alleged that nCube's MediaCube-4 product infringed a patent held by SeaChange (Patent No. 5,862,312) ("`312") relating to SeaChange's MediaCluster technology. In instituting the claim, SeaChange sought both a permanent injunction and damages in an unspecified amount. nCube made a counterclaim against SeaChange that SeaChange's patent was invalid and that nCube's MediaCube-4 product did not infringe SeaChange's patent. On September 6, 2000, nCube conceded that, based on a claim construction ruling issued by the district court in August 2000, nCube's MediaCube-4 product infringed SeaChange's patent. On September 25, 2000, a jury upheld the validity of SeaChange's patent. On March 28, 2002, the district court denied nCube's motion for a new trial and on September 30, 2002, the district court denied nCube's motions for judgment as a matter of law. The District Court's September 30, 2002 order provided no explanation of the court's reasoning, but indicated that a memorandum opinion would subsequently issue.

On October 29, 2002, nCube filed a notice of appeal of the district court's September 30, 2002 orders, and also filed a motion with the United States Court of Appeals for the Federal Circuit seeking to stay the appeal pending issuances of the district court's memorandum opinion. On January 29, 2003, the Federal Circuit Court of Appeals issued an order staying nCube's appeal pending issuance of a memorandum opinion by the district court. On November 3, 2003, the Federal Circuit Court of Appeals issued an order dismissing nCube's appeal for lack of jurisdiction, as a final judgment had not yet been entered in the district court case. Any damages and injunctive relief against nCube will not be awarded until after appeal.

On April 7, 2004, the District Court issued its Memorandum Opinion which sets forth its reasoning for the September 30, 2002 order. On April 29, 2004, the District Court entered a judgment denying nCube's claim that the '312 patent is invalid. On May 5, 2004, nCube filed a notice of appeal purporting to appeal from the District Court's April 29, 2004 judgment and briefing is now proceeding in that appeal.

On March 26, 2002, nCube Corp. filed a complaint against SeaChange in the United States District Court for the District of Delaware seeking a declaratory judgment that its redesigned MediaCube-4 product does not infringe U.S. Patent No. 5,862,312 held by SeaChange. The complaint also alleges that nCube has been damaged by a certain statement made by SeaChange's Chief Executive Officer during a public conference call to discuss SeaChange's earnings on March 5, 2002. nCube is seeking a public retraction of the statement and damages in an unspecified amount. On April 15, 2002, SeaChange moved to dismiss all claims on the grounds that the patent-related issues are currently pending before the Court in the lawsuit previously filed by SeaChange, and the district court lacks jurisdiction over the remaining claims. On June 25, 2002, the district court stayed that action pending resolution of the appeal in the previously filed lawsuit.

SEACHANGE INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Litigation Regarding nCube Patent No. 5,805,804

On January 8, 2001, nCube Corp. filed a complaint against SeaChange in the United States District Court for the District of Delaware alleging that SeaChange's use of SeaChange's MediaCluster, MediaExpress and Media Server technology each infringe Patent No. 5,805,804 held by nCube ("`804"). In instituting the claim, nCube sought both an injunction and monetary damages. On May 29, 2002, the jury rendered a verdict that SeaChange infringed the nCube `804 patent. The jury determined a reasonable royalty rate of 7% on sales of allegedly infringing video-on-demand products. The jury also determined that damages through January 31, 2002 amounted to approximately $2.0 million and that SeaChange's infringement was willful. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," ("SFAS No. 5") SeaChange recorded certain charges to reflect this unfavorable jury verdict against SeaChange in the first quarter of fiscal 2003. The charges recorded totaled $14.4 million and included provisions for estimated damages of $2.8 million and treble damages of $5.6 million related to the shipments of the accused video-on-demand ("VOD") systems through April 30, 2002, legal fees of $3.6 million incurred by SeaChange in defense of this patent, including $1.5 million of deferred legal costs included in other assets as of January 31, 2002, and estimated nCube legal fees of $2.0 million, and accrued interest on total damages of $418,000.

In response to certain post-trial motions filed by SeaChange and nCube in 2002, the district court issued on March 31, 2003 two orders in the '804 infringement case and on April 7, 2004 issued the related memorandum opinion explaining the scope of and basis for the orders. The first order ruled on the post-trial motions filed by nCube and SeaChange. The district court denied SeaChange's motion for judgment as a matter of law with regard to literal infringement and validity. However, the court granted SeaChange's motion for judgment as a matter of law with regard to infringement under the doctrine of equivalents, finding that this was not sufficiently established during trial. The district court denied SeaChange's motion for a new trial and awarded nCube enhanced damages of two times the jury award ($4.1 million) and two-thirds of its attorney's fees ($1.8 million). The district court also awarded nCube pre-judgment interest ($62,000) and post-judgment interest, ordering that nCube submit to the court an updated post-judgment interest calculation within twenty (20) days of receipt of the April 7, 2004 memorandum. As detailed below, nCube submitted this updated post-judgment interest calculation on April 27, 2004. The court also denied nCube's motion for a permanent injunction and an accounting, as the parties intend to appeal both this case and the litigation regarding the '312 patent detailed above, and the court having granted SeaChange's motion for judgment as a matter of law with regard to infringement under the doctrine of equivalents. Additionally, the court ruled that it would consider the supplemental declaration of one of SeaChange's witnesses for the limited purpose of establishing SeaChange's conduct during litigation, but would disregard the substantive content of the declaration. The second order issued by the court on March 31, 2003 denied a number of outstanding pre-trial motions as moot.

On April 8, 2003, nCube submitted to the district court a post-judgment calculation of damages which applied the 7% royalty rate to the sales of the allegedly infringing video-on-demand products during the months of February, March, April and May of 2002 and which included post-judgment interest through April 8, 2003. nCube's submission calculated the base amount of actual damages to be $2.8 million, resulting in a revised amount of enhanced damages of $5.6 million. nCube's submission also sought post-judgment interest of $34,000.

On April 10, 2003, nCube filed a notice of appeal from the district court orders issued March 31, 2003.

On April 28, 2003, SeaChange filed a notice of appeal, appealing from the judgment and from other adverse rulings by the district court. SeaChange also filed a motion with the Federal Circuit Court of Appeals seeking to stay nCube's appeal pending the issuance of a written opinion by the district court explaining its March 31, 2003 orders. On May 29, 2003, the Court of Appeals allowed SeaChange's motion and ordered the appeals stayed pending the issuance of a memorandum opinion by the district court, which was issued on April 7, 2004. Accordingly, the stay in the appeals has been lifted and briefing is now proceeding.

Based on the court order issued on March 31, 2003 and the subsequent court filing by nCube on April 8, 2003, SeaChange adjusted its accrued litigation reserve in the fourth quarter of fiscal 2003 by reducing the estimated damages by $2.8 million, the estimated nCube legal costs by $160,000 and the pre-judgment and post-judgment interest charges by $600,000. The legal fees incurred through May 29, 2002 of $3.6 million includes the write-off of $1.5 million of SeaChange's deferred legal fees included in other assets as of January 31, 2002, which was expensed in the first quarter of fiscal 2003 as well as SeaChange's fees of $2.1 million incurred related to pre-verdict legal services.

The following is a summary of the accrued litigation reserve through July 31, 2004:

Estimated damages on the accused VOD shipments through April 30, 2002	$ 2,787,000
Estimated treble damages on the accused VOD shipments through April 30, 2002	5,574,000
Estimated legal fees (including write-off of capitalized legal costs and nCube legal fees)	5,621,000
Accrued interest on estimated damages and treble damages through April 30, 2002	418,000
Total charges recorded as of April 30, 2002	14,400,000
Additional accrued interest on estimated damages through January 31, 2004	362,000
Adjustment to litigation reserve based on March 31, 2003 court order and April 8, 2003 court filing	(3,537,000)
Legal expenses paid through January 31, 2004	(3,621,000)
Accrued litigation reserve as of January 31, 2004	7,604,000
Additional accrued interest on estimated damages through July 31, 2004	29,000
Accrued litigation reserve as of July 31, 2004	$ 7,633,000

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This reserve reflects SeaChange's best estimate of SeaChange's exposure based on information currently available. However, SeaChange believes that any liability ultimately incurred after pursuing all legal options will not likely exceed the accrued litigation reserve as of July 31, 2004, except for on-going legal fees associated with the dispute and additional interest on the awarded damages, which will be charged to operations. Other than the payment of SeaChange's legal fees, any payment of the other recorded charges will only occur in the event that the jury verdict is upheld in appeal. SeaChange has appealed the district court's judgment to the United States Court of Appeals for the Federal Circuit. Any injunctive relief against SeaChange will not be determined until after appeal. In the event that the court issues an injunction prohibiting SeaChange from selling the accused video-on-demand products, SeaChange believes that such injunction would have a minimal impact on SeaChange's ability to ship products and meet customer demands because SeaChange has implemented a revised version of the software which SeaChange believes does not infringe the nCube `804 patent.

On April 7, 2004, the District Court issued a Memorandum Opinion explaining its reasoning for the March 31, 2003 order. The District Court also issued an order on April 7, 2004 modifying the March 31, 2003 order providing nCube with 20 days to update its post-judgment interest calculation. On April 27, 2004, nCube submitted an updated post-judgment interest calculation of $131,174 as of April 26, 2004.

As discussed above, the appeals with respect to the '312 patent and the '804 patent are now proceeding.

In addition nCube has asserted that SeaChange infringes several other patents and that it may take legal action in the future. SeaChange believes that SeaChange does not infringe any valid claim in these other patents.

Putterman Litigation

On June 14, 1999, SeaChange filed a defamation complaint against Jeffrey Putterman, Lathrop Investment Management, Inc. and Concurrent Computer Corporation in the Circuit Court of Pulaski County, Arkansas alleging that the defendants conspired to injure SeaChange's business and reputation in the marketplace. The complaint further alleges that Mr. Putterman and Lathrop Investment Management, Inc. defamed SeaChange through false postings on an Internet message board. The complaint seeks unspecified amounts of compensatory and punitive damages. On July 15, 1999, Mr. Putterman also asserted a counterclaim alleging breach of contract and fraudulent misrepresentation, on the theory that, in exchange for a full release, he agreed to post on the internet an apology to SeaChange for his prior postings.

On June 14, 2000, Concurrent filed a counterclaim under seal against SeaChange seeking unspecified damages. On July 28, 2000, Concurrent filed a motion for summary judgment on the claim of civil conspiracy and on January 4, 2001, the trial court entered an order granting summary judgment for Concurrent on that claim. On June 12, 2001, the trial court denied the motion for reconsideration but made findings which permitted an immediate appeal and on July 11, 2001 SeaChange filed an appeal. On October 2, 2002, the Arkansas Court of Appeals reversed the judgment entered in favor of Concurrent and remanded the matter to the trial court. The Arkansas Supreme Court declined Concurrent's request for review. All claims proceeded to trial beginning January 26, 2004. On March 2, 2004, the jury returned its verdicts, finding that SeaChange did not breach its contract with Mr. Putterman and that SeaChange did not defame Concurrent. The jury also found that Mr. Putterman did not defame SeaChange and that SeaChange did commit fraudulent misrepresentation. No damages were awarded by the jury in connection with this finding. On May 25, 2004 the court entered judgment in favor of Putterman, Lathrop Investment Management and Concurrent on SeaChange's complaint and entered judgment in favor of SeaChange on the counterclaims of Putterman and Concurrent. No appeals have been taken from the judgment and the claims of all the parties are now concluded.

Securities Class Action Litigation

From October 30, 2002 to January 13, 2003, six purported securities class action lawsuits, all alleging nearly identical claims, were filed in the United States District Court for the District of Massachusetts against SeaChange, Morgan Stanley & Co. Incorporated,

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Thomas Weisel Partners LLC, RBC Dain Rauscher, Inc., William Styslinger, III, William Fiedler, Martin R. Hoffmann, Thomas F. Olson and Carmine Vona. On April 3, 2003, the Court consolidated these complaints into one action captioned: *In re SeaChange International, Inc., et al. Securities Litigation*, Civil Action No. 02-12116-DPW. On May 16, 2003, the plaintiffs filed a consolidated and amended class action complaint (the "Complaint"). In the Complaint, the plaintiffs allege that the defendants violated Sections 11 and/or 12(2) of the Securities Act of 1933 (the "Securities Act"), and in the case of the individual defendants Section 15 of the Securities Act, in connection with the stock offering that SeaChange completed on January 31, 2002. The Complaint seeks damages in an unspecified amount, together with interest thereon, recissory damages, reimbursement of costs and expenses, and further relief that the court may determine to be appropriate. SeaChange believes that the allegations in the Complaint are without merit. On July 18, 2003, SeaChange and the individual defendants filed a motion to dismiss all claims in their entirety, with prejudice. The lead plaintiff's opposition to the motion to dismiss was filed on September 12, 2003, and the defendants' reply memorandum was filed on October 8, 2003. A hearing on the motion to dismiss took place on January 16, 2004. On February 6, 2004, Judge Woodlock of the United States District Court for the District of Massachusetts issued a memorandum granting the motion to dismiss all claims asserted against the Company and the individual defendants, and an order of dismissal was entered by the court on February 9, 2004. On February 19, 2004, the lead plaintiff filed a notice of appeal to the United States Court of Appeals for the First Circuit from the memorandum and order granting the motion to dismiss all claims in their entirety.

General

SeaChange cannot be certain of the outcome of the foregoing current or potential litigation, but SeaChange plans to vigorously defend itself against allegations made against SeaChange and oppose allegations that may be brought against SeaChange in the future. Accordingly, SeaChange is unable to determine the ultimate impact of this litigation on SeaChange's business, financial condition and results of operations or cash flows.

Guarantees and Indemnification Obligations

SeaChange warrants that its products, including software products, will substantially perform in accordance with its standard published specifications in effect at the time of delivery. Most warranties have at least a one year duration commencing from installation. In addition, upon the sale of its systems, SeaChange provides maintenance support to all customers and therefore allocates a portion of the systems purchase price to the initial warranty period and recognizes revenue on a straight line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. For maintenance support agreements that extend beyond the standard warranty term, revenue is deferred and recognized on a straight line basis over the contract period. Any related costs are expensed as incurred. At July 31, 2004 and January 31, 2004, SeaChange had deferred revenue related to initial and maintenance support agreements of $16.5 million and $14.6 million, respectively.

12. Comcast Equity Investment and Video-on-Demand Purchase Agreements

In the fourth quarter of fiscal year 2001, SeaChange entered into a video-on-demand purchase agreement with Comcast to provide SeaChange's interactive television video servers and related services. Under the terms of the video-on-demand purchase agreement, Comcast committed to purchase SeaChange equipment capable of serving a minimum of one million cable subscribers by approximately December 2002. In addition, Comcast could 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 served by SeaChange's equipment which was purchased by Comcast. In connection with the execution of this commercial agreement, SeaChange entered into a common stock and warrant purchase agreement, dated as of February 28, 2001, with Comcast SC Investment, Inc., whereby Comcast SC agreed to purchase an aggregate of 756,144 shares of SeaChange's common stock for $10.0 million and Comcast SC received a warrant to purchase 100,000 shares of SeaChange's common stock with an exercise price of $13.225 per share. Under conditions of the arrangement, the number of common shares purchased and the number of common stock purchase warrants and related exercise price were subject to adjustment. In accordance with the agreement, an additional 25,000 common stock purchase warrants were issued as the registration statement had not been declared effective on or before March 31, 2001. On June 13, 2001, the effective date of the registration statement, SeaChange issued an additional 14,667 common stock purchase warrants in accordance with the agreement.

SeaChange determined the intrinsic value of $586,000 related to the 756,144 shares of common stock purchased on February 28, 2001 and measured the fair value of $1.1 million related to the 100,000 common stock purchase warrants as of the closing date. These amounts were recorded as contra-equity. On April 30, 2001, SeaChange recorded an additional contra-equity amount of $325,000 for the fair value of the additional 25,000 common stock purchase warrants of SeaChange common stock issued on March 31, 2001, and on June 13, 2001 recorded an additional contra equity amount of $335,000 representing the incremental fair value of the 14,667 common stock purchase warrants of SeaChange common stock issued on that date. The total contra-equity amount of $2.4 million was amortized as an offset to gross revenue in proportion to the revenue recognized from the sale of equipment with respect to the first one million subscribers Comcast has committed to under the video-on-demand purchase agreement.

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During the three months ended July 31, 2003 and April 30, 2003, Comcast earned an additional 109,142 and 92,113, respectively, of incentive common stock purchase warrants based on the number of cable subscribers in excess of the first one million subscribers. The estimated fair value of the common stock purchase warrants was based on the average closing market price of SeaChange's common stock for the last fifteen trading days in each of those periods. SeaChange recorded $1,012,000 and $575,000 as an offset to gross product revenue during the three months ended July 31, 2003 and April 30, 2003, respectively, representing the estimated fair value of the additional incentive common stock purchase warrants and the revaluation of incentive common stock purchase warrants earned by Comcast in prior quarterly periods but not issued as of those dates.

As of December 31, 2003, Comcast had earned the remaining incentive common stock purchase warrants available under the video-on-demand purchase agreement. The estimated fair value of the common stock purchase warrants was based on the average closing market price of SeaChange's common stock for the last fifteen trading days ended on each of the determination dates of December 31, 2002, June 30, 2003 and December 31, 2003, the final determination date of the agreement. Included in other accrued expenses at July 31, 2004 was $4.2 million representing the fair value of the common stock purchase warrants earned by Comcast but not issued as of that date. SeaChange has no remaining obligations as of July 31, 2004 related to the Comcast equity investment and SeaChange expects to issue the remaining incentive common stock purchase warrants in fiscal 2005.

13. Investments in Affiliates

Visible World. In the fourth quarter of fiscal year 2002, SeaChange entered into a Joint Development and Marketing Agreement with Visible World. The purpose of the partnership is to integrate the advertising insertion product offerings that SeaChange offers with the software technologies of Visible World, which would enable advertisers an end-to-end solution for providing target advertising to their customers. Commencing on November 29, 2002, the agreement is terminable on 90-days notice given by either party. In conjunction with the arrangement, Visible World issued SeaChange a fully vested warrant to purchase one million shares of Series B Preferred Stock at an exercise price of $0.01 per share. The warrant expires at the earliest of a) the consummation of a qualified public offering, as defined in the agreement, by Visible World, b) the sale of Visible World, as defined in the warrant agreement and c) 10 years. Because the issuance of the warrant to SeaChange under the terms of the agreement is in exchange for services to be provided by SeaChange, the warrant is accounted for under the guidance of EITF 00-08, "Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods or Services." Management determined the fair value of the warrant as of the date of the grant based on available financial information using the Black-Scholes valuation model. The assumptions used in this valuation included: a fair value of Visible World stock of $0.50 per share, a weighted average volatility factor of 100%, a dividend yield of 0.0%, a risk-free interest rate of 4.22%, and an expected warrant term of 5 years. SeaChange recorded the value of the warrant of $493,000 as a long-term investment included in investments in affiliates with an offsetting amount included in deferred revenue. SeaChange is recognizing the deferred revenue over the expected term of the services ending in the fourth quarter of fiscal year 2007.

In August 2003, Visible World completed the first phase of a private financing in which it raised $4.6 million in exchange for preferred stock. As a result of the financing, SeaChange determined that the fair value of the warrant had declined and recorded a $313,000 charge related to the other than temporary loss on the investment. In connection with this financing, SeaChange's warrant to purchase one million shares of Series B preferred stock of Visible World was amended to be exercisable for one million shares of common stock of Visible World; and SeaChange exercised the warrant to purchase the one million shares of Visible World common stock. SeaChange subsequently exchanged 95,517 shares of Visible World common stock for 1,192,311 shares of Series A-1 Preferred Stock. In addition, as part of Visible World's private financing, SeaChange invested $96,000 for an additional 1,192,311 shares of Series A-1 Preferred Stock. In January 2004, SeaChange and Visible World signed a revised Marketing Agreement in which SeaChange agreed to receive warrants to purchase 2.8 million shares of preferred stock of Visible World in lieu of future royalties that would have been earned by SeaChange relating to revenue earned by Visible World in accordance with an agreement between Visible World and Comcast Cable Corporation ("Comcast"). The warrants will vest over the five year term of the agreement between Visible World and Comcast. SeaChange estimated the fair value of these warrants to be $223,000 and included the amount in investments in affiliates with an offsetting amount included in deferred revenue. SeaChange is recognizing the deferred revenue over the five year term of the agreement. As of July 31, 2004, SeaChange owned less than 5% of the common and preferred stock of Visible World and is accounting for this investment under the cost method of accounting.

On Demand Group. In the third quarter of fiscal year 2003, SeaChange entered into a Subscription and Shareholders Agreement (the "Subscription Agreement") with The On Demand Group Limited ("ODG"), a company incorporated in England and Wales that provides video-on-demand services in Europe. Pursuant to the Subscription Agreement, the Company invested 1.5 million U.K. pounds Sterling (approximately $2.4 million) in exchange for 600,000 ordinary shares of ODG representing approximately 23% of the

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total outstanding capital stock of ODG as of October 29, 2002. As part of the Subscription Agreement, SeaChange committed to purchase additional ordinary shares and preference shares of ODG from ODG and certain of its existing shareholders under certain conditions in the Subscription Agreement. SeaChange entered into a Business Development Agreement with ODG for a minimum of five years whereby ODG agreed to exclusively purchase and to market and promote the Company's video-on-demand systems and software worldwide in connection with furnishing video-on-demand services to ODG's customers.

In October 2003, the Subscription Agreement with ODG was amended to remove SeaChange's commitment to purchase additional ordinary and preference shares from ODG and certain of its existing shareholders. As part of the amended Subscription Agreement, SeaChange committed to loan ODG up to 5.5 million U.K. pounds Sterling (approximately $9.3 million) payable in tranches of 500,000 U.K. pounds Sterling or multiples thereof. ODG's ability to draw-down the loan is subject to certain conditions including ODG's execution of a carriage agreement with a cable operator prior to December 31, 2004 and its achievement of certain financial targets. Any outstanding loan amounts would mature five years from the date of the first draw-down and interest is payable quarterly at the rate of 8.1% per annum. No amounts are outstanding as of July 31, 2004.

In December 2003, SeaChange purchased 117,647 common shares of ODG from its principal owners for 400,000 U.K. pounds Sterling (approximately $692,000) increasing SeaChange's ownership percentage to 28% as of that date.

14. New Accounting Pronouncements

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46") and, in December 2003, issued a revision to that interpretation ("FIN No. 46R"). FIN No. 46R replaces FIN No. 46 and addresses consolidation by business enterprises of variable interest entities that possess certain characteristics. A variable interest entity (VIE) is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The primary beneficiary is required to consolidate the financial position and results of the VIE. SeaChange evaluated its relationships with equity method investments and determined that the adoption of FIN 46R in the quarter ended April 30, 2004 had no impact.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on EITF No. 03-01, "The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments." EITF No. 03-01 addresses disclosures about unrealized losses on available-for-sale debt and equity securities accounted for under FASB Statements No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." EITF No. 03-01 is effective for all investments made in fiscal periods beginning after June 15, 2004. SeaChange does not currently expect that the adoption of EITF No. 03-01 will have a material impact on its financial operating results.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on EITF No. 03-06, "Participating Securities and Two-Class Method under FASB Statement No. 128, "Earnings Per Share." EITF 03-6 is intended to clarify what is a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. ETIF 03-6 is effective for reporting periods beginning after March 31, 2004. The adoption of this pronouncement did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

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 may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance and are identified by words such as "may," "will," "could," "should," "expect," "plan," "intend," "seek," "anticipate," "believe," "estimate," "potential," or "continue" or other comparable terms or the negative of those terms. Forward-looking statements in this Form 10-Q include certain statements regarding the effect of certain accounting standards on our financial position and results of operations, the effect of certain legal claims against us, projected changes in our revenues, earnings and expenses, exchange rate sensitivity, interest rate sensitivity, liquidity, product introductions and general market conditions. Our actual future results may differ significantly from those stated in any forward-looking statements. 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 continued growth, development and acceptance of the video-on-demand market; the loss of one of our large customers; the cancellation or deferral of purchases of our products; the length of our sales cycles; a decline in demand or average selling price for our broadband products; our ability to manage our growth; our ability to protect our intellectual property rights and the expenses that may be incurred by us to protect our intellectual property rights; an unfavorable result of current or future litigation, including our current patent litigation with nCube Corp. and the current securities class action lawsuits; content providers limiting the scope of content licensed for use in the video-on-demand market; our ability to introduce new products or enhancements to existing products; our dependence on certain sole source suppliers and third-party manufacturers; our ability to compete in our marketplace; our ability to respond to changing technologies; the risks associated with international sales; the performance of companies in which we have made equity investments, including the ON Demand Group Limited and Visible World; our ability to integrate the operations of acquired subsidiaries; changes in the regulatory environment; our ability to hire and retain highly skilled employees; and increasing social and political turmoil.

In addition, the effectiveness of our disclosure and internal controls may be limited, notwithstanding our ongoing review and assessment of these controls. Our disclosure controls and procedures and internal controls over financial reporting may not prevent all errors and intentional misrepresentations. Any system of internal control can only provide reasonable assurance that all control objectives are met. Some of the potential risks involved could include but are not limited to management judgments, simple errors or mistakes, willful misconduct regarding controls or misinterpretation. There is no guarantee that existing controls will prevent or detect all material issues or that existing controls will be effective in future conditions, which could materially and adversely impact our financial results. Under the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal controls over financial reporting. Compliance with this legislation may divert management's attention and resources and cause us to incur significant expense. Management's assessment of our internal controls over financial reporting may identify weaknesses that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Should we or our registered public accounting firm determine that we have material weaknesses in our internal controls over financial reporting, our results of operations or financial condition may be materially adversely affected or the price of our common stock may decline.

Further information on factors that could cause actual results to differ from those anticipated is detailed in various filings made by us from time to time with the Securities and Exchange Commission, including but not limited to, those appearing under the caption "Certain Risk Factors That May Affect Our Business" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2004. Any forward-looking statements should be considered in light of those factors.

Overview

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

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

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

Our operating results are significantly influenced by a number of factors, including the mix of systems sold and services provided, pricing, costs of materials used in our products, concentration of customers and the expansion of our operations during the fiscal year. We price our systems and services based upon our costs as well as in consideration of the prices of competitive products and services in the marketplace. The costs of our systems primarily consist of the costs of components and subassemblies that have generally declined over time. As a result of the growth of our business, our operating expenses have fluctuated in the areas of research and development, selling and marketing, customer service and support and administration and are expected to increase as our revenues increase. Despite the limited economic recovery, we expect that our cable and broadcast customers may still have limited capital spending budgets as we believe they are dependent on advertising revenues to fund their capital equipment purchases.

Accordingly, we expect our financial results to vary from quarter to quarter and our historical financial results are not necessarily indicative of future performance.

Our ability to continue to generate revenues within the markets in which our systems are sold and net income is dependent on several factors which include: (1) market acceptance of the systems and services offered by our customers and increased subscriber usage and demand for these systems and services; (2) selection by our customers of our systems and services versus the systems and services being offered by our competitors; (3) our ability to introduce new systems to the market in a timely manner and to meet the demands of the market for new systems and systems enhancements; (4) our ability to maintain gross margins from the sale of our systems and services at a level that will provide us with cash to fund our operations given the pricing pressures within the market and the costs of materials to manufacture our products; and (5) our ability to control operating costs given the fluctuations that we have experienced with revenues from quarter to quarter.

In the six months ended July 31, 2004, our total revenues grew 19% to $84.7 million from the same period in 2003 compared to 5% growth to $71.1 million in the six months ended July 31, 2003 compared to the same period in fiscal 2002. The growth in revenues is primarily attributed to our broadband segment, in which video-on-demand systems revenues rose 42% to $50.5 million in the six months ended July 31, 2004 over the same period in fiscal 2003 and 13% to $35.4 million in the six months ended July 31, 2003 compared to the same period in the previous fiscal year. This significant growth in systems revenues reflects the expanding deployment of residential video-on-demand systems by cable operators throughout the United States of America. We expect video-on-demand systems revenues will continue to increase in fiscal 2005 as compared to fiscal 2004, depending upon their continued acceptance in key regional domestic markets and their initial deployment throughout Asia and Europe during the second half of fiscal 2005. Services revenues also continued to grow, by 19% to $21.0 million in the six months ended July 31, 2004 over the same period in fiscal 2003 and 15% in the six months ended July 31, 2003 compared to the same period in the previous year. This sustained growth is primarily attributed to providing technical support and maintenance services to customers with an ever expanding base of equipment installed at their sites.

Our advertising systems revenues, which are included in our broadband segment, decreased 41% to $6.6 million in the six months ended July 31, 2004 from the same period in 2003 which compares to an increase of 17% in the six months ended July 31, 2003 over the same period in the previous year. We believe the decrease in advertising systems revenues reflects a decline in demand for analog advertisement systems from cable operators. We expect sales of advertising systems to grow modestly in fiscal 2005 as compared to fiscal 2004. Our broadcast systems revenue decreased 4% to $6.6 million in the six months ended July 31, 2004 from the same period in fiscal 2003 which compares to a decrease of 41% in the six months ended July 31, 2003 over the same period in the previous year. Also, the increasing rates of declines in both advertising systems and broadcast systems revenues are attributed to the continued adverse affects from the economic slowdown in the advertising industry.

Gross profits increased 6% to 46% in the six months ended July 31, 2004 over the same period in 2003 in comparison to a 3% increase in the six months ended July 31, 2003 over the same period in the previous year. Higher revenues and lower manufacturing and material costs per unit primarily contributed to this favorable performance, even though competitive pressures resulted in lower average selling prices per unit in fiscal 2005. We believe these competitive pressures will continue and our ability to maintain gross margins will be dependent upon maintaining current levels of revenues and achieving technological advances that will further reduce material costs of sales.

Our revenue growth and improving gross margin resulted in net income of $6.6 million or $0.23 per diluted share in the six months ended July 31, 2004 as compared to net income of $1.5 million or $0.05 per diluted share in the same period in 2003. This improvement in operating results enabled us to generate $10.8 million of cash from operations during the six months ended July 31, 2004 in comparison to a decrease of $5.2 million in the six months ended July 31, 2003.

Acquisition

In May 2004, we acquired all of the outstanding stock of ZQ Interactive, Ltd., a company incorporated in the British Virgin Islands with its principal office in Shanghai, China, for $2.0 million in cash. Accordingly, the financial position and results of operations of ZQ Interactive have been consolidated subsequent to the acquisition date; the impact of this consolidation has not been material to our condensed consolidated financial statements for the periods presented. For discussion of the accounting treatment of the transaction, see Note 9 of the accompanying financial statements.

Summary of Critical Accounting Policies; Significant Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These items are regularly monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

A summary of those accounting policies that we believe are most critical to fully understand and evaluate our financial results is set forth in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2004.

Accounting for Acquisitions

We have completed business acquisitions which have resulted in goodwill and other intangible asset balances. Our business strategy contemplates that we may continue to pursue additional acquisitions in the future. Our accounting for acquisitions involves judgments and estimates primarily, but not limited to: the fair value of certain forms of consideration, of acquired intangible assets, which involve projections of future revenues and cash flows, of other acquired assets and assumed liabilities, including potential contingencies, and the useful lives of intangible assets and income tax effects of acquisitions. The accounting of these acquisitions could have a material impact on our financial position or results of operations by the change in assumptions and estimates.

Three Months Ended July 31, 2004 Compared to the Three Months Ended July 31, 2003

Revenues

Systems Revenues. Our systems revenues consist of sales of our broadband products and software licenses and broadcast products. Systems revenues increased 18% from $27.5 million in the three months ended July 31, 2003 to $32.4 million in the three months ended July 31, 2004. Revenues from the broadband segment, which accounted for 84% and 88% of total systems revenues in the three months ended July 31, 2003 and July 31, 2004, respectively, increased from $22.9 million in the three months ended July 31, 2003 to $28.7 million in the three months ended July 31, 2004. Video-on-demand systems revenues increased to $25.2 million for the three months ended July 31, 2004 as compared to $17.5 million for the three months ended July 31, 2003. Revenues from video-on-demand systems for the three months July 31, 2003 were reduced by the amortization of $1.0 million related to the deferred equity discount associated with the Comcast equity investment. Advertising system revenues were $3.4 million for the three months ended July 31, 2004 as compared to $5.4 million for the three months ended July 31, 2003. The increase in broadband revenues is primarily attributable to the increased deployment of residential video-on-demand systems in the United States by cable operators, offset in part by a decline in the number of expansion systems purchased by United States cable system operators for advertising insertion. Broadcast system segment revenues were $4.5 million in the three months ended July 31, 2003 compared to $3.8 million in the three months ended July 31, 2004. The 16% decrease in broadcast revenues for the three months ended July 31, 2004 was primarily attributable to a decrease in capital expenditures by broadcast companies that we believe reflects lower advertising revenues generated by those companies. We expect future revenue growth, if any, to come principally from our video-on-demand and broadcast system products as cable and telecommunications companies continue to offer new applications for their customers and the market for digital video servers within the broadcast industry continues to expand. As revenues from broadcast and interactive television products increase, the advertising products will become a smaller portion of total system revenues. However, we believe that there will be a continuing demand for expansions to existing advertising insertion systems within the United States and increasing demand for advertising insertion systems in an on demand environment as video-on-demand becomes more available to subscribers.

Services Revenues. Our services revenues consist of fees for installation, training, project management, product maintenance, technical support services, product development contracts and movie content fees. Our services revenues increased 19% to $10.6 million in the three months ended July 31, 2004 from $8.9 million in the three months ended July 31, 2003. This increase in services revenues primarily resulted from the annual renewals of technical support and maintenance service contracts, price increases on certain technical support and maintenance services and the impact of a growing installed base of systems. Revenues from our wholly-owned subsidiary, Digital Video Arts, were $600,000 in the three months ended July 31, 2003 and $700,000 in the three months ended July 31, 2004. Revenues from services are expected to continue to grow as the installed base of our products increases and revenues from Digital Video Arts continue to grow due to additional development contracts and new service offerings.

For the three months ended July 31, 2003 and July 31, 2004, one customer accounted for more than 10% of our total revenues. This customer accounted for 49% of total revenues in the three months ended July 31, 2003 and 61% of total revenues in the three months ended July 31, 2004. Revenue from this customer was primarily in the broadband segment. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers.

International sales accounted for approximately 14% and 16% of total revenues in the three months ended July 31, 2003 and July 31, 2004, respectively. No individual country except the U.S. accounted for more than 10% of total revenue. We expect that international sales will remain a significant portion of our business in the future and expect to obtain several new video-on-demand orders in Europe and Asia during fiscal year 2005. As of July 31, 2004, substantially all sales of our products were made in United States dollars. Therefore, we have not experienced, nor do we expect to experience in the near term, any material impact from fluctuations in foreign currency exchange rates on revenues.

Systems Gross Profit. Costs of systems revenues consist primarily of the cost of purchased components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses. Costs of systems revenues increased 6% to $16.8 million in the three months ended July 31, 2004 as compared to $15.8 million in the three months ended July 31, 2003. In the three months ended July 31, 2004, the increase in the costs of systems revenues primarily reflects higher systems revenues within the video-on-demand products offset by lower costs. We expect the cost of systems revenues for the video-on-demand products within the broadband segment to decrease as a percentage of revenues as the revenue level increases and we improve our manufacturing and material purchasing efficiencies. Our ability to maintain or improve our current gross profit as a percentage of systems revenues is impacted by competitive price pressures which has resulted in lower average selling prices in fiscal 2005. Systems gross profit as a percentage of systems revenues was 42% and 48% in the three months ended July 31, 2003 and July 31, 2004, respectively. Gross profit for the broadband segment increased from 43% of revenues for the three months ended July 31, 2003 to 50% of revenues for the three months ended July 31, 2004. The increase in broadband gross profit percentages is primarily due to higher revenues and lower material costs on certain components due to technological advances. Gross profit for the broadcast segment decreased from 36% to 31% for the three months ended July 31, 2003 and 2004, respectively. The decrease in the broadcast gross profit percentage is primarily due to lower revenues and lower sales prices on certain international revenues.

Services Gross Profit. Costs of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support services provided by us and costs associated with providing movie content services. Costs of services revenues increased 13% from $5.6 million in the three months ended July 31, 2003 to $6.4 million in the three months ended July 31, 2004. Services gross profit as a percentage of services revenue was 36% in the three months ended July 31, 2003 and 39% in the three months ended July 31, 2004. The increase in services gross profit was primarily a result of higher revenues on a relatively fixed cost structure. We expect that we will continue to experience fluctuations in gross profit percentage in the future due to the timing of revenues from technical support and other services to support the growing installed base of systems and the timing of costs associated with our ongoing investment required to continue to expand our service organization to support our installed base of systems and our new products.

Research and Development. Research and development expenses consist primarily of the compensation of development personnel, depreciation of development and test equipment and an allocation of related facilities expenses. Research and development expenses increased 10% from $6.5 million, or 18% of revenues, in the three months ended July 31, 2003 to $7.1 million, or 17% of total revenues, in the three months ended July 31, 2004 due primarily to the hiring of additional development engineers to support new product initiatives**.** We expect that research and development expenses will increase 5% to 10% in fiscal 2005 compared to our results in fiscal 2004 as we continue our development of new products and enhancements.

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 6% from $4.2 million, or 12% of revenues, in the three months ended July 31, 2003 to $4.5 million, or 10% of total revenues, in the three months ended July 31, 2004 primarily due to increased commissions on higher revenues.

General and Administrative. General and administrative expenses consist primarily of the compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. General and administrative expenses decreased 8% from $2.9 million, or 8% of revenues, in the three months ended July 31, 2003 to $2.6 million, or 6% of total revenues in the three months ended July 31, 2004 due primarily to a reduction in required reserve levels for trade accounts receivable customers partially offset by higher accounting costs.

Interest Income and Interest Expense. Interest income was $480,000 in the three months ended July 31, 2003 and $383,000 in the three months ended July 31, 2004. The decrease in interest income primarily reflects a lower average invested cash balances throughout the quarter. Interest expense was approximately $38,000 in the three months ended July 31, 2003 and $0 in the three months ended July 31, 2004.

Impairment loss on investments in affiliates. Other expense was $313,000 in the three months ended July 31, 2003 and $0 in the three months ended July 31, 2004.The $313,000 charge in 2003 was related to the other-than-temporary loss on our investment in Visible World.

Equity loss in earnings of affiliates. Equity loss in earnings of affiliates was $5,000 and $223,000 in the three months ended July 31, 2003 and 2004, respectively. The equity loss in earnings of affiliates consists of our proportionate ownership share of the loss of the On Demand Group Limited (“ODG”) under the equity method of accounting.

Income Tax Expense. Our effective tax rate was 35% and 40% for the three months ended July 31, 2003 and 2004, respectively. For the three months ended July 31, 2003, the effective tax rate was favorably impacted by the utilization of the Company’s remaining federal net operating loss carryforwards. As of July 31, 2004, we have recorded a full valuation allowance against our net deferred tax assets due to the uncertainty of their realization as a result of cumulative historical pre-tax losses. We will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. If we generate sufficient future pre-tax income, some portion or all of the valuation allowance would be reversed and a corresponding increase in net income would be reported in the future.

Six Months Ended July 31, 2004 Compared to the Six Months Ended July 31, 2003

Revenues

Systems Revenues. Systems revenues increased 19% from $53.5 million in the six months ended July 31, 2003 to $63.6 million in the six months ended July 31, 2004. Revenues from the broadband segment, which accounted for 87% and 90% of total systems revenues in the six months ended July 31, 2003 and July 31, 2004, respectively, increased from $46.6 million in the six months ended July 31, 2003 to $57.0 million in the six months ended July 31, 2004. Video-on-demand systems revenues increased to $50.5 million for the six months ended July 31, 2004 as compared to $35.4 million for the six months ended July 31, 2003. Revenues from video-on-demand systems for the six months ended July 31, 2003 and 2004 were reduced by the amortization of $1.6 million and $0, respectively, related to the deferred equity discount associated with the Comcast equity investment. Advertising system revenues were $6.6 million for the six months ended July 31, 2004 as compared to $11.2 million for the six months ended July 31, 2003. The increase in broadband revenues is primarily attributable to the increased deployment of residential video-on-demand systems in the United States by cable operators, offset in part by a decline in the number of expansion systems purchased by United States cable system operators for advertising insertion. Broadcast system segment revenues were $6.9 million in the six months ended July 31, 2003 compared to $6.6 million in the six months ended July 31, 2004. The 4% decrease in broadcast revenues for the six months ended July 31, 2004 was primarily attributable to a decrease in capital expenditures by broadcast companies that we believe reflects lower advertising revenues generated by those companies. We expect future revenue growth, if any, to come principally from our video-on-demand and broadcast system products as cable and telecommunications companies continue to offer new applications for their customers and the market for digital video servers within the broadcast industry continues to expand. As revenues from broadcast and interactive television products increase, the advertising products will become a smaller portion of total system revenues. However, we believe that there will be a continuing demand for expansions to existing advertising insertion systems within the United States and increasing demand for advertising insertion systems in an on demand environment as video-on-demand becomes more available to subscribers.

Services Revenues. Our services revenues increased 19% to $21.0 million in the six months ended July 31, 2004 from $17.7 million in the six months ended July 31, 2003. This increase in services revenues primarily resulted from the annual renewals of technical support and maintenance service contracts, price increases on certain technical support and maintenance services and the impact of a growing installed base of systems. Revenues from our wholly-owned subsidiary, Digital Video Arts, were $900,000 in the six months ended July 31, 2003 and $1.4 million in the six months ended July 31, 2004. Revenues from services are expected to continue to grow as the installed base of our products increases and revenues from Digital Video Arts continue to grow due to additional development contracts and new product offerings.

For the six months ended July 31, 2003 and July 31, 2004, one customer accounted for more than 10% of our total revenues. This customer accounted for 50% of total revenues in the six months ended July 31, 2003 and 58% of total revenues in the six months ended July 31, 2004. Revenue from these customers was primarily in the broadband segment. We believe that a significant amount of our revenues will continue to be derived from a limited number of customers.

International sales accounted for approximately 14% and 15% of total revenues in the six months ended July 31, 2003 and July 31, 2004, respectively. No individual country except the U.S. accounted for more than 10% of total revenue. We expect that international sales will remain a significant portion of our business in the future and expect to obtain several new video-on-demand orders in Europe and Asia during fiscal year 2005. As of July 31, 2004, substantially all sales of our products were made in United States dollars. Therefore, we have not experienced, nor do we expect to experience in the near term, any material impact from fluctuations in foreign currency exchange rates on our revenues.

Systems Gross Profit. Costs of systems revenues increased to $33.8 million in the six months ended July 31, 2004 as compared to $31.1 million in the six months ended July 31, 2003. In the six months ended July 31, 2004, the increase in the costs of systems revenues primarily reflects higher systems revenues within the video-on-demand products. We expect the cost of systems revenues for the video-on-demand products within the broadband segment to decrease as a percentage of revenues as the revenue level increases and we improve our manufacturing and material purchasing efficiencies. Our ability to maintain or improve our current gross profit as a percentage of systems revenues is impacted by competitive price pressures which has resulted in lower average selling prices in fiscal 2005. Systems gross profit as a percentage of systems revenues was 42% and 47% in the six months ended July 31, 2003 and July 31, 2004, respectively. Gross profit for the broadband segment increased from 43% of revenues for the six months ended July 31, 2003 to 49% of revenues for the six months ended July 31, 2004. The increase in broadband gross profit percentages is primarily due to higher revenues and lower material costs on certain components due to technological advances. Gross profit for the broadcast segment decreased from 32% to 30% for the six months ended July 31, 2003 and 2004, respectively. The decrease in the broadcast gross profit percentage is primarily due to lower revenues and lower sales prices on certain international revenues.

Services Gross Profit. Costs of services revenues increased 8% from $11.4 million in the six months ended July 31, 2003 to $12.3 million in the six months ended July 31, 2004. Services gross profit as a percentage of services revenue was 35% in the six months ended July 31, 2003 and 42% in the six months ended July 31, 2004. The increase in services gross profit was primarily a result of higher revenues on a relatively fixed cost structure. We expect that we will continue to experience fluctuations in gross profit percentage in the future due to the timing of revenues from technical support and other services to support the growing installed base of systems and the timing of costs associated with our ongoing investment required to continue to expand our service organization to support our installed base of systems and our new products.

Research and Development. Research and development expenses increased 12% from $12.7 million, or 18% of total revenues, in the six months ended July 31, 2003 to $14.2 million, or 17% of total revenues, in the six months ended July 31, 2004 due primarily to the hiring of additional development engineers for new product initiatives and costs required for set-top box integration testing. We expect that research and development expenses will increase 5% to 10% in fiscal 2005 as we continue our development of new products and enhancements.

Selling and Marketing. Selling and marketing expenses increased 3% from $8.4 million, or 12% of total revenues, in the six months ended July 31, 2003 to $8.6 million, or 10% of revenues, in the six months ended July 31, 2004.

General and Administrative. General and administrative expenses decreased 7% from $5.7 million, or 8% of total revenues, in the six months ended July 31, 2003 to $5.3 million, or 6% of total revenues in the six months ended July 31, 2004 as a result of lower legal fees and the reduction in required reserve levels for trade accounts receivable customers partially offset by an increase in accounting costs.

Interest Income and Interest Expense. Interest income was $922,000 in each of the six months ended July 31, 2003 and July 31, 2004. Interest expense was approximately $91,000 in the six months ended July 31, 2003 and $17,000 in the six months ended July 31, 2004.

Impairment loss on investments in affiliates. Other expense was $313,000 in the six months ended July 31, 2003 and $0 in the six months ended July 31, 2004.The $313,000 charge in 2003 was related to the other-than-temporary loss on our investment in Visible World.

Equity loss in earnings of affiliates. Equity loss in earnings of affiliates was $40,000 and $253,000 in the six months ended July 31, 2003 and 2004, respectively. The equity loss in earnings of affiliates consists of our proportionate ownership share of the loss of the On Demand Group Limited (“ODG”) under the equity method of accounting.

Income Tax Expense. Our annual effective tax rate was 34% and 40% for the six months ended July 31, 2003 and 2004, respectively. For the six months ended July 31, 2003, the effective tax rate was favorably impacted by the utilization of the Company’s remaining federal net operating loss carryforwards. As of July 31, 2004, we have recorded a full valuation allowance against our net deferred tax assets due to the uncertainty of their realization as a result of cumulative historical pre-tax losses. We will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. If we generate sufficient future pre-tax income, some portion or all of the valuation allowance would be reversed and a corresponding increase in net income would be reported in the future.

Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital or incurring debt, other than our equity investment in ODG (see Liquidity and Capital Resources). Our arrangements with ODG, which is not consolidated into our financial statements, is not currently likely to have a material affect on our liquidity or the availability of our capital resources.

Liquidity and Capital Resources

We have financed our operations and capital expenditures primarily with the proceeds from sales of our common stock, borrowings and cash flows generated from operations. Cash and cash equivalents increased $10.9 million from $87.6 million at January 31, 2004 to $98.5 million at July 31, 2004 largely due to cash provided by operating activities. Working capital, excluding long-term marketable securities, increased from $99.2 million at January 31, 2004 to $114.1 million at July 31, 2004.

Net cash provided by operating activities was $10.8 million for the six months ended July 31, 2004 compared to net cash used in operating activities of $5.2 million for the six months ended July 31, 2003. The net cash provided by operating activities for the six months ended July 31, 2004 was the result of the net income of $6.6 million adjusted for non-cash expenses including depreciation and amortization of $3.8 million and the changes in certain operating assets and liabilities. The significant changes in operating assets and liabilities that provided cash from operations included increases in accounts payable of $9.9 million due to the timing of payments for inventory purchased in July and deferred revenue of $4.4 million. These items that generated cash from operations were offset by an increase in accounts receivable of $14.1 million, due primarily to the receipt of customer orders late in the fiscal quarter. It is typical for us to experience fluctuations in our monthly operating results primarily due to the timing of receiving customer orders and the related shipment of these customer orders. As a result of these monthly fluctuations, we may experience significant increases or decreases in our inventories as a result of the timing of the procurement of components for anticipated orders for both our product segments, increases or decrease in our accounts payable balance primarily due to the timing of payments for materials purchased for prior month shipments, increases or decreases in our accounts receivable balances as a result of the timing of receiving customer orders during the period and of customer payments.

Net cash used in investing activities was $1.8 million and $2.0 million for the six months ended July 31, 2004 and July 31, 2003, respectively. Investment activity for the six months ended July 31, 2004 consisted primarily of capital expenditures of $1.8 million, an acquisition of a business of $919,000, net of cash acquired, increase in restricted cash of $1.0 million and purchases of marketable securities of $530,000 offset in part by the sale of marketable securities of $2.5 million.

Net cash provided by financing activities was $1.9 million for the six months ended July 31, 2004 and $728,000 for the six months ended July 31, 2003. In the six months ended July 31, 2004, the cash provided by financing activities included $2.1 million in proceeds from the issuance of common stock in connection with stock option exercises and the employee stock purchase plan, partially offset by the repayment of obligations under capital leases of approximately $197,000.

In December 2003, we renewed our revolving line of credit with a bank for a two year period and increased the committed amount from $10.0 million to $15.0 million. Loans made under this revolving line of credit bear interest at a rate per annum equal to the bank's prime rate, which was 4.0% on July 31, 2004. Borrowings under this line of credit are collateralized by substantially all of our assets. The loan agreement requires that we provide the bank with certain periodic financial reports and comply with certain financial ratios including a minimum level of earnings before interest, taxes and depreciation and amortization on a trailing twelve month basis, when amounts are outstanding under the loan agreement. As of July 31, 2004, we were in compliance with the financial covenants. There are currently no amounts outstanding under the revolving line of credit.

In October 2002, we entered into a Subscription and Shareholders Agreement (the "Subscription Agreement") with ODG, a company incorporated in England and Wales that provides video-on-demand services in Europe. Pursuant to the Subscription Agreement, we invested 1.5 million U.K. pounds Sterling (approximately $2.4 million) in exchange for 600,000 ordinary shares of ODG representing approximately 23% of the total outstanding capital stock of ODG on that date. As part of the Subscription Agreement, we had committed to purchase additional ordinary shares and preference shares of ODG from ODG and certain of its existing shareholders under certain conditions in the Agreement. We also entered into a Business Development Agreement with ODG for a minimum of five years whereby ODG agreed to exclusively purchase and to market and promote our video-on-demand systems and software worldwide in connection with furnishing video-on-demand services to ODG's customers.

In October 2003, we and ODG amended the Subscription Agreement to remove our commitment to purchase additional ordinary and preference shares from ODG and certain of its existing shareholders. As part of the amended Subscription Agreement, we have committed to loan ODG up to 5.5 million U.K. pounds Sterling (approximately $9.3 million) payable in tranches of 500,000 U.K. pounds Sterling or multiples thereof. ODG's ability to draw-down the loan is subject to certain conditions including ODG's execution of a carriage agreement with a cable operator prior to December 31, 2004 and its achievement of certain financial targets. Any outstanding loan amounts would mature five years from the date of the first draw-down and interest is payable quarterly at the rate of 8.1% per annum. No amounts are outstanding as of July 31, 2004.

In December 2003, we purchased 117,647 common shares of ODG from its principal owners for 400,000 U.K. pounds Sterling (approximately $692,000).

We had no material capital expenditure commitments as of July 31, 2004. There were no significant changes in commitments as presented in the Form 10-K filed on April 14, 2004.

We believe that existing cash, cash equivalents and marketable securities together with available borrowings under the revolving line of credit are adequate to satisfy our working capital and capital expenditure requirements and other contractual obligations for at least the next twelve months.

Effects of Inflation

Management believes that financial results have not been significantly impacted by inflation and price changes in materials we use in manufacturing our products.

Recent Accounting Pronouncements

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46") and, in December 2003, issued a revision to that interpretation ("FIN No. 46R"). FIN No. 46R replaces FIN No. 46 and addresses consolidation by business enterprises of variable interest entities that possess certain characteristics. A variable interest entity (VIE) is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The primary beneficiary is required to consolidate the financial position and results of the VIE. We evaluated our relationships with equity method investments and determined that the adoption of FIN 46R in the quarter ended April 30, 2004 had no impact.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on EITF No. 03-01, "The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments." EITF No. 03-01 addresses disclosures about unrealized losses on available-for-sale debt and equity securities accounted for under FASB Statements No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." EITF No. 03-01 is effective for all investments made in fiscal periods beginning after June 15, 2004. We do not currently expect that the adoption of EITF No. 03-01 will have a material impact on our financial operating results.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on EITF No. 03-06, "Participating Securities and Two-Class Method under FASB Statement No. 128, "Earnings Per Share." EITF 03-6 is intended to clarify what is a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. ETIF 03-6 is effective for reporting periods beginning after March 31, 2004. The adoption of this pronouncement did not have an impact on our consolidated financial position, results of operations or cash flows.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Our primary exposure has been related to local currency revenue and operating expenses in Europe and Asia. Historically, we have not hedged specific currency exposures as gains and losses on foreign currency transactions have not been material to date. At July 31, 2004, we had no outstanding amounts related to variable rate U.S. dollar denominated debt. As there were no amounts outstanding as of July 31, 2004 related to variable rate debt, there was no interest rate exposure. The carrying amounts reflected in the consolidated balance sheet of cash and cash equivalents, trade receivables, and trade payables approximates fair value at July 31, 2004 due to the short maturities of these instruments. We maintain investment portfolio holdings of various issuers, types, and maturities. Our cash and marketable securities include cash equivalents, which we consider to be investments purchased with original maturities of three months or less. Given the short maturities and investment grade quality of the portfolio holdings at July 31, 2004, a sharp rise in interest rates should not have a material adverse impact on the fair value of our investment portfolio. At July 31, 2004, we had $8.9 million in short-term marketable securities and $25.9 million in long-term marketable securities. The major portion of these securities have fixed interest rates and are not subject to risk arising from interest rate variability.

ITEM 4. Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act of 1934, as amended (the "Exchange Act") Rule 13a-15(e), as of the end of the period covered by this quarterly report on Form 10-Q. William C. Styslinger, III, our Chief Executive Officer, and William L. Fiedler, our Chief Financial Officer, reviewed and participated in this evaluation. Based upon that evaluation, Messrs. Styslinger and Fiedler concluded that our disclosure controls and procedures were effective as of the end of the period covered by the report and as of the date of the evaluation.

As a result of the evaluation completed by us, and in which Messrs. Styslinger and Fiedler participated, we have concluded that there were no changes during the fiscal quarter ended July 31, 2004 in our internal controls over financial reporting, which have affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

See Note 11 of Notes to Condensed Consolidated Financial Statements.

ITEM 4. Submission of Matters to a Vote of Security Holders

The annual meeting of the security holders of SeaChange was held on July 14, 2004. Matters considered and acted upon the meeting included:

- the election of two (2) members to the SeaChange's Board of Directors, each to serve for a three-year term as a Class II Director, and
- the adoption of SeaChange's 2004 Stock Option and Incentive Plan.

Each of the nominees for election as a Class II Director were elected to the Board of Directors. The proposed 2004 Stock Option and Incentive Plan was not adopted. Voting results were as follows:

	Votes For	Votes Against	Votes Withheld	Abstained
Election of Martin R. Hoffmann	23,927,928	n/a	2,690,523	n/a
Election of Thomas F. Olson	23,964,560	n/a	2,653,891	n/a
Adoption of 2004 Stock Option and Incentive Plan	8,561,094	12,291,905	n/a	21,892

After the annual meeting, the following persons continued to serve as our directors: William C. Styslinger, III and Carmine Vona.

ITEM 5. Other Information

On July 30, 2004, SeaChange entered into Change-In-Control Severance Agreements with each of William L. Fiedler, Ira Goldfarb, Bruce Mann and William C. Styslinger, III. These agreements provide for the acceleration of unvested stock options, restricted stock and other equity rights upon a change of control of SeaChange and also provide for certain benefits to be payable to the named person in the event of termination, by the Company without cause or by the named person for good reason, of employment following a change of control of SeaChange.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Change-In-Control Severance Agreement, dated as of July 30, 2004, by and between SeaChange International, Inc. and William L. Fiedler

10.2 Change-In-Control Severance Agreement, dated as of July 30, 2004, by and between SeaChange International, Inc. and Ira Goldfarb

10.3 Change-In-Control Severance Agreement, dated as of July 30, 2004, by and between SeaChange International, Inc. and Bruce Mann

10.4 Change-In-Control Severance Agreement, dated as of July 30, 2004, by and between SeaChange International, Inc. and William C. Styslinger, III

31.1 Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

SIGNATURES

Pursuant to the requirements 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: September 9, 2004

SEACHANGE INTERNATIONAL, INC.

by: /s/ William L. Fiedler

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

Index to Exhibits

No.	Description
10.1	Change-In-Control Severance Agreement, dated as of July 30, 2004, by and between SeaChange International, Inc. and William L. Fiedler
10.2	Change-In-Control Severance Agreement, dated as of July 30, 2004, by and between SeaChange International, Inc. and Ira Goldfarb
10.3	Change-In-Control Severance Agreement, dated as of July 30, 2004, by and between SeaChange International, Inc. and Bruce Mann
10.4	Change-In-Control Severance Agreement, dated as of July 30, 2004, by and between SeaChange International, Inc. and William C. Styslinger, III
31.1	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

Exhibit 10.1

CHANGE-IN-CONTROL
SEVERANCE AGREEMENT

THIS AGREEMENT, dated as of July 30, 2004, by and between SeaChange International, Inc., with its principal place of business at 124 Acton Street, Maynard, Massachusetts 01754 (the "Company"), and William L. Fiedler (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel, and recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the distraction or departure of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board of Directors of the Company has determined that appropriate steps should be taken to reinforce and encourage the Executive's continued attention and dedication to the Executive's assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company, although no such change is presently known to be contemplated.

NOW THEREFORE, in consideration of the mutual covenants and agreements hereinafter contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1
DEFINITIONS

Except as may otherwise be specified or as the context may otherwise require, the following terms shall have the respective meanings set forth below whenever used herein:

"Annual Bonus" shall mean the annual bonus, or if the Executive is paid a bonus on a quarterly basis, the sum of the four quarterly bonus payments, paid to the Executive for the Company's fiscal year immediately prior to the fiscal year in which the Date of Termination occurs, or, if greater, the fiscal year immediately preceding such prior fiscal year, as well as the lesser of (i) the aggregate amount of sales commissions, if any, paid to the Executive for the Company's fiscal year immediately prior to the fiscal year in which the Date of Termination occurs, or, if greater, the fiscal year immediately preceding such prior fiscal year, or (ii) the average annual amount of sales commissions, if any, paid to the Executive for the three fiscal years immediately prior to the fiscal year in which the Date of Termination occurs.

"Base Salary" shall mean the annual base rate of regular compensation of the Executive immediately before a Covered Termination, or if greater, the highest annual such rate at any time during the 12-month period immediately preceding the Covered Termination.

"Board" shall mean the Board of Directors of the Company.

"Cause" shall mean (i) the Executive's engaging in willful and repeated gross negligence or gross misconduct, (ii) the Executive's breaching of a material fiduciary duty to the Employer, or (iii) the Executive's being convicted of a felony, in either case, to the demonstrable and material injury to the Employer. For purposes hereof, no act, or failure to act, on the Executive's part, shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that any act or omission was in the best interest of the Employer.

"Change in Control" shall mean the first to occur, after the date hereof, of any of the following:

(i) the members of the Board at the beginning of any consecutive 24- calendar-month period (the "Incumbent Directors") cease for any reason other than due to death to constitute at least a majority of the members of the Board; provided that any director whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the members of the Board then still in office who were members of the Board at the beginning of such 24- calendar-month period, shall be deemed to be an Incumbent Director;

(ii) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, shares of Stock representing in the aggregate 50% or more of the combined voting power of the securities of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any);

(iii) there shall occur (A) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportion as their ownership of the Company immediately prior to such sale or (B) the approval by stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or

(iv) Any corporation or other legal person, pursuant to a tender offer, exchange offer, purchase of stock (whether in a market transaction or otherwise) or other transaction or event acquires securities representing 40% or more of the combined voting power of the voting securities of the Company, or there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the U.S. Securities Exchange Act, disclosing that any "person" (as such term is used in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act) has become the "beneficial owner" (as such term is used in Rule 13d-3 under the Securities Exchange Act) of securities representing 40% or more of the combined voting power of the voting securities of the Company.

Upon the occurrence of a Change in Control as provided above, no subsequent event or condition shall constitute a Change in Control for purposes of this Agreement, with the result that there can be no more than one Change in Control hereunder.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Company” shall mean, subject to Section 4.1(a), SeaChange International, Inc., a Delaware corporation.

“Covered Termination” shall mean if, within the one-year period immediately following a Change in Control, the Executive (i) is terminated by the Employer without Cause (other than on account of death or Disability), or (ii) terminates the Executive’s employment with the Employer for Good Reason. The Executive shall not be deemed to have terminated for purposes of this Agreement merely because he or she ceases to be employed by the Employer and becomes employed by a new employer involved in the Change in Control; provided that such new employer shall be bound by this Agreement as if it were the Employer hereunder with respect to the Executive. It is expressly understood that no Covered Termination shall be deemed to have occurred merely because, upon the occurrence of a Change in Control, the Executive ceases to be employed by the Employer and does not become employed by a successor to the Employer after the Change in Control if the successor makes an offer to employ the Executive on terms and conditions which, if imposed by the Employer, would not give the Executive a basis on which to terminate employment for Good Reason.

“Date of Termination” shall mean the date on which a Covered Termination occurs.

“Disability” shall mean the occurrence after a Change in Control of the incapacity of the Executive due to physical or mental illness, whereby the Executive shall have been absent from the full-time performance of the Executive’s duties with the Employer for six consecutive months or, in any one year period, for an aggregate of six months.

“Employer” shall mean the Company (if and for so long as the Executive is employed thereby) and each Subsidiary which may now or hereafter employ the Executive or, where the context so requires, the Company and such Subsidiaries collectively. A subsidiary which ceases to be, directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the Company prior to a Change in Control (other than in connection with and as an integral part of a series of transactions resulting in a Change in Control) shall, automatically and without any further action, cease to be (or be part of) the Employer for purposes hereof.

“Good Reason” shall mean, without the express written consent of the Executive, the occurrence after a Change in Control of any of the following circumstances, unless such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(i) the material reduction of the Executive’s title, or the reduction of the Executive’s authority, duties or responsibilities, or the assignment to the Executive of any duties inconsistent with Executive’s position, authority, duties or responsibilities from those in effect immediately prior to the Change in Control;

(ii) a reduction in the Executive's Base Salary as in effect immediately before the Change in Control;

(iii) a material reduction in the Executive's aggregate compensation opportunity, comprised only of the Executive's (A) Base Salary, and (B) bonus opportunity (taking into account, without limitation, any target, minimum and maximum amounts payable and the attainability and otherwise the reasonableness of any performance hurdles, goals and other measures), if any;

(iv) the Company's requiring the Executive to be based at any office or location more than 75 miles from that location at which the Executive performed Executive's services immediately prior to the occurrence of a Change in Control, except for travel reasonably required in the performance of the Executive's responsibilities;

(v) the failure of the Company to obtain a reasonable agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 4.1(a);

(vi) the failure of the Company to pay the Executive any amounts due hereunder; or

(vii) any other material breach by the Company of this Agreement.

"Notice of Termination" shall mean a notice given by the Employer or Executive, as applicable, which shall indicate the date of termination and the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provisions so indicated.

"Person" shall have the meaning ascribed thereto by Section 3(a)(9) of the Securities Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof (except that such term shall not include (i) the Company or any of its Subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, or (v) such Executive or any "group" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act) which includes the Executive).

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Stock" shall mean the common stock, $.01 par value, of the Company

"Subsidiary" shall mean any entity, directly or indirectly, through one or more intermediaries, controlled by the Company.

Section 2
BENEFITS

2.1 If a Change in Control occurs, then:

(a) (i) any and all outstanding unvested stock options and stock appreciation rights held by the Executive shall thereupon automatically vest and become immediately exercisable in accordance with their terms, and (ii) notwithstanding anything to the contrary contained in clause (i), upon a termination of employment (regardless of the party initiating the termination, for any reason or no reason), all stock options and stock appreciation rights held by the Executive shall be exercisable for the lesser of (A) the remainder of the generally applicable term of the stock options or stock appreciation rights, which is measured from the date of grant thereof, and (B) three years from the date of such termination; provided that nothing in this Section 2.1(a) shall reduce or otherwise adversely affect the rights under such stock options and stock appreciation rights that the Executive would have without regard to this Section 2.1(a); and

(b) any and all restricted stock and restricted stock rights then held by the Executive shall thereupon fully vest and become immediately transferable free of restrictions, other than restrictions imposed by applicable law.

2.2 If a Covered Termination occurs, then (subject to the provisions of Section 2.3(b)) the Executive shall be entitled hereunder to the following:

(a) the Company shall pay to the Executive an amount equal to the sum of (i) two times the Executive's Base Salary and (ii) the Executive's Annual Bonus, provided, however, that, in the event William Styslinger is or may become entitled to a payment under Section 2.2(a) of a Change-in-Control Agreement of even date herewith (the "Styslinger Agreement") with respect to the same Change-in-Control, the aggregate amount paid to the Executive under this subsection (a)(ii) shall not exceed the amount paid or which may be payable to Mr. Styslinger under subsection 2.2(a) of the Styslinger Agreement (calculated as of the Date of Termination) less the amount paid to the Executive pursuant to subsection 2.2(a)(i) hereof;

(b) for a period of two years after such termination, the Employer shall arrange to make available to the Executive medical, dental, group life and disability benefits that are at least at a level (and cost to the Executive) that is substantially similar in the aggregate to the level of such benefits which was available to the Executive immediately prior to the Change in Control; provided that (i) the Employer shall be required to provide group life and disability benefits only to the extent it is able to do so on reasonable terms and at a reasonable cost, (ii) the Employer shall not be required to provide benefits under this Section 2.2(b) upon and after the Change in Control which are in excess of those provided to a significant number of executives of similar

status who are employed by the Employer from time to time upon and after the Change in Control, and (iii) no type of benefit otherwise to be made available to the Executive pursuant to this Section 2.2(b) shall be required to be made available to the extent that such type of benefit is made available to the Executive by any subsequent employer of the Executive;

(c) the Employer shall provide the Executive with outplacement service through a bona fide outplacement organization reasonably acceptable to the Executive that agrees to supply the Executive with outplacement counseling, a private office and administrative support including telephone service until the earlier of one year from the Date of Termination or until such time that Executive secures employment;

(d) the Company shall pay for the Executive to receive financial planning services for which the Company pays not more than $5,000; and

(e) the Company shall provide the Executive with a payment for any accrued but unused vacation.

2.3 (a) The payments provided for in Section 2.2 shall (except as otherwise expressly provided therein or as provided in Section 2.3(b) or as otherwise expressly provided hereunder) be made as soon as practicable, but in no event later than 30 days, following the Date of Termination.

(b) Notwithstanding any other provision of this Agreement to the contrary, no payment or benefit otherwise provided for under or by virtue of the foregoing provisions of this Agreement shall be paid or otherwise made available unless and until the Employer shall have first received from the Executive (no later than 60 days after the Employer has provided to the Executive estimates relating to the payments to be made under this Agreement) a valid, binding and irrevocable general release, in form and substance reasonably acceptable to the Employer; provided that the Employer shall be permitted to defer any payment or benefit otherwise provided for in this Agreement to the fifth day after the later of its receipt of such release and the time at which the release has become valid, binding and irrevocable.

Section 3
PARACHUTE TAX PROVISIONS

3.1 If all, or any portion, of the payments and benefits provided under this Agreement, if any, either alone or together with other payments and benefits which the Executive receives or is entitled to receive from the Company or its affiliates, would constitute an excess “parachute payment” within the meaning of Section 280G of the Code (whether or not under an existing plan, arrangement or other agreement) (each such parachute payment, a “Parachute Payment”), and would result in the imposition on the Executive of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which the Executive is entitled under this Agreement or otherwise, the Executive shall be paid an amount in cash equal to the sum of the excise taxes payable by the Executive by reason of receiving Parachute Payments plus the amount necessary to place the Executive in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible

applicable rates on such Parachute Payments (including, without limitation, any payments under this Section 3.1)) as if no excise taxes had been imposed with respect to Parachute Payments (the "Parachute Gross-up"). Any Parachute Gross-up otherwise required by this Section 3.1 shall be made not later than the time of the corresponding payment or benefit hereunder giving rise to the underlying Section 4999 excise tax, even if the payment of the excise tax is not required under the Code until a later time.

3.2 Except as may otherwise be agreed to by the Company and the Executive, the amount or amounts (if any) payable under this Section 3 shall be determined, at the sole cost of the Company, by the Company's independent auditors (who served in such capacity immediately prior to the Change in Control), whose determination or determinations shall be final and binding on all parties. The Executive hereby agrees to utilize such determination or determinations, as applicable, in filing all of the Executive's tax returns with respect to the excise tax imposed by Section 4999 of the Code. If such independent auditors refuse to make the required determinations, then such determinations shall be made by a comparable independent accounting firm of national reputation reasonably selected by the Company. Notwithstanding any other provision of this Agreement to the contrary, as a condition to receiving any Parachute Gross-up payment, the Executive hereby agrees to be bound by and comply with the provisions of this Section 3.2.

Section 4
MISCELLANEOUS

4.1 (a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform under the terms of this Agreement in the same manner and to the same extent that the Company and its affiliates would be required to perform it if no such succession had taken place (provided that such a requirement to perform which arises by operation of law shall be deemed to satisfy the requirements for such an express assumption and agreement), and in such event the Company (as constituted prior to such succession) shall have no further obligation under or with respect to this Agreement. Failure of the Company to obtain such assumption and agreement with respect to the Executive prior to the effectiveness of any such succession shall be a breach of the terms of this Agreement with respect to the Executive and shall entitle the Executive to compensation from the Employer (as constituted prior to such succession) in the same amount and on the same terms as the Executive would be entitled to hereunder were the Executive's employment terminated for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business or assets as aforesaid which assumes and agrees (or is otherwise required) to perform this Agreement. Nothing in this Section 4.1(a) shall be deemed to cause any event or condition which would otherwise constitute a Change in Control not to constitute a Change in Control.

(b) Notwithstanding Section 4.1(a), the Company shall remain liable to the Executive upon a Covered Termination after a Change in Control if the Executive is not offered continuing employment by a successor to the Employer on a basis which would not constitute a termination for Good Reason.

(c) This Agreement, and the Executive's and the Company's rights and obligations hereunder, may not be assigned by the Executive or, except as provided in Section 4.1(a), the Company, respectively; any purported assignment by the Executive or the Company in violation hereof shall be null and void.

(d) The terms of this Agreement shall inure to the benefit of and be enforceable by the personal or legal representatives, executors, administrators, permitted successors, heirs, distributees, devisees and legatees of the Executive. If the Executive shall die while an amount would still be payable to the Executive hereunder if they had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee or other designee or, if there is no such designee, the Executive's estate.

4.2 Except as expressly provided in Section 2.2, the Executive shall not be required to mitigate damages or the amount of any payment or benefit provided for under this Agreement by seeking other employment or otherwise, nor will any payments or benefits hereunder be subject to offset in the event the Executive does mitigate.

4.3 The Employer shall pay all reasonable legal fees and expenses incurred in a legal proceeding by the Executive in seeking to obtain or enforce any right or benefit provided by this Agreement. Such payments are to be made within twenty days after the Executive's request for payment accompanied with such evidence of fees and expenses incurred as the Employer reasonably may require; provided that if the Executive institutes a proceeding and the judge or other decision-maker presiding over the proceeding affirmatively finds that the Executive has failed to prevail substantially, the Executive shall pay Executive's own costs and expenses (and, if applicable, return any amounts theretofore paid on the Executive's behalf under this Section 4.3).

4.4 For the purposes of this Agreement, notice and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered or mailed by United States certified or registered express mail, return receipt requested, postage prepaid, if to the Executive, addressed to the Executive at his or her respective address on file with the Company; if to the Company, addressed to SeaChange International, Inc., 124 Acton Street, Maynard, MA 01754, and directed to the attention of its Chief Financial Officer; if to the Board, addressed to the Board of Directors, c/o 124 Acton Street, Maynard, MA 01754, and directed to the Company's Chief Financial Officer; or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

4.5 Unless otherwise determined by the Employer in an applicable plan or arrangement, no amounts payable hereunder upon a Covered Termination shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Employer for the benefit of its employees.

4.6 This Agreement is the exclusive arrangement with the Executive applicable to payments and benefits in connection with a change in control of the Company (whether or not a Change in Control), and supersedes any prior arrangements involving the Company or its predecessors or affiliates relating to changes in control (whether or not Changes in Control). This Agreement shall not limit any right of the Executive to receive any payments or benefits under an employee benefit or executive compensation plan of the Employer, initially adopted as of or after the date hereof, which are expressly contingent thereunder upon the occurrence of a change in control (including, but not limited to, the acceleration of any rights or benefits thereunder); provided that in no event shall the Executive be entitled to any payment or benefit under this Agreement which duplicates a payment or benefit received or receivable by the Executive under any severance or similar plan or policy of the Employer, and in any such case the Executive shall only be entitled to receive the greater of the two payments.

4.7 Any payments hereunder shall be made out of the general assets of the Employer. The Executive shall have the status of general unsecured creditor of the Employer, and this Agreement constitutes a mere promise by the Employer to make payments under this Agreement in the future as and to the extent provided herein.

4.8 Nothing in this Agreement shall confer on the Executive any right to continue in the employ of the Employer or interfere in any way (other than by virtue of requiring payments or benefits as may expressly be provided herein) with the right of the Employer to terminate the Executive's employment at any time.

4.9 The Employer shall be entitled to withhold from any payments or deemed payments any amount of tax withholding required by law.

4.10 Any controversy or claim arising out of or relating to this Agreement or the breach of this Agreement that is not resolved by the Employer and the Executive shall be submitted to arbitration in Boston, Massachusetts, in accordance with Massachusetts law and the procedures of the American Arbitration Association. The determination of the arbitrator(s) shall be conclusive and binding on the Employer and Executive and judgment may be entered on the arbitrator(s)' award in any court having jurisdiction.

4.11 This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege nor any single or partial exercise of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

4.12 The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement which shall remain in full force and effect.

4.13 The use of captions in this Agreement is for convenience. The captions are not intended to and do not provide substantive rights.

4.14 THIS AGREEMENT SHALL BE CONSTRUED, ADMINISTERED AND ENFORCED ACCORDING TO THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have signed their names, effective as of the date first above written.

SEACHANGE INTERNATIONAL, INC.

By: /s/ William C. Styslinger, III

Name: William C. Styslinger, III
Title: President and Chief Executive Officer

/s/ William L. Fiedler

William L. Fiedler

Exhibit 10.2

CHANGE-IN-CONTROL
SEVERANCE AGREEMENT

THIS AGREEMENT, dated as of July 30, 2004, by and between SeaChange International, Inc., with its principal place of business at 124 Acton Street, Maynard, Massachusetts 01754 (the "Company"), and Ira Goldfarb (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel, and recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the distraction or departure of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board of Directors of the Company has determined that appropriate steps should be taken to reinforce and encourage the Executive's continued attention and dedication to the Executive's assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company, although no such change is presently known to be contemplated.

NOW THEREFORE, in consideration of the mutual covenants and agreements hereinafter contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1
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"Annual Bonus" shall mean the annual bonus, or if the Executive is paid a bonus on a quarterly basis, the sum of the four quarterly bonus payments, paid to the Executive for the Company's fiscal year immediately prior to the fiscal year in which the Date of Termination occurs, or, if greater, the fiscal year immediately preceding such prior fiscal year, as well as the lesser of (i) the aggregate amount of sales commissions, if any, paid to the Executive for the Company's fiscal year immediately prior to the fiscal year in which the Date of Termination occurs, or, if greater, the fiscal year immediately preceding such prior fiscal year, or (ii) the average annual amount of sales commissions, if any, paid to the Executive for the three fiscal years immediately prior to the fiscal year in which the Date of Termination occurs.

"Base Salary" shall mean the annual base rate of regular compensation of the Executive immediately before a Covered Termination, or if greater, the highest annual such rate at any time during the 12-month period immediately preceding the Covered Termination.

"Board" shall mean the Board of Directors of the Company.

"Cause" shall mean (i) the Executive's engaging in willful and repeated gross negligence or gross misconduct, (ii) the Executive's breaching of a material fiduciary duty to the Employer, or (iii) the Executive's being convicted of a felony, in either case, to the demonstrable and material injury to the Employer. For purposes hereof, no act, or failure to act, on the Executive's part, shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that any act or omission was in the best interest of the Employer.

"Change in Control" shall mean the first to occur, after the date hereof, of any of the following:

(i) the members of the Board at the beginning of any consecutive 24- calendar-month period (the "Incumbent Directors") cease for any reason other than due to death to constitute at least a majority of the members of the Board; provided that any director whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the members of the Board then still in office who were members of the Board at the beginning of such 24- calendar-month period, shall be deemed to be an Incumbent Director;

(ii) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, shares of Stock representing in the aggregate 50% or more of the combined voting power of the securities of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any);

(iii) there shall occur (A) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportion as their ownership of the Company immediately prior to such sale or (B) the approval by stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or

(iv) Any corporation or other legal person, pursuant to a tender offer, exchange offer, purchase of stock (whether in a market transaction or otherwise) or other transaction or event acquires securities representing 40% or more of the combined voting power of the voting securities of the Company, or there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the U.S. Securities Exchange Act, disclosing that any "person" (as such term is used in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act) has become the "beneficial owner" (as such term is used in Rule 13d-3 under the Securities Exchange Act) of securities representing 40% or more of the combined voting power of the voting securities of the Company.

Upon the occurrence of a Change in Control as provided above, no subsequent event or condition shall constitute a Change in Control for purposes of this Agreement, with the result that there can be no more than one Change in Control hereunder.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company" shall mean, subject to Section 4.1(a), SeaChange International, Inc., a Delaware corporation.

"Covered Termination" shall mean if, within the one-year period immediately following a Change in Control, the Executive (i) is terminated by the Employer without Cause (other than on account of death or Disability), or (ii) terminates the Executive's employment with the Employer for Good Reason. The Executive shall not be deemed to have terminated for purposes of this Agreement merely because he or she ceases to be employed by the Employer and becomes employed by a new employer involved in the Change in Control; provided that such new employer shall be bound by this Agreement as if it were the Employer hereunder with respect to the Executive. It is expressly understood that no Covered Termination shall be deemed to have occurred merely because, upon the occurrence of a Change in Control, the Executive ceases to be employed by the Employer and does not become employed by a successor to the Employer after the Change in Control if the successor makes an offer to employ the Executive on terms and conditions which, if imposed by the Employer, would not give the Executive a basis on which to terminate employment for Good Reason.

"Date of Termination" shall mean the date on which a Covered Termination occurs.

"Disability" shall mean the occurrence after a Change in Control of the incapacity of the Executive due to physical or mental illness, whereby the Executive shall have been absent from the full-time performance of the Executive's duties with the Employer for six consecutive months or, in any one year period, for an aggregate of six months.

"Employer" shall mean the Company (if and for so long as the Executive is employed thereby) and each Subsidiary which may now or hereafter employ the Executive or, where the context so requires, the Company and such Subsidiaries collectively. A subsidiary which ceases to be, directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the Company prior to a Change in Control (other than in connection with and as an integral part of a series of transactions resulting in a Change in Control) shall, automatically and without any further action, cease to be (or be part of) the Employer for purposes hereof.

"Good Reason" shall mean, without the express written consent of the Executive, the occurrence after a Change in Control of any of the following circumstances, unless such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(i) the material reduction of the Executive's title, or the reduction of the Executive's authority, duties or responsibilities, or the assignment to the Executive of any duties inconsistent with Executive's position, authority, duties or responsibilities from those in effect immediately prior to the Change in Control;

(ii) a reduction in the Executive's Base Salary as in effect immediately before the Change in Control;

(iii) a material reduction in the Executive's aggregate compensation opportunity, comprised only of the Executive's (A) Base Salary, and (B) bonus opportunity (taking into account, without limitation, any target, minimum and maximum amounts payable and the attainability and otherwise the reasonableness of any performance hurdles, goals and other measures), if any;

(iv) the Company's requiring the Executive to be based at any office or location more than 75 miles from that location at which the Executive performed Executive's services immediately prior to the occurrence of a Change in Control, except for travel reasonably required in the performance of the Executive's responsibilities;

(v) the failure of the Company to obtain a reasonable agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 4.1(a);

(vi) the failure of the Company to pay the Executive any amounts due hereunder; or

(vii) any other material breach by the Company of this Agreement.

"Notice of Termination" shall mean a notice given by the Employer or Executive, as applicable, which shall indicate the date of termination and the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provisions so indicated.

"Person" shall have the meaning ascribed thereto by Section 3(a)(9) of the Securities Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof (except that such term shall not include (i) the Company or any of its Subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, or (v) such Executive or any "group" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act) which includes the Executive).

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Stock" shall mean the common stock, $.01 par value, of the Company

"Subsidiary" shall mean any entity, directly or indirectly, through one or more intermediaries, controlled by the Company.

Section 2
BENEFITS

2.1 If a Change in Control occurs, then:

(a) (i) any and all outstanding unvested stock options and stock appreciation rights held by the Executive shall thereupon automatically vest and become immediately exercisable in accordance with their terms, and (ii) notwithstanding anything to the contrary contained in clause (i), upon a termination of employment (regardless of the party initiating the termination, for any reason or no reason), all stock options and stock appreciation rights held by the Executive shall be exercisable for the lesser of (A) the remainder of the generally applicable term of the stock options or stock appreciation rights, which is measured from the date of grant thereof, and (B) three years from the date of such termination; provided that nothing in this Section 2.1(a) shall reduce or otherwise adversely affect the rights under such stock options and stock appreciation rights that the Executive would have without regard to this Section 2.1(a); and

(b) any and all restricted stock and restricted stock rights then held by the Executive shall thereupon fully vest and become immediately transferable free of restrictions, other than restrictions imposed by applicable law.

2.2 If a Covered Termination occurs, then (subject to the provisions of Section 2.3(b)) the Executive shall be entitled hereunder to the following:

(a) the Company shall pay to the Executive an amount equal to the sum of (i) two times the Executive's Base Salary and (ii) the Executive's Annual Bonus, provided, however, that, in the event William Styslinger is or may become entitled to a payment under Section 2.2(a) of a Change-in-Control Agreement of even date herewith (the "Styslinger Agreement") with respect to the same Change-in-Control, the aggregate amount paid to the Executive under this subsection (a)(ii) shall not exceed the amount paid or which may be payable to Mr. Styslinger under subsection 2.2(a) of the Styslinger Agreement (calculated as of the Date of Termination) less the amount paid to the Executive pursuant to subsection 2.2(a)(i) hereof;

(b) for a period of two years after such termination, the Employer shall arrange to make available to the Executive medical, dental, group life and disability benefits that are at least at a level (and cost to the Executive) that is substantially similar in the aggregate to the level of such benefits which was available to the Executive immediately prior to the Change in Control; provided that (i) the Employer shall be required to provide group life and disability benefits only to the extent it is able to do so on reasonable terms and at a reasonable cost, (ii) the Employer shall not be required to provide benefits under this Section 2.2(b) upon and after the Change in Control which are in excess of those provided to a significant number of executives of similar

status who are employed by the Employer from time to time upon and after the Change in Control, and (iii) no type of benefit otherwise to be made available to the Executive pursuant to this Section 2.2(b) shall be required to be made available to the extent that such type of benefit is made available to the Executive by any subsequent employer of the Executive;

(c) the Employer shall provide the Executive with outplacement service through a bona fide outplacement organization reasonably acceptable to the Executive that agrees to supply the Executive with outplacement counseling, a private office and administrative support including telephone service until the earlier of one year from the Date of Termination or until such time that Executive secures employment;

(d) the Company shall pay for the Executive to receive financial planning services for which the Company pays not more than $5,000; and

(e) the Company shall provide the Executive with a payment for any accrued but unused vacation.

2.3 (a) The payments provided for in Section 2.2 shall (except as otherwise expressly provided therein or as provided in Section 2.3(b) or as otherwise expressly provided hereunder) be made as soon as practicable, but in no event later than 30 days, following the Date of Termination.

(b) Notwithstanding any other provision of this Agreement to the contrary, no payment or benefit otherwise provided for under or by virtue of the foregoing provisions of this Agreement shall be paid or otherwise made available unless and until the Employer shall have first received from the Executive (no later than 60 days after the Employer has provided to the Executive estimates relating to the payments to be made under this Agreement) a valid, binding and irrevocable general release, in form and substance reasonably acceptable to the Employer; provided that the Employer shall be permitted to defer any payment or benefit otherwise provided for in this Agreement to the fifth day after the later of its receipt of such release and the time at which the release has become valid, binding and irrevocable.

Section 3
PARACHUTE TAX PROVISIONS

3.1 If all, or any portion, of the payments and benefits provided under this Agreement, if any, either alone or together with other payments and benefits which the Executive receives or is entitled to receive from the Company or its affiliates, would constitute an excess “parachute payment” within the meaning of Section 280G of the Code (whether or not under an existing plan, arrangement or other agreement) (each such parachute payment, a “Parachute Payment”), and would result in the imposition on the Executive of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which the Executive is entitled under this Agreement or otherwise, the Executive shall be paid an amount in cash equal to the sum of the excise taxes payable by the Executive by reason of receiving Parachute Payments plus the amount necessary to place the Executive in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible

applicable rates on such Parachute Payments (including, without limitation, any payments under this Section 3.1)) as if no excise taxes had been imposed with respect to Parachute Payments (the "Parachute Gross-up"). Any Parachute Gross-up otherwise required by this Section 3.1 shall be made not later than the time of the corresponding payment or benefit hereunder giving rise to the underlying Section 4999 excise tax, even if the payment of the excise tax is not required under the Code until a later time.

3.2 Except as may otherwise be agreed to by the Company and the Executive, the amount or amounts (if any) payable under this Section 3 shall be determined, at the sole cost of the Company, by the Company's independent auditors (who served in such capacity immediately prior to the Change in Control), whose determination or determinations shall be final and binding on all parties. The Executive hereby agrees to utilize such determination or determinations, as applicable, in filing all of the Executive's tax returns with respect to the excise tax imposed by Section 4999 of the Code. If such independent auditors refuse to make the required determinations, then such determinations shall be made by a comparable independent accounting firm of national reputation reasonably selected by the Company. Notwithstanding any other provision of this Agreement to the contrary, as a condition to receiving any Parachute Gross-up payment, the Executive hereby agrees to be bound by and comply with the provisions of this Section 3.2.

Section 4
MISCELLANEOUS

4.1 (a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform under the terms of this Agreement in the same manner and to the same extent that the Company and its affiliates would be required to perform it if no such succession had taken place (provided that such a requirement to perform which arises by operation of law shall be deemed to satisfy the requirements for such an express assumption and agreement), and in such event the Company (as constituted prior to such succession) shall have no further obligation under or with respect to this Agreement. Failure of the Company to obtain such assumption and agreement with respect to the Executive prior to the effectiveness of any such succession shall be a breach of the terms of this Agreement with respect to the Executive and shall entitle the Executive to compensation from the Employer (as constituted prior to such succession) in the same amount and on the same terms as the Executive would be entitled to hereunder were the Executive's employment terminated for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business or assets as aforesaid which assumes and agrees (or is otherwise required) to perform this Agreement. Nothing in this Section 4.1(a) shall be deemed to cause any event or condition which would otherwise constitute a Change in Control not to constitute a Change in Control.

(b) Notwithstanding Section 4.1(a), the Company shall remain liable to the Executive upon a Covered Termination after a Change in Control if the Executive is not offered continuing employment by a successor to the Employer on a basis which would not constitute a termination for Good Reason.

(c) This Agreement, and the Executive's and the Company's rights and obligations hereunder, may not be assigned by the Executive or, except as provided in Section 4.1(a), the Company, respectively; any purported assignment by the Executive or the Company in violation hereof shall be null and void.

(d) The terms of this Agreement shall inure to the benefit of and be enforceable by the personal or legal representatives, executors, administrators, permitted successors, heirs, distributees, devisees and legatees of the Executive. If the Executive shall die while an amount would still be payable to the Executive hereunder if they had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee or other designee or, if there is no such designee, the Executive's estate.

4.2 Except as expressly provided in Section 2.2, the Executive shall not be required to mitigate damages or the amount of any payment or benefit provided for under this Agreement by seeking other employment or otherwise, nor will any payments or benefits hereunder be subject to offset in the event the Executive does mitigate.

4.3 The Employer shall pay all reasonable legal fees and expenses incurred in a legal proceeding by the Executive in seeking to obtain or enforce any right or benefit provided by this Agreement. Such payments are to be made within twenty days after the Executive's request for payment accompanied with such evidence of fees and expenses incurred as the Employer reasonably may require; provided that if the Executive institutes a proceeding and the judge or other decision-maker presiding over the proceeding affirmatively finds that the Executive has failed to prevail substantially, the Executive shall pay Executive's own costs and expenses (and, if applicable, return any amounts theretofore paid on the Executive's behalf under this Section 4.3).

4.4 For the purposes of this Agreement, notice and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered or mailed by United States certified or registered express mail, return receipt requested, postage prepaid, if to the Executive, addressed to the Executive at his or her respective address on file with the Company; if to the Company, addressed to SeaChange International, Inc., 124 Acton Street, Maynard, MA 01754, and directed to the attention of its Chief Financial Officer; if to the Board, addressed to the Board of Directors, c/o 124 Acton Street, Maynard, MA 01754, and directed to the Company's Chief Financial Officer; or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

4.5 Unless otherwise determined by the Employer in an applicable plan or arrangement, no amounts payable hereunder upon a Covered Termination shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Employer for the benefit of its employees.

4.6 This Agreement is the exclusive arrangement with the Executive applicable to payments and benefits in connection with a change in control of the Company (whether or not a Change in Control), and supersedes any prior arrangements involving the Company or its predecessors or affiliates relating to changes in control (whether or not Changes in Control). This Agreement shall not limit any right of the Executive to receive any payments or benefits under an employee benefit or executive compensation plan of the Employer, initially adopted as of or after the date hereof, which are expressly contingent thereunder upon the occurrence of a change in control (including, but not limited to, the acceleration of any rights or benefits thereunder); provided that in no event shall the Executive be entitled to any payment or benefit under this Agreement which duplicates a payment or benefit received or receivable by the Executive under any severance or similar plan or policy of the Employer, and in any such case the Executive shall only be entitled to receive the greater of the two payments.

4.7 Any payments hereunder shall be made out of the general assets of the Employer. The Executive shall have the status of general unsecured creditor of the Employer, and this Agreement constitutes a mere promise by the Employer to make payments under this Agreement in the future as and to the extent provided herein.

4.8 Nothing in this Agreement shall confer on the Executive any right to continue in the employ of the Employer or interfere in any way (other than by virtue of requiring payments or benefits as may expressly be provided herein) with the right of the Employer to terminate the Executive's employment at any time.

4.9 The Employer shall be entitled to withhold from any payments or deemed payments any amount of tax withholding required by law.

4.10 Any controversy or claim arising out of or relating to this Agreement or the breach of this Agreement that is not resolved by the Employer and the Executive shall be submitted to arbitration in Boston, Massachusetts, in accordance with Massachusetts law and the procedures of the American Arbitration Association. The determination of the arbitrator(s) shall be conclusive and binding on the Employer and Executive and judgment may be entered on the arbitrator(s)' award in any court having jurisdiction.

4.11 This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege nor any single or partial exercise of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

4.12 The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement which shall remain in full force and effect.

4.13 The use of captions in this Agreement is for convenience. The captions are not intended to and do not provide substantive rights.

4.14 THIS AGREEMENT SHALL BE CONSTRUED, ADMINISTERED AND ENFORCED ACCORDING TO THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have signed their names, effective as of the date first above written.

SEACHANGE INTERNATIONAL, INC.

By: /s/ William C. Styslinger, III

Name: William C. Syslinger, III
Title: President and Chief Executive Officer

/s/ Ira Goldfarb

Ira Goldfarb

Exhibit 10.3

CHANGE-IN-CONTROL
SEVERANCE AGREEMENT

THIS AGREEMENT, dated as of July 30, 2004, by and between SeaChange International, Inc., with its principal place of business at 124 Acton Street, Maynard, Massachusetts 01754 (the "Company"), and Bruce E. Mann (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel, and recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the distraction or departure of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board of Directors of the Company has determined that appropriate steps should be taken to reinforce and encourage the Executive's continued attention and dedication to the Executive's assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company, although no such change is presently known to be contemplated.

NOW THEREFORE, in consideration of the mutual covenants and agreements hereinafter contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1
DEFINITIONS

Except as may otherwise be specified or as the context may otherwise require, the following terms shall have the respective meanings set forth below whenever used herein:

"Annual Bonus" shall mean the annual bonus, or if the Executive is paid a bonus on a quarterly basis, the sum of the four quarterly bonus payments, paid to the Executive for the Company's fiscal year immediately prior to the fiscal year in which the Date of Termination occurs, or, if greater, the fiscal year immediately preceding such prior fiscal year, as well as the lesser of (i) the aggregate amount of sales commissions, if any, paid to the Executive for the Company's fiscal year immediately prior to the fiscal year in which the Date of Termination occurs, or, if greater, the fiscal year immediately preceding such prior fiscal year, or (ii) the average annual amount of sales commissions, if any, paid to the Executive for the three fiscal years immediately prior to the fiscal year in which the Date of Termination occurs.

"Base Salary" shall mean the annual base rate of regular compensation of the Executive immediately before a Covered Termination, or if greater, the highest annual such rate at any time during the 12-month period immediately preceding the Covered Termination.

"Board" shall mean the Board of Directors of the Company.

"Cause" shall mean (i) the Executive's engaging in willful and repeated gross negligence or gross misconduct, (ii) the Executive's breaching of a material fiduciary duty to the Employer, or (iii) the Executive's being convicted of a felony, in either case, to the demonstrable and material injury to the Employer. For purposes hereof, no act, or failure to act, on the Executive's part, shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that any act or omission was in the best interest of the Employer.

"Change in Control" shall mean the first to occur, after the date hereof, of any of the following:

(i) the members of the Board at the beginning of any consecutive 24- calendar-month period (the "Incumbent Directors") cease for any reason other than due to death to constitute at least a majority of the members of the Board; provided that any director whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the members of the Board then still in office who were members of the Board at the beginning of such 24- calendar-month period, shall be deemed to be an Incumbent Director;

(ii) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, shares of Stock representing in the aggregate 50% or more of the combined voting power of the securities of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any);

(iii) there shall occur (A) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportion as their ownership of the Company immediately prior to such sale or (B) the approval by stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or

(iv) Any corporation or other legal person, pursuant to a tender offer, exchange offer, purchase of stock (whether in a market transaction or otherwise) or other transaction or event acquires securities representing 40% or more of the combined voting power of the voting securities of the Company, or there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the U.S. Securities Exchange Act, disclosing that any "person" (as such term is used in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act) has become the "beneficial owner" (as such term is used in Rule 13d-3 under the Securities Exchange Act) of securities representing 40% or more of the combined voting power of the voting securities of the Company.

Upon the occurrence of a Change in Control as provided above, no subsequent event or condition shall constitute a Change in Control for purposes of this Agreement, with the result that there can be no more than one Change in Control hereunder.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company" shall mean, subject to Section 4.1(a), SeaChange International, Inc., a Delaware corporation.

"Covered Termination" shall mean if, within the one-year period immediately following a Change in Control, the Executive (i) is terminated by the Employer without Cause (other than on account of death or Disability), or (ii) terminates the Executive's employment with the Employer for Good Reason. The Executive shall not be deemed to have terminated for purposes of this Agreement merely because he or she ceases to be employed by the Employer and becomes employed by a new employer involved in the Change in Control; provided that such new employer shall be bound by this Agreement as if it were the Employer hereunder with respect to the Executive. It is expressly understood that no Covered Termination shall be deemed to have occurred merely because, upon the occurrence of a Change in Control, the Executive ceases to be employed by the Employer and does not become employed by a successor to the Employer after the Change in Control if the successor makes an offer to employ the Executive on terms and conditions which, if imposed by the Employer, would not give the Executive a basis on which to terminate employment for Good Reason.

"Date of Termination" shall mean the date on which a Covered Termination occurs.

"Disability" shall mean the occurrence after a Change in Control of the incapacity of the Executive due to physical or mental illness, whereby the Executive shall have been absent from the full-time performance of the Executive's duties with the Employer for six consecutive months or, in any one year period, for an aggregate of six months.

"Employer" shall mean the Company (if and for so long as the Executive is employed thereby) and each Subsidiary which may now or hereafter employ the Executive or, where the context so requires, the Company and such Subsidiaries collectively. A subsidiary which ceases to be, directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the Company prior to a Change in Control (other than in connection with and as an integral part of a series of transactions resulting in a Change in Control) shall, automatically and without any further action, cease to be (or be part of) the Employer for purposes hereof.

"Good Reason" shall mean, without the express written consent of the Executive, the occurrence after a Change in Control of any of the following circumstances, unless such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(i) the material reduction of the Executive's title, or the reduction of the Executive's authority, duties or responsibilities, or the assignment to the Executive of any duties inconsistent with Executive's position, authority, duties or responsibilities from those in effect immediately prior to the Change in Control;

(ii) a reduction in the Executive's Base Salary as in effect immediately before the Change in Control;

(iii) a material reduction in the Executive's aggregate compensation opportunity, comprised only of the Executive's (A) Base Salary, and (B) bonus opportunity (taking into account, without limitation, any target, minimum and maximum amounts payable and the attainability and otherwise the reasonableness of any performance hurdles, goals and other measures), if any;

(iv) the Company's requiring the Executive to be based at any office or location more than 75 miles from that location at which the Executive performed Executive's services immediately prior to the occurrence of a Change in Control, except for travel reasonably required in the performance of the Executive's responsibilities;

(v) the failure of the Company to obtain a reasonable agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 4.1(a);

(vi) the failure of the Company to pay the Executive any amounts due hereunder; or

(vii) any other material breach by the Company of this Agreement.

"Notice of Termination" shall mean a notice given by the Employer or Executive, as applicable, which shall indicate the date of termination and the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provisions so indicated.

"Person" shall have the meaning ascribed thereto by Section 3(a)(9) of the Securities Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof (except that such term shall not include (i) the Company or any of its Subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, or (v) such Executive or any "group" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act) which includes the Executive).

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Stock" shall mean the common stock, $.01 par value, of the Company

"Subsidiary" shall mean any entity, directly or indirectly, through one or more intermediaries, controlled by the Company.

Section 2
BENEFITS

2.1 If a Change in Control occurs, then:

(a) (i) any and all outstanding unvested stock options and stock appreciation rights held by the Executive shall thereupon automatically vest and become immediately exercisable in accordance with their terms, and (ii) notwithstanding anything to the contrary contained in clause (i), upon a termination of employment (regardless of the party initiating the termination, for any reason or no reason), all stock options and stock appreciation rights held by the Executive shall be exercisable for the lesser of (A) the remainder of the generally applicable term of the stock options or stock appreciation rights, which is measured from the date of grant thereof, and (B) three years from the date of such termination; provided that nothing in this Section 2.1(a) shall reduce or otherwise adversely affect the rights under such stock options and stock appreciation rights that the Executive would have without regard to this Section 2.1(a); and

(b) any and all restricted stock and restricted stock rights then held by the Executive shall thereupon fully vest and become immediately transferable free of restrictions, other than restrictions imposed by applicable law.

2.2 If a Covered Termination occurs, then (subject to the provisions of Section 2.3(b)) the Executive shall be entitled hereunder to the following:

(a) the Company shall pay to the Executive an amount equal to the sum of (i) two times the Executive's Base Salary and (ii) the Executive's Annual Bonus, provided, however, that, in the event William Styslinger is or may become entitled to a payment under Section 2.2(a) of a Change-in-Control Agreement of even date herewith (the "Styslinger Agreement") with respect to the same Change-in-Control, the aggregate amount paid to the Executive under this subsection (a)(ii) shall not exceed the amount paid or which may be payable to Mr. Styslinger under subsection 2.2(a) of the Styslinger Agreement (calculated as of the Date of Termination) less the amount paid to the Executive pursuant to subsection 2.2(a)(i) hereof;

(b) for a period of two years after such termination, the Employer shall arrange to make available to the Executive medical, dental, group life and disability benefits that are at least at a level (and cost to the Executive) that is substantially similar in the aggregate to the level of such benefits which was available to the Executive immediately prior to the Change in Control; provided that (i) the Employer shall be required to provide group life and disability benefits only to the extent it is able to do so on reasonable terms and at a reasonable cost, (ii) the Employer shall not be required to provide benefits under this Section 2.2(b) upon and after the Change in Control which are in excess of those provided to a significant number of executives of similar

status who are employed by the Employer from time to time upon and after the Change in Control, and (iii) no type of benefit otherwise to be made available to the Executive pursuant to this Section 2.2(b) shall be required to be made available to the extent that such type of benefit is made available to the Executive by any subsequent employer of the Executive;

(c) the Employer shall provide the Executive with outplacement service through a bona fide outplacement organization reasonably acceptable to the Executive that agrees to supply the Executive with outplacement counseling, a private office and administrative support including telephone service until the earlier of one year from the Date of Termination or until such time that Executive secures employment;

(d) the Company shall pay for the Executive to receive financial planning services for which the Company pays not more than $5,000; and

(e) the Company shall provide the Executive with a payment for any accrued but unused vacation.

2.3 (a) The payments provided for in Section 2.2 shall (except as otherwise expressly provided therein or as provided in Section 2.3(b) or as otherwise expressly provided hereunder) be made as soon as practicable, but in no event later than 30 days, following the Date of Termination.

(b) Notwithstanding any other provision of this Agreement to the contrary, no payment or benefit otherwise provided for under or by virtue of the foregoing provisions of this Agreement shall be paid or otherwise made available unless and until the Employer shall have first received from the Executive (no later than 60 days after the Employer has provided to the Executive estimates relating to the payments to be made under this Agreement) a valid, binding and irrevocable general release, in form and substance reasonably acceptable to the Employer; provided that the Employer shall be permitted to defer any payment or benefit otherwise provided for in this Agreement to the fifth day after the later of its receipt of such release and the time at which the release has become valid, binding and irrevocable.

Section 3
PARACHUTE TAX PROVISIONS

3.1 If all, or any portion, of the payments and benefits provided under this Agreement, if any, either alone or together with other payments and benefits which the Executive receives or is entitled to receive from the Company or its affiliates, would constitute an excess “parachute payment” within the meaning of Section 280G of the Code (whether or not under an existing plan, arrangement or other agreement) (each such parachute payment, a “Parachute Payment”), and would result in the imposition on the Executive of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which the Executive is entitled under this Agreement or otherwise, the Executive shall be paid an amount in cash equal to the sum of the excise taxes payable by the Executive by reason of receiving Parachute Payments plus the amount necessary to place the Executive in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible

applicable rates on such Parachute Payments (including, without limitation, any payments under this Section 3.1)) as if no excise taxes had been imposed with respect to Parachute Payments (the "Parachute Gross-up"). Any Parachute Gross-up otherwise required by this Section 3.1 shall be made not later than the time of the corresponding payment or benefit hereunder giving rise to the underlying Section 4999 excise tax, even if the payment of the excise tax is not required under the Code until a later time.

3.2 Except as may otherwise be agreed to by the Company and the Executive, the amount or amounts (if any) payable under this Section 3 shall be determined, at the sole cost of the Company, by the Company's independent auditors (who served in such capacity immediately prior to the Change in Control), whose determination or determinations shall be final and binding on all parties. The Executive hereby agrees to utilize such determination or determinations, as applicable, in filing all of the Executive's tax returns with respect to the excise tax imposed by Section 4999 of the Code. If such independent auditors refuse to make the required determinations, then such determinations shall be made by a comparable independent accounting firm of national reputation reasonably selected by the Company. Notwithstanding any other provision of this Agreement to the contrary, as a condition to receiving any Parachute Gross-up payment, the Executive hereby agrees to be bound by and comply with the provisions of this Section 3.2.

Section 4
MISCELLANEOUS

4.1 (a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform under the terms of this Agreement in the same manner and to the same extent that the Company and its affiliates would be required to perform it if no such succession had taken place (provided that such a requirement to perform which arises by operation of law shall be deemed to satisfy the requirements for such an express assumption and agreement), and in such event the Company (as constituted prior to such succession) shall have no further obligation under or with respect to this Agreement. Failure of the Company to obtain such assumption and agreement with respect to the Executive prior to the effectiveness of any such succession shall be a breach of the terms of this Agreement with respect to the Executive and shall entitle the Executive to compensation from the Employer (as constituted prior to such succession) in the same amount and on the same terms as the Executive would be entitled to hereunder were the Executive's employment terminated for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business or assets as aforesaid which assumes and agrees (or is otherwise required) to perform this Agreement. Nothing in this Section 4.1(a) shall be deemed to cause any event or condition which would otherwise constitute a Change in Control not to constitute a Change in Control.

(b) Notwithstanding Section 4.1(a), the Company shall remain liable to the Executive upon a Covered Termination after a Change in Control if the Executive is not offered continuing employment by a successor to the Employer on a basis which would not constitute a termination for Good Reason.

(c) This Agreement, and the Executive's and the Company's rights and obligations hereunder, may not be assigned by the Executive or, except as provided in Section 4.1(a), the Company, respectively; any purported assignment by the Executive or the Company in violation hereof shall be null and void.

(d) The terms of this Agreement shall inure to the benefit of and be enforceable by the personal or legal representatives, executors, administrators, permitted successors, heirs, distributees, devisees and legatees of the Executive. If the Executive shall die while an amount would still be payable to the Executive hereunder if they had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee or other designee or, if there is no such designee, the Executive's estate.

4.2 Except as expressly provided in Section 2.2, the Executive shall not be required to mitigate damages or the amount of any payment or benefit provided for under this Agreement by seeking other employment or otherwise, nor will any payments or benefits hereunder be subject to offset in the event the Executive does mitigate.

4.3 The Employer shall pay all reasonable legal fees and expenses incurred in a legal proceeding by the Executive in seeking to obtain or enforce any right or benefit provided by this Agreement. Such payments are to be made within twenty days after the Executive's request for payment accompanied with such evidence of fees and expenses incurred as the Employer reasonably may require; provided that if the Executive institutes a proceeding and the judge or other decision-maker presiding over the proceeding affirmatively finds that the Executive has failed to prevail substantially, the Executive shall pay Executive's own costs and expenses (and, if applicable, return any amounts theretofore paid on the Executive's behalf under this Section 4.3).

4.4 For the purposes of this Agreement, notice and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered or mailed by United States certified or registered express mail, return receipt requested, postage prepaid, if to the Executive, addressed to the Executive at his or her respective address on file with the Company; if to the Company, addressed to SeaChange International, Inc., 124 Acton Street, Maynard, MA 01754, and directed to the attention of its Chief Financial Officer; if to the Board, addressed to the Board of Directors, c/o 124 Acton Street, Maynard, MA 01754, and directed to the Company's Chief Financial Officer; or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

4.5 Unless otherwise determined by the Employer in an applicable plan or arrangement, no amounts payable hereunder upon a Covered Termination shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Employer for the benefit of its employees.

4.6 This Agreement is the exclusive arrangement with the Executive applicable to payments and benefits in connection with a change in control of the Company (whether or not a Change in Control), and supersedes any prior arrangements involving the Company or its predecessors or affiliates relating to changes in control (whether or not Changes in Control). This Agreement shall not limit any right of the Executive to receive any payments or benefits under an employee benefit or executive compensation plan of the Employer, initially adopted as of or after the date hereof, which are expressly contingent thereunder upon the occurrence of a change in control (including, but not limited to, the acceleration of any rights or benefits thereunder); provided that in no event shall the Executive be entitled to any payment or benefit under this Agreement which duplicates a payment or benefit received or receivable by the Executive under any severance or similar plan or policy of the Employer, and in any such case the Executive shall only be entitled to receive the greater of the two payments.

4.7 Any payments hereunder shall be made out of the general assets of the Employer. The Executive shall have the status of general unsecured creditor of the Employer, and this Agreement constitutes a mere promise by the Employer to make payments under this Agreement in the future as and to the extent provided herein.

4.8 Nothing in this Agreement shall confer on the Executive any right to continue in the employ of the Employer or interfere in any way (other than by virtue of requiring payments or benefits as may expressly be provided herein) with the right of the Employer to terminate the Executive's employment at any time.

4.9 The Employer shall be entitled to withhold from any payments or deemed payments any amount of tax withholding required by law.

4.10 Any controversy or claim arising out of or relating to this Agreement or the breach of this Agreement that is not resolved by the Employer and the Executive shall be submitted to arbitration in Boston, Massachusetts, in accordance with Massachusetts law and the procedures of the American Arbitration Association. The determination of the arbitrator(s) shall be conclusive and binding on the Employer and Executive and judgment may be entered on the arbitrator(s)' award in any court having jurisdiction.

4.11 This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege nor any single or partial exercise of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

4.12 The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement which shall remain in full force and effect.

4.13 The use of captions in this Agreement is for convenience. The captions are not intended to and do not provide substantive rights.

4.14 THIS AGREEMENT SHALL BE CONSTRUED, ADMINISTERED AND ENFORCED ACCORDING TO THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have signed their names, effective as of the date first above written.

SEACHANGE INTERNATIONAL, INC.

By: /s/ William C. Styslinger, III

Name: William C. Styslinger, III
Title: President and Chief Executive Officer

/s/ Bruce E. Mann

Bruce E. Mann

Exhibit 10.4

CHANGE-IN-CONTROL
SEVERANCE AGREEMENT

THIS AGREEMENT, dated as of July 30, 2004, by and between SeaChange International, Inc., with its principal place of business at 124 Acton Street, Maynard, Massachusetts 01754 (the "Company"), and William Styslinger (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel, and recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the distraction or departure of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board of Directors of the Company has determined that appropriate steps should be taken to reinforce and encourage the Executive's continued attention and dedication to the Executive's assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company, although no such change is presently known to be contemplated.

NOW THEREFORE, in consideration of the mutual covenants and agreements hereinafter contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1
DEFINITIONS

Except as may otherwise be specified or as the context may otherwise require, the following terms shall have the respective meanings set forth below whenever used herein:

"Annual Bonus" shall mean the annual bonus, or if the Executive is paid a bonus on a quarterly basis, the sum of the four quarterly bonus payments, paid to the Executive for the Company's fiscal year immediately prior to the fiscal year in which the Date of Termination occurs, or, if greater, the fiscal year immediately preceding such prior fiscal year.

"Base Salary" shall mean the annual base rate of regular compensation of the Executive immediately before a Covered Termination, or if greater, the highest annual such rate at any time during the 12-month period immediately preceding the Covered Termination.

"Board" shall mean the Board of Directors of the Company.

"Cause" shall mean (i) the Executive's engaging in willful and repeated gross negligence or gross misconduct, (ii) the Executive's breaching of a material fiduciary duty to the Employer, or (iii) the Executive's being convicted of a felony, in either case, to the demonstrable and material injury to the Employer. For purposes hereof, no act, or failure to act, on the Executive's part, shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that any act or omission was in the best interest of the Employer.

“Change in Control” shall mean the first to occur, after the date hereof, of any of the following:

(i) the members of the Board at the beginning of any consecutive 24- calendar-month period (the “Incumbent Directors”) cease for any reason other than due to death to constitute at least a majority of the members of the Board; provided that any director whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the members of the Board then still in office who were members of the Board at the beginning of such 24- calendar-month period, shall be deemed to be an Incumbent Director;

(ii) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Securities Exchange Act), directly or indirectly, shares of Stock representing in the aggregate 50% or more of the combined voting power of the securities of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any);

(iii) there shall occur (A) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company, other than a sale or disposition by the Company of all or substantially all of the Company’s assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportion as their ownership of the Company immediately prior to such sale or (B) the approval by stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or

(iv) Any corporation or other legal person, pursuant to a tender offer, exchange offer, purchase of stock (whether in a market transaction or otherwise) or other transaction or event acquires securities representing 40% or more of the combined voting power of the voting securities of the Company, or there is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the U.S. Securities Exchange Act, disclosing that any “person” (as such term is used in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act) has become the “beneficial owner” (as such term is used in Rule 13d-3 under the Securities Exchange Act) of securities representing 40% or more of the combined voting power of the voting securities of the Company.

Upon the occurrence of a Change in Control as provided above, no subsequent event or condition shall constitute a Change in Control for purposes of this Agreement, with the result that there can be no more than one Change in Control hereunder.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company" shall mean, subject to Section 4.1(a), SeaChange International, Inc., a Delaware corporation.

"Covered Termination" shall mean if, within the one-year period immediately following a Change in Control, the Executive (i) is terminated by the Employer without Cause (other than on account of death or Disability), or (ii) terminates the Executive's employment with the Employer for Good Reason. The Executive shall not be deemed to have terminated for purposes of this Agreement merely because he or she ceases to be employed by the Employer and becomes employed by a new employer involved in the Change in Control; provided that such new employer shall be bound by this Agreement as if it were the Employer hereunder with respect to the Executive. It is expressly understood that no Covered Termination shall be deemed to have occurred merely because, upon the occurrence of a Change in Control, the Executive ceases to be employed by the Employer and does not become employed by a successor to the Employer after the Change in Control if the successor makes an offer to employ the Executive on terms and conditions which, if imposed by the Employer, would not give the Executive a basis on which to terminate employment for Good Reason.

"Date of Termination" shall mean the date on which a Covered Termination occurs.

"Disability" shall mean the occurrence after a Change in Control of the incapacity of the Executive due to physical or mental illness, whereby the Executive shall have been absent from the full-time performance of the Executive's duties with the Employer for six consecutive months or, in any one year period, for an aggregate of six months.

"Employer" shall mean the Company (if and for so long as the Executive is employed thereby) and each Subsidiary which may now or hereafter employ the Executive or, where the context so requires, the Company and such Subsidiaries collectively. A subsidiary which ceases to be, directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the Company prior to a Change in Control (other than in connection with and as an integral part of a series of transactions resulting in a Change in Control) shall, automatically and without any further action, cease to be (or be part of) the Employer for purposes hereof.

"Good Reason" shall mean, without the express written consent of the Executive, the occurrence after a Change in Control of any of the following circumstances, unless such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(i) the material reduction of the Executive's title, or the reduction of the Executive's authority, duties or responsibilities, or the assignment to the Executive of any duties inconsistent with Executive's position, authority, duties or responsibilities from those in effect immediately prior to the Change in Control;

(ii) a reduction in the Executive’s Base Salary as in effect immediately before the Change in Control;

(iii) a material reduction in the Executive’s aggregate compensation opportunity, comprised only of the Executive’s (A) Base Salary, and (B) bonus opportunity (taking into account, without limitation, any target, minimum and maximum amounts payable and the attainability and otherwise the reasonableness of any performance hurdles, goals and other measures), if any;

(iv) the Company’s requiring the Executive to be based at any office or location more than 75 miles from that location at which the Executive performed Executive’s services immediately prior to the occurrence of a Change in Control, except for travel reasonably required in the performance of the Executive’s responsibilities;

(v) the failure of the Company to obtain a reasonable agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 4.1(a);

(vi) the failure of the Company to pay the Executive any amounts due hereunder; or

(vii) any other material breach by the Company of this Agreement.

“Notice of Termination” shall mean a notice given by the Employer or Executive, as applicable, which shall indicate the date of termination and the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provisions so indicated.

“Person” shall have the meaning ascribed thereto by Section 3(a)(9) of the Securities Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof (except that such term shall not include (i) the Company or any of its Subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, or (v) such Executive or any "group" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act) which includes the Executive).

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Stock" shall mean the common stock, $.01 par value, of the Company

"Subsidiary" shall mean any entity, directly or indirectly, through one or more intermediaries, controlled by the Company.

Section 2
BENEFITS

2.1 If a Change in Control occurs, then:

(a) (i) any and all outstanding unvested stock options and stock appreciation rights held by the Executive shall thereupon automatically vest and become immediately exercisable in accordance with their terms, and (ii) notwithstanding anything to the contrary contained in clause (i), upon a termination of employment (regardless of the party initiating the termination, for any reason or no reason), all stock options and stock appreciation rights held by the Executive shall be exercisable for the lesser of (A) the remainder of the generally applicable term of the stock options or stock appreciation rights, which is measured from the date of grant thereof, and (B) three years from the date of such termination; provided that nothing in this Section 2.1(a) shall reduce or otherwise adversely affect the rights under such stock options and stock appreciation rights that the Executive would have without regard to this Section 2.1(a); and

(b) any and all restricted stock and restricted stock rights then held by the Executive shall thereupon fully vest and become immediately transferable free of restrictions, other than restrictions imposed by applicable law.

2.2 If a Covered Termination occurs, then (subject to the provisions of Section 2.3(b)) the Executive shall be entitled hereunder to the following:

(a) the Company shall pay to the Executive an amount equal to the sum of (i) two times the Executive's Base Salary and (ii) the Executive's Annual Bonus;

(b) for a period of two years after such termination, the Employer shall arrange to make available to the Executive medical, dental, group life and disability benefits that are at least at a level (and cost to the Executive) that is substantially similar in the aggregate to the level of such benefits which was available to the Executive immediately prior to the Change in Control;

provided that (i) the Employer shall be required to provide group life and disability benefits only to the extent it is able to do so on reasonable terms and at a reasonable cost, (ii) the Employer shall not be required to provide benefits under this Section 2.2(b) upon and after the Change in Control which are in excess of those provided to a significant number of executives of similar status who are employed by the Employer from time to time upon and after the Change in Control, and (iii) no type of benefit otherwise to be made available to the Executive pursuant to this Section 2.2(b) shall be required to be made available to the extent that such type of benefit is made available to the Executive by any subsequent employer of the Executive;

(c) the Employer shall provide the Executive with outplacement service through a bona fide outplacement organization reasonably acceptable to the Executive that agrees to supply the Executive with outplacement counseling, a private office and administrative support including telephone service until the earlier of one year from the Date of Termination or until such time that Executive secures employment;

(d) the Company shall pay for the Executive to receive financial planning services for which the Company pays not more than $5,000; and

(e) the Company shall provide the Executive with a payment for any accrued but unused vacation.

2.3 (a) The payments provided for in Section 2.2 shall (except as otherwise expressly provided therein or as provided in Section 2.3(b) or as otherwise expressly provided hereunder) be made as soon as practicable, but in no event later than 30 days, following the Date of Termination.

(b) Notwithstanding any other provision of this Agreement to the contrary, no payment or benefit otherwise provided for under or by virtue of the foregoing provisions of this Agreement shall be paid or otherwise made available unless and until the Employer shall have first received from the Executive (no later than 60 days after the Employer has provided to the Executive estimates relating to the payments to be made under this Agreement) a valid, binding and irrevocable general release, in form and substance reasonably acceptable to the Employer; provided that the Employer shall be permitted to defer any payment or benefit otherwise provided for in this Agreement to the fifth day after the later of its receipt of such release and the time at which the release has become valid, binding and irrevocable.

Section 3
PARACHUTE TAX PROVISIONS

3.1 If all, or any portion, of the payments and benefits provided under this Agreement, if any, either alone or together with other payments and benefits which the Executive receives or is entitled to receive from the Company or its affiliates, would constitute an excess “parachute payment” within the meaning of Section 280G of the Code (whether or not under an existing plan, arrangement or other agreement) (each such parachute payment, a “Parachute Payment”), and would result in the imposition on the Executive of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which the Executive is entitled under this Agreement or otherwise, the Executive shall be paid an amount in cash equal to the sum of the excise taxes payable by the Executive by reason of receiving Parachute Payments plus the amount necessary to place the Executive in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible applicable rates on such Parachute Payments (including, without limitation, any payments under this Section 3.1)) as if no excise taxes had been imposed with respect to Parachute Payments (the “Parachute Gross-up”). Any Parachute Gross-up otherwise required by this Section 3.1 shall be made not later than the time of the corresponding payment or benefit hereunder giving rise to the underlying Section 4999 excise tax, even if the payment of the excise tax is not required under the Code until a later time.

3.2 Except as may otherwise be agreed to by the Company and the Executive, the amount or amounts (if any) payable under this Section 3 shall be determined, at the sole cost of the Company, by the Company’s independent auditors (who served in such capacity immediately prior to the Change in Control), whose determination or determinations shall be final and binding on all parties. The Executive hereby agrees to utilize such determination or determinations, as applicable, in filing all of the Executive’s tax returns with respect to the excise tax imposed by Section 4999 of the Code. If such independent auditors refuse to make the required determinations, then such determinations shall be made by a comparable independent accounting firm of national reputation reasonably selected by the Company. Notwithstanding any other provision of this Agreement to the contrary, as a condition to receiving any Parachute Gross-up payment, the Executive hereby agrees to be bound by and comply with the provisions of this Section 3.2.

Section 4
MISCELLANEOUS

4.1 (a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform under the terms of this Agreement in the same manner and to the same extent that the Company and its affiliates would be required to perform it if no such succession had taken place (provided that such a requirement to perform which arises by operation of law shall be deemed to satisfy the requirements for such an express assumption and agreement), and in such event the Company (as constituted prior to such succession) shall have no further obligation under or with respect to this Agreement. Failure of the Company to obtain such assumption and agreement with respect to the Executive prior to the effectiveness of any such succession shall be a breach of the terms of this Agreement with respect to the Executive and shall entitle the Executive to compensation from the Employer (as constituted prior to such succession) in the same amount and on the same terms as the Executive would be entitled to hereunder were the Executive's employment terminated for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business or assets as aforesaid which assumes and agrees (or is otherwise required) to perform this Agreement. Nothing in this Section 4.1(a) shall be deemed to cause any event or condition which would otherwise constitute a Change in Control not to constitute a Change in Control.

(b) Notwithstanding Section 4.1(a), the Company shall remain liable to the Executive upon a Covered Termination after a Change in Control if the Executive is not offered continuing employment by a successor to the Employer on a basis which would not constitute a termination for Good Reason.

(c) This Agreement, and the Executive's and the Company's rights and obligations hereunder, may not be assigned by the Executive or, except as provided in Section 4.1(a), the Company, respectively; any purported assignment by the Executive or the Company in violation hereof shall be null and void.

(d) The terms of this Agreement shall inure to the benefit of and be enforceable by the personal or legal representatives, executors, administrators, permitted successors, heirs, distributees, devisees and legatees of the Executive. If the Executive shall die while an amount would still be payable to the Executive hereunder if they had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee or other designee or, if there is no such designee, the Executive's estate.

4.2 Except as expressly provided in Section 2.2, the Executive shall not be required to mitigate damages or the amount of any payment or benefit provided for under this Agreement by seeking other employment or otherwise, nor will any payments or benefits hereunder be subject to offset in the event the Executive does mitigate.

4.3 The Employer shall pay all reasonable legal fees and expenses incurred in a legal proceeding by the Executive in seeking to obtain or enforce any right or benefit provided by this Agreement. Such payments are to be made within twenty days after the Executive's request for payment accompanied with such evidence of fees and expenses incurred as the Employer reasonably may require; provided that if the Executive institutes a proceeding and the judge or other decision-maker presiding over the proceeding affirmatively finds that the Executive has failed to prevail substantially, the Executive shall pay Executive's own costs and expenses (and, if applicable, return any amounts theretofore paid on the Executive's behalf under this Section 4.3).

4.4 For the purposes of this Agreement, notice and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered or mailed by United States certified or registered express mail, return receipt requested, postage prepaid, if to the Executive, addressed to the Executive at his or her respective address on file with the Company; if to the Company, addressed to SeaChange International, Inc., 124 Acton Street, Maynard, MA 01754, and directed to the attention of its Chief Financial Officer; if to the Board, addressed to the Board of Directors, c/o 124 Acton Street, Maynard, MA 01754, and directed to the Company's Chief Financial Officer; or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

4.5 Unless otherwise determined by the Employer in an applicable plan or arrangement, no amounts payable hereunder upon a Covered Termination shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Employer for the benefit of its employees.

4.6 This Agreement is the exclusive arrangement with the Executive applicable to payments and benefits in connection with a change in control of the Company (whether or not a Change in Control), and supersedes any prior arrangements involving the Company or its predecessors or affiliates relating to changes in control (whether or not Changes in Control). This Agreement shall not limit any right of the Executive to receive any payments or benefits under an employee benefit or executive compensation plan of the Employer, initially adopted as of or after the date hereof, which are expressly contingent thereunder upon the occurrence of a change in control (including, but not limited to, the acceleration of any rights or benefits thereunder); provided that in no event shall the Executive be entitled to any payment or benefit under this Agreement which duplicates a payment or benefit received or receivable by the Executive under any severance or similar plan or policy of the Employer, and in any such case the Executive shall only be entitled to receive the greater of the two payments.

4.7 Any payments hereunder shall be made out of the general assets of the Employer. The Executive shall have the status of general unsecured creditor of the Employer, and this Agreement constitutes a mere promise by the Employer to make payments under this Agreement in the future as and to the extent provided herein.

4.8 Nothing in this Agreement shall confer on the Executive any right to continue in the employ of the Employer or interfere in any way (other than by virtue of requiring payments or benefits as may expressly be provided herein) with the right of the Employer to terminate the Executive's employment at any time.

4.9 The Employer shall be entitled to withhold from any payments or deemed payments any amount of tax withholding required by law.

4.10 Any controversy or claim arising out of or relating to this Agreement or the breach of this Agreement that is not resolved by the Employer and the Executive shall be submitted to arbitration in Boston, Massachusetts, in accordance with Massachusetts law and the procedures of the American Arbitration Association. The determination of the arbitrator(s) shall be conclusive and binding on the Employer and Executive and judgment may be entered on the arbitrator(s)' award in any court having jurisdiction.

4.11 This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege nor any single or partial exercise of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

4.12 The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement which shall remain in full force and effect.

4.13 The use of captions in this Agreement is for convenience. The captions are not intended to and do not provide substantive rights.

4.14 THIS AGREEMENT SHALL BE CONSTRUED, ADMINISTERED AND ENFORCED ACCORDING TO THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW.

IN WITNESS WHEREOF, the parties hereto have signed their names, effective as of the date first above written.

SEACHANGE INTERNATIONAL, INC.

By: /s/ William L. Fiedler

Name: William L. Fiedler
Title: Chief Financial Officer, Senior Vice President – Finance and Administration, Treasurer and Secretary

/s/ William Styslinger

William Styslinger

Exhibit 31.1

CERTIFICATION

I, William C. Styslinger, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SeaChange International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986.]
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2004

/s/ William C. Styslinger, III

William C. Styslinger, III
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, William L. Fiedler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SeaChange International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986.]

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2004

/s/ William L. Fiedler

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

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SeaChange International, Inc. (the "Company") on Form 10-Q for the period ending July, 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William C. Styslinger, III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Styslinger, III

Name: William C. Styslinger, III
Title: President and Chief Executive Officer

Date: September 9, 2004

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SeaChange International, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William L. Fiedler, Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William L. Fiedler

Name: William L. Fiedler
Title: Chief Financial Officer, Senior Vice President, Finance and Administration, Treasurer and Secretary

Date: September 9, 2004