

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

(MARK ONE)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
- - --- OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1998

OR

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

Commission File Number: 0-21393

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

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

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

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

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

YES X NO

The number of shares outstanding of the registrant's Common Stock on November 6, 1998 was 13,731,517.

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SEACHANGE INTERNATIONAL, INC.

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SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE-RELATED DATA)

<TABLE>
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	SEPTEMBER 30, 1998	DECEMBER 31, 1997
	----- (UNAUDITED)	-----
	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,388	\$ 2,973
Marketable securities	-	9,310
Accounts receivable, net of allowance for doubtful accounts of \$737 at September 30, 1998 and \$559 at December 31, 1997	14,062	12,535
Inventories	18,505	13,713
Prepaid expenses	5,683	2,336
Deferred income taxes	1,091	1,091
	-----	-----
Total current assets	43,729	41,958
Property and equipment, net	6,501	8,303
Goodwill and intangibles, net, and other assets	1,475	1,689
	-----	-----
	\$ 51,705	\$ 51,950
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,973	\$ 8,765
Accrued expenses	2,884	2,718
Customer deposits	1,344	2,049
Deferred revenue	4,010	3,851
Income taxes payable	192	85
	-----	-----
Total current liabilities	20,403	17,468
	-----	-----
Stockholders' Equity:		
Common stock, \$.01 par value; 50,000,000 shares authorized; 13,712,874 shares and 13,593,594 shares issued at September 30, 1998 and December 31, 1997, respectively	137	136
Additional paid-in capital	31,977	31,218
Retained earnings (accumulated deficit)	(682)	3,114
Treasury stock, 9,000 shares of common stock at September 30, 1998 and December 31, 1997	-	-
Cumulative translation adjustment	(130)	14
	-----	-----
Total stockholders' equity	31,302	34,482
	-----	-----
	\$ 51,705	\$ 51,950
	=====	=====

</TABLE>

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

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SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

<TABLE>
<CAPTION>

ENDED	THREE MONTHS ENDED		NINE MONTHS	
	SEPTEMBER 30,		SEPTEMBER 30,	
	----- 1998	----- 1997	----- 1998	----- 1997
	<C>	<C>	<C>	<C>
REVENUES:				
Systems	\$ 14,240	\$ 13,188	\$ 42,254	
\$ 50,168				

Services	3,548	2,063	10,283
4,987			

55,155	17,788	15,251	52,537

COSTS OF REVENUES:			
Systems	8,897	7,889	26,087
28,425			
Services	3,755	1,953	9,906
4,961			

33,386	12,652	9,842	35,993

Gross profit	5,136	5,409	16,544
21,769			

OPERATING EXPENSES:			
Research and development	3,897	3,159	11,800
8,325			
Selling and marketing	1,928	1,431	5,854
4,541			
General and administrative	1,174	792	4,457
2,588			
Restructuring of operations	-	-	676
-			

15,454	6,999	5,382	22,787

Income (loss) from operations	(1,863)	27	(6,243)
6,315			
Interest income, net	20	136	199
523			

Income (loss) before income taxes	(1,843)	163	(6,044)
6,838			
Provision (benefit) for income taxes	(770)	61	(2,248)
2,598			

Net income (loss)	\$ (1,073)	\$ 102	\$ (3,796)
\$ 4,240			
=====			
Basic earnings (loss) per share	\$ (0.08)	\$ 0.01	\$ (0.31)
\$ 0.42			
Diluted earnings (loss) per share	\$ (0.08)	\$ 0.01	\$ (0.31)
\$ 0.32			
Shares used in calculating:			
Basic earnings (loss) per share	12,917,766	10,624,806	12,204,529
10,042,534			
Diluted earnings (loss) per share	12,917,766	13,344,863	12,204,529
13,388,634			

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

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SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(UNAUDITED, IN THOUSANDS)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
	-----	-----
<S>	<C>	<C>

Cash flows from operating activities		
Net income (loss)	\$ (3,796)	\$ 4,240
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	3,376	1,975
Inventory valuation allowance	970	1,130
Other	47	(93)
Changes in assets and liabilities:		
Accounts receivable	(1,527)	(7,031)
Inventories	(5,249)	(6,880)
Prepaid expenses and other assets	(3,442)	(763)
Accounts payable	3,183	60
Accrued expenses	166	250
Customer deposits	(705)	(2,600)
Deferred revenue	159	776
Income taxes payable	107	-
Net cash used in operating activities	(6,711)	(8,936)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,897)	(1,472)
Proceeds from sale and maturity of marketable securities	10,212	-
Purchases of marketable securities	(902)	-
Net cash provided by (used in) investing activities	7,413	(1,472)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	713	417
Net cash provided by financing activities	713	417
Net increase (decrease) in cash and cash equivalents	1,415	(9,991)
Cash and cash equivalents, beginning of period	2,973	23,394
Cash and cash equivalents, end of period	\$ 4,388	\$ 13,403
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Transfer of items originally classified as fixed assets to inventories	\$ 513	\$ -
Transfer of items originally classified as inventories to fixed assets	\$ 584	\$ 879

</TABLE>

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

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SEACHANGE INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED; IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of SeaChange International, Inc. and its wholly owned subsidiaries. The Company believes that the unaudited consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments), necessary for a fair presentation of the Company's financial position, results of operations and cash flows at the dates and for the periods indicated. The results of operations for the three-month and nine-month periods ended September 30, 1998 are not necessarily indicative of results expected for the full fiscal year or any other future periods. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 1997, included in the Company's Annual Report on Form 10-K for such fiscal year.

2. EARNINGS PER SHARE

For the three and nine months ended September 30, 1998, potential common stock of 227,388 and 258,008, respectively, of common shares issuable upon the exercise of stock options and 755,550 and 1,370,800, respectively, of unvested restricted common shares are antidilutive because the Company recorded a net loss for the periods and, therefore, have been excluded from the diluted earnings per share computations.

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

<TABLE>
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	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
Weighted average number of shares outstanding 10,042,534	12,917,766	10,624,806	12,204,529	
Unvested restricted common shares 2,846,000	-	2,272,800	-	
Dilutive stock options 500,101	-	447,257	-	
Shares used in calculating diluted earnings per share 13,388,635	12,917,766	13,344,863	12,204,529	

</TABLE>

3. INVENTORIES

Inventories consist of the following:

<TABLE>
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	SEPTEMBER 30, 1998	DECEMBER 31, 1997
Components and assemblies	\$16,076	\$11,932
Finished products	2,429	1,781
	=====	=====
	\$18,505	\$13,713
	=====	=====

</TABLE>

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4. RESTRUCTURING OF OPERATIONS

In March 1998, the Company recorded a charge for the restructuring of operations of \$676,000. The charge for the restructuring included \$569,000 related to the termination of 13 employees as part of a planned consolidation of the operations of SeaChange Asia Pacific Operations Pte. Ltd., formerly IPC Interactive Pte. Ltd. (SC Asia), a Singapore corporation, which, together with its wholly owned U.S. subsidiary, GuestServe Networks, Inc., formerly IPC Interactive, Inc. (GSN), was acquired in December 1997. The restructuring charge also included a provision of \$60,000 related to the planned vacating of premises at GSN and \$47,000 of compensation expense associated with stock options for certain terminated employees. At March 31, 1998, all employees terminated in connection with such restructuring had been notified by the Company. Accrued expenses at September 30, 1998 include \$20,000 as a result of the restructuring charge. During the quarter ended September 30, 1998, the Company paid \$66,000 related to the restructuring charge.

5. STOCK OPTION REPRICING

On January 23, 1998, the Compensation and Option Committee of the Board of Directors of the Company (the Committee) determined that, because certain stock options held by employees of the Company had an exercise price significantly higher than the fair market value of the Company's common stock, such stock options were not providing the desired incentive and retentive effect for employees. Accordingly, the Committee granted those employees whose options were between \$15.00 and \$24.63 per share an opportunity to cancel their existing options for new options on a one for one basis, with a new five-year vesting schedule beginning on January 23, 1998. Employees whose options were above \$24.63 were offered an opportunity to cancel their existing options for new options on a two for three basis, with no change in their original vesting schedule. As a result of this stock option repricing, new options were granted to purchase 212,779 shares of common stock and the average exercise price of such options was reduced from \$22.19 per share to \$8.25 per share, the fair market value of the Company's common stock at the close of the market on January 22, 1998. With the exception of one executive officer, the Company's directors and executive officers were not eligible to participate in this stock option repricing. During the execution of the stock option repricing plan, the Company's stock price was below \$8.25 per share and,

therefore, no compensation charge was recorded as a result of the stock option repricing.

6. NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) and Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). The Company adopted SFAS 130 and 131 on January 1, 1998. SFAS 130 establishes standards for reporting comprehensive income and its components in the consolidated financial statements. There were no material differences between net income and comprehensive income for the three and nine-month periods ended September 30, 1998. SFAS 131 establishes standards for reporting information on operating segments and will first be applicable to its December 31, 1998 year end financial statements.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 will become effective during 1999. To date the Company has not utilized derivative instruments or hedging activities and, therefore, the adoption of SFAS 133 will not have an impact on the Company's reported financial condition or results of operations.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FACTORS THAT MAY AFFECT FUTURE RESULTS

Any statements contained in this Form 10-Q that do not describe historical facts, including without limitation statements concerning expected revenues, earnings, product introductions, general market conditions and Year 2000 issues, may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements contained herein are based on current expectations, but are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. The factors that could cause actual future results to differ materially from current expectations include the following: the Company's ability to integrate the operations of acquired subsidiaries; fluctuations in demand for the Company's products and services; the Company's ability to manage its growth; the Company's ability to develop, market and introduce new and enhanced products and services on a timely basis; the rapid technological change which characterizes the Company's markets; the Company's significant concentration of customers; the Company's dependence on certain sole source suppliers and third-party manufacturers; the risks associated with international sales as the Company expands its markets; the ability of the Company to compete successfully in the future; and the risks associated with the Year 2000 issue including, without limitation, those risks listed under "Year 2000 Issue/Year 2000 Readiness Disclosure--Risks Associated with Year 2000 Issue". Further information on factors that could cause actual results to differ from those anticipated is detailed in various filings made by the Company from time to time with the Securities and Exchange Commission, including but not limited to, those appearing under the caption "Certain Risk Factors" in the Company's Annual Report on Form 10-K dated March 31, 1998. Any forward-looking statements should be considered in light of those factors.

YEAR 2000 ISSUE/YEAR 2000 READINESS DISCLOSURE

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

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

Information Technology Systems. The Company's critical internal

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

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

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

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

Contingency Plans. At the present time, the Company has not yet formulated contingency plans for addressing problems due to the Year 2000 Issue. The Company has been assured that its critical internal IT systems are compliant by the vendors of those systems and the Company will evaluate the need for contingency plans for internal IT systems given those assurances. The Company is currently in the process of evaluating the Year 2000 Issue with respect to its non-IT systems and with respect to its major suppliers, vendors, customers and business partners. As this evaluation process proceeds, the Company will formulate appropriate contingency plans. The Company expects that any required contingency planning will be completed no later than the end of 1999.

Risks Associated with Year 2000 Issue. Various statements in this discussion of Year 2000 are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as discussed above under

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

RESULTS OF OPERATIONS

ACQUISITION. On December 10, 1997, the Company acquired all of the outstanding capital stock of SeaChange Asia Pacific Operations Pte. Ltd., formerly IPC Interactive Pte. Ltd. (SC Asia). SC Asia's products together with the Company's centralized video server platform, provides interactive television network systems to the hospitality and commercial property markets. Additionally, SC Asia deploys and operates its interactive network television systems at customer locations and charges fees for providing services and content, which are primarily movies. The transaction was accounted for under the purchase method and, accordingly, the results of operations of the Company include the operating results of SC Asia from the date of acquisition.

REVENUES. The Company's systems revenues consist primarily of sales of its digital video insertion, movie system and broadcast products. Systems revenues increased by 8% to \$14.2 million for the quarter ended September 30, 1998, from \$13.2 million in the comparable quarter in 1997. Systems revenues decreased by 16% to \$42.3 million for the nine-month period ended September 30, 1998, from \$50.2 million in the comparable period in 1997. The increase in systems revenues in the quarter ended September 30, 1998 from the comparable period in 1997 resulted primarily from the sale of broadcast products that were initially introduced during the quarter ended June 30, 1998. The decrease in systems revenues for the nine-month period ended September 30, 1998 from the comparable period in 1997 resulted primarily from a decrease in the volume of digital video insertion systems sold to U.S. cable operators and was partially offset by the sale of broadcast products. The Company expects sales of its digital ad insertion products to decrease in the remainder of 1998 compared to the \$55.7 million of such revenue for the twelve months ended December 31, 1997, primarily due to a decrease in spending by U.S. cable operators. U.S. cable operators have shifted their spending patterns to buy expansions to existing systems and to buy smaller scale digital ad insertion systems. The Company anticipates future growth, if any, in systems revenues will come from its movie system and broadcast products.

The Company's service revenues consist of fees for installation, training and product maintenance, technical support services and content fees. The Company's services revenues increased by 72% to \$3.5 million for the quarter ended September 30, 1998, from approximately \$2.1 million in the comparable quarter in 1997. The Company's services revenues increased by 106% to \$10.3 million in the nine-month period ended September 30, 1998, from approximately \$5.0 million in the comparable period in 1997. The increase in services revenues primarily resulted from renewals of maintenance and support contracts related to the growing installed base of systems and additional service revenues in the form of content fees as a result of the acquisition of SC Asia.

For the quarters and nine-month periods ended September 30, 1998 and 1997, certain customers accounted for more than 10% of the Company's total revenues. Individual customers accounted for 43% and 10% of total revenues in the quarter ended September 30, 1998, and 20%, 17% and 12% of total revenues in the quarter ended September 30, 1997. Individual customers accounted for 29% and 12% of total revenues in the nine-month period ended September 30, 1998, and 27%, 17% and 12% of total revenues in the nine-month period ended September 30, 1997.

International revenues accounted for approximately 6% and 14% of total revenues in the quarters ended September 30, 1998 and 1997, respectively. The decrease is primarily attributable to the timing of individual international sales. International revenues accounted for approximately 12% and 11% of total revenues in the nine-month periods ended September 30, 1998 and 1997, respectively. The Company expects that international sales will increase as a percentage of the Company's business in the future. As of September 30, 1998, substantially all sales of the Company's products and services have been made in United States dollars. The Company does not expect to change this practice significantly in the foreseeable future. Therefore, the Company has not

experienced, nor does it expect to experience in the near term, any material impact from fluctuations in foreign currency exchange rates on its results of operations or liquidity.

GROSS PROFIT. Systems gross profit as a percentage of systems revenues was 37.5% and 40.2% for the quarters ended September 30, 1998 and 1997, respectively. Systems gross profit as a percentage of systems revenues was 38.3% and 43.3% for the nine-month periods ended September 30, 1998 and 1997, respectively. The decrease in systems gross profit in the quarter and nine-month periods ended September 30, 1998 is primarily attributable to a shift in the mix of sales in 1998 to include a greater percentage of sales of certain components to the installed base and a greater number of sales of the smaller scale digital ad insertion systems both of which contributed to a lower gross profit than in 1997.

Costs of services exceeded services revenue by 5.8% for the quarter ended September 30, 1998. Services gross profit as a percentage of services revenue was 5.3% for the quarter ended September 30, 1997. Services gross profit as a percentage of services revenue was 3.7% and 0.5% for the nine-month periods ended September 30, 1998 and 1997, respectively. The decrease in services gross profit in the quarter ended September 30, 1998 is primarily attributable to the hiring and training of additional service personnel to provide worldwide support for the movie and broadcast products. Improvements in the services gross profit in the nine-month period ended September 30, 1998 reflects the increase in the installed base of systems under service contracts and the gross profit generated from content fees as a result of the acquisition of SC Asia. The Company expects that it will continue to experience fluctuations in gross profit as a percentage of services revenue as a result of the timing of generating revenues from product and maintenance support and other services to support the growing installed base of systems and the timing of the costs associated with the Company building a service organization to support the installed base of systems and new products.

RESEARCH AND DEVELOPMENT. Research and development expenses consist primarily of compensation of development personnel, depreciation of equipment and an allocation of related facility expenses. Research and development expenses increased to approximately \$3.9 million, or 22% of total revenues in the quarter ended September 30, 1998, from approximately \$3.2 million, or 21% of total revenues in the comparable quarter in 1997. Research and development expenses increased to approximately \$11.8 million, or 23% of total revenues in the nine-month period ended September 30, 1998 from approximately \$8.3 million, or 15% of total revenues in the comparable period in 1997. These increases were primarily attributable to the hiring and contracting of additional development personnel and the acquisition of SC Asia. All internal software development costs to date have been expensed by the Company. The Company expects that research and development expenses will continue to increase in dollar amount as the Company continues its development of new and existing products.

SELLING AND MARKETING. Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses increased to approximately \$1.9 million, or 11% of total revenues in the quarter ended September 30, 1998, from approximately \$1.4 million, or 9% of total revenues in the comparable quarter in 1997. Selling and marketing expenses increased to approximately \$5.9 million, or 11% of total revenues in the nine-month period ended September 30, 1998 from approximately \$4.5 million, or 8% of total revenues in the comparable period in 1997. These increases were primarily attributable to the hiring of additional selling and marketing personnel, expanded promotional activities, increased international selling efforts and the acquisition of SC Asia. The Company expects that selling and marketing expenses will continue to increase in dollar amount as the Company hires additional personnel and expands selling and marketing activities for the remainder of 1998.

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GENERAL AND ADMINISTRATIVE. General and administrative expenses consist primarily of compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facility expenses. General and administrative expenses increased to approximately \$1.2 million, or 7% of total revenues in the quarter ended September 30, 1998, from approximately \$792,000, or 5% of total revenues in the comparable quarter in 1997. General and administrative expenses increased to approximately \$4.5 million, or 9% of total revenues in the nine-month period ended September 30, 1998 from approximately \$2.6 million, or 5% of total revenues in the comparable period in 1997. The increases were primarily attributable to increased staffing to support the Company's expanded operations in 1998 and the acquisition of SC Asia. The Company does not expect that general and administrative expenses will increase in dollar amount in the foreseeable future as the Company has centralized the accounting and finance functions of SC Asia, thereby reducing these related costs for the remainder of 1998.

RESTRUCTURING OF OPERATIONS. In March 1998, the Company recorded a charge for the restructuring of operations of \$676,000. Restructuring of operations included a provision of \$569,000 related to the termination of 13 employees as

part of a planned consolidation of the operations of SC Asia with the Company's operations, \$60,000 related to the planned vacating of the premises at GSN, a subsidiary of SC Asia, and \$47,000 of compensation expense associated with stock options for certain terminated employees. At March 31, 1998, all the employees terminated in connection with the restructuring had been notified.

INTEREST INCOME. Interest income was approximately \$20,000 and \$136,000 in the quarter ended September 30, 1998 and 1997, respectively. Interest income was approximately \$199,000 and \$523,000 in the nine-month periods ended September 30, 1998 and 1997, respectively. The decreases in interest income primarily resulted from lower average invested balances in the period ended September 30, 1998 compared to the comparable period in 1997.

PROVISION FOR INCOME TAXES. The Company's effective tax rate was a benefit of 37.2% in the nine-month period ended September 30, 1998 and a tax provision of 38.0% in the nine-month period ended September 30, 1997. The change in the effective tax rate is attributable to the taxable loss in the nine-month period ended September 30, 1998 compared to the taxable income in the nine-month period ended September 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and marketable securities at September 30, 1998 were approximately \$4.4 million, a \$7.9 million decrease from the December 31, 1997 balance of \$12.3 million. Working capital was approximately \$23.3 million and \$24.5 million at September 30, 1998 and December 31, 1997, respectively.

Net cash used in operating activities was \$6.7 million and \$8.9 million in the nine-month periods ended September 30, 1998 and 1997, respectively. Net cash used in operating activities during the nine-month period ended September 30, 1998 was the result of the net loss adjusted for noncash expenses including depreciation and amortization, inventory valuation allowance and the changes in certain assets and liabilities. The significant changes in assets and liabilities included increases in accounts receivable, inventories and prepaid expenses and a decrease in customer deposits. These changes were partially offset by an increase in accounts payable. The increase in accounts receivable of approximately \$1.5 million, or 12%, at September 30, 1998 is primarily attributable to the increased revenues in the quarter ended September 30, 1998 of \$17.8 million, compared to revenues of approximately \$12.7 million in the quarter ended December 31, 1997, an increase of \$5.1 million, or 40%. The net increase in inventories of approximately \$4.3 million, or 31% is attributable to the increase in the number of product lines and lower than anticipated revenues in the nine-month period ended September 30, 1998. The increase in prepaid expenses of approximately \$3.3 million, or 143% at September 30, 1998, is attributable to an increase in prepaid income taxes due to the tax benefit recorded in the nine-month period ended September 30, 1998 and prepayments to certain vendors for inventory. The decrease in customer deposits of approximately \$705,000, or 34% at September 30, 1998, is the result of the timing, volume and size of customer orders. The increase in accounts payable of approximately \$3.2 million, or 37% at September 30, 1998, is primarily the result of the timing of purchases and related payments.

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Net cash provided by investing activities was approximately \$7.4 million in the nine-month period ended September 30, 1998 and the net cash used in investing activities was \$1.5 million in the nine-month period ended September 30, 1997. During the nine-month period ended September 30, 1998, investing activities consisted of the sale and maturity of marketable securities which was partially offset by the purchase of marketable securities and the purchases of property and equipment to support the Company's growth. During the nine-month period ended September 30, 1997, investing activities consisted of purchases of property and equipment to support the Company's growth.

Net cash provided by financing activities was approximately \$713,000 and \$417,000 for the nine-month periods ended September 30, 1998 and 1997, respectively, which consisted of proceeds from the issuance of common stock upon the exercise of employee stock options and exercises pursuant to the employee stock purchase plan.

In November 1998, the Company entered into a \$9.0 million revolving line of credit and equipment line with a bank which expires in November 1999. Borrowings under the lines are secured by substantially all of the Company's assets. Loans made under the lines will bear interest at a rate per annum equal to the bank's base rate. The loan agreement relating to the lines requires that the Company provide the bank with certain periodic financial reports and comply with certain financial ratios.

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

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ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(b) Use of Proceeds

On November 4, 1996, the Company's Registration Statement on Form S-1 (File No. 333-12233) became effective. The Company filed an initial report on Form SR on February 11, 1997, disclosing the sale of securities and the use of proceeds through December 31, 1996, and Amendment No. 1 to Form SR on August 11, 1997, disclosing the use of proceeds through June 30, 1997. The net proceeds from this offering were \$24,069,800. As of September 30, 1998, no information has changed from Amendment No. 1 except for the use of proceeds. The following describes the use of proceeds from November 4, 1996, the effective date, through September 30, 1998.

<TABLE>
<CAPTION>

Use of Proceeds:	Direct or Indirect Payment to Others

<S>	<C>
Purchase and installation of machinery and equipment	\$ 4,055,000
Working capital	\$15,626,800
Temporary Investments (specify):	Amount

Money Market and short-term Investments	\$ 4,388,000
Municipal Bonds and Notes	\$ -

</TABLE>

None of the above payments were made to affiliates of the Company, directors, officers or persons owning 10% or more of any class of equity securities of the Company, other than in the ordinary course of business.

ITEM 6. EXHIBITS

(a) Exhibits

- Exhibit 10.1: Intellectual Property Security Agreement dated as of November 12, 1998 by and between the Company and Silicon Valley Bank, a California bank of Corporation ("Silicon Valley Bank")
- Exhibit 10.2: Loan and Security Agreement dated as of November 12, 1998 by and between the Company and Silicon Valley Bank
- Exhibit 27: Financial Data Schedule (For SEC Edgar Filing Only; Intentionally Omitted)

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: November 16, 1998

SEACHANGE INTERNATIONAL, INC.
by:

/s/ William C. Styslinger, III

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

/s/ William L. Fiedler

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

EXHIBIT INDEX

<TABLE>	<CAPTION>	EXHIBIT NUMBER	DESCRIPTION	PAGE
<S>	<C>	-----	-----	-----
<S>	<C>			<C>
10.1	Intellectual Property Security Agreement dated as of November 12, 1998 by and between the Company and Silicon Valley Bank, a California banking corporation ("Silicon Valley Bank")			15
10.2	Loan and Security Agreement dated as of November 12, 1998 by and between the Company and Silicon Valley Bank			
27	Financial Data Schedule (For SEC Edgar Filing Only; Intentionally Omitted)			

</TABLE>

INTELLECTUAL PROPERTY SECURITY AGREEMENT

This Intellectual Property Security Agreement (this "IP Agreement") is made as of the 12th day of November, 1998 by and between SeaChange International, Inc. ("Grantor"), and Silicon Valley Bank, a California banking corporation ("Lender").

RECITALS

A. Lender has agreed to make advances of money and to extend certain financial accommodations to Grantor (the "Loans"), pursuant to a Loan and Security Agreement of even date herewith (the "Loan" or the "Loan Agreement") and Grantor desired to borrow such funds from Lender. The Loan is or will be secured in part pursuant to the terms of the Loan and Security Agreement. Lender is willing to make such Loans to Grantor, but only upon the condition, among others, that Grantor shall grant to Lender a security interest in certain Copyrights, Trademarks, Patents, and Mask Works to secure the obligations of Grantor under the Loan Agreement. Defined terms used but not defined herein shall have the same meanings as in the Loan and Security Agreement.

B. Pursuant to the terms of the Loan and Security Agreement, Grantor has granted to Lender a security interest in all of Grantor's right title and interest, whether presently existing or hereafter acquired in, to and under all of the Collateral (as defined herein).

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged and intending to be legally bound, as collateral security for the prompt and complete payment when due of Grantor's Indebtedness under the Loan Agreement, Grantor hereby represents, warrants, covenants and agrees as follows:

1. Grant of Security Interest. As collateral security for the prompt and

complete payment and performance of all of Grantor's present or future Indebtedness, obligations and liabilities to Lender, Grantor hereby grants a security interest in all of Grantor's right, title and interest in, to and under its Intellectual Property Collateral (all of which shall collectively be called the "Intellectual Property Collateral"), including, without limitation, the following:

(a) Any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held, including without limitation those set forth on Exhibit A attached hereto (collectively, the "Copyrights");

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

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

(d) All patents, patent applications and like protections including, without limitation, improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same, including without limitation the patents and patent applications set forth on Exhibit B attached hereto (collectively, the "Patents");

(e) Any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Grantor connected with and symbolized by such trademarks, including without limitation those set forth on Exhibit C attached hereto (collectively, the "Trademarks");

(f) All mask works or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired, including, without limitation those set forth on Exhibit D attached hereto (collectively, the

"Mask Works");

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

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

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

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

2. Authorization and Request. Grantor authorizes and requests that the

Register of Copyrights and the Commissioner of Patents and Trademarks record this IP Agreement.

3. Covenants and Warranties. Grantor represents, warrants, covenants and

agrees as follows:

(a) Performance of this IP Agreement does not conflict with or result in a breach of any IP Agreement to which Grantor is bound, except to the extent that certain intellectual property agreements prohibit the assignment of the rights thereunder to a third party without the licensor's or other party's consent and this IP Agreement constitutes a security interest.

(b) During the term of this IP Agreement, Grantor will not transfer or otherwise encumber any interest in the Intellectual Property Collateral, except for licenses granted by Grantor in the ordinary course of business or as set forth in this IP Agreement;

(c) To its knowledge, each of the Patents is valid and enforceable, and no part of the Intellectual Property Collateral has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Intellectual Property Collateral violates the rights of any third party;

(d) This IP Agreement creates, and in the case of after acquired Intellectual Property Collateral, this IP Agreement will create at the time Grantor first has rights in such after acquired Intellectual Property Collateral, in favor of Lender a valid and perfected first priority security interest in the Intellectual Property Collateral in the United States securing the payment and performance of the obligations evidenced by the Loan and Security Agreement upon making the filings referred to in clause (i) below;

(e) All information heretofore, herein or hereafter supplied to Lender by or on behalf of Grantor with respect to the Intellectual Property Collateral is accurate and complete in all material respects when made, and in light of the circumstances in which it was furnished.

(f) Grantor shall not enter into any agreement that would materially impair or conflict with Grantor's obligations hereunder without Lender's prior written consent, which consent shall not be unreasonably withheld. Grantor shall not permit the inclusion in any material contract to which it becomes a party of any provisions that could or might in any way prevent the creation of a security interest in Grantor's rights and interest in any property included within the definition of the Intellectual Property Collateral acquired under such contracts, except that certain contracts may contain anti-assignment provisions that could in effect prohibit the creation of a security interest in such contracts.

(g) Upon any executive officer of Grantor obtaining actual knowledge thereof, Grantor will promptly notify Lender in writing of any event that has or may have a Material Adversely Effect on the value of any material Intellectual Property Collateral, the ability of Grantor to dispose of any material Intellectual Property Collateral or the rights and remedies of Lender in relation thereto, including the levy of any legal process against any of the Intellectual Property Collateral.

4. Lender's Rights. Lender shall have the right, but not the obligation,

to take, at Grantor's sole expense, any actions that Grantor is required under this IP Agreement to take but which Grantor fails to take, after fifteen (15) days' notice to Grantor. Grantor shall reimburse and indemnify Lender for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this section 4.

5. Further Assurances; Attorney in Fact.

(a) On a continuing basis, Grantor will, subject to any prior licenses, encumbrances and restrictions and prospective licenses, make,

execute, acknowledge and deliver, and file and record in the proper filing and recording places in the United States, all such instruments, including appropriate financing and continuation statements and collateral agreements and filings with the United States Patent and Trademarks Office and the Register of Copyrights, and take all such action as may reasonably be deemed necessary or advisable, or as requested by Lender, to perfect Lender's security interest in all Copyrights, Patents, Trademarks, and Mask Works and otherwise to carry out the intent and purposes of this IP Agreement, or for assuring and confirming to Lender the grant or perfection of a security interest in all Intellectual Property Collateral.

(b) Grantor hereby irrevocably appoints Lender as Grantor's attorney-in-fact, to be exercised only upon the occurrence and continuance of an Event of Default, with full authority in the place and stead of Grantor and in the name of Grantor, Lender or otherwise, from time to time in Lender's discretion, upon Grantor's failure or inability to do so, to take any action and to execute any instrument which Lender may deem necessary or advisable to accomplish the purposes of this IP Agreement, including:

(i) To modify, in its sole discretion, this IP Agreement without first obtaining Grantor's approval of or signature to such modification by amending Exhibit A, Exhibit B, Exhibit C, and Exhibit D hereof, as appropriate, to include reference to any right, title or interest in any Copyrights, Patents, Trademarks or Mask Works acquired by Grantor after the execution hereof or to delete any reference to any right, title or interest in any Copyrights, Patents, Trademarks, or Mask Works in which Grantor no longer has or claims any right, title or interest; and

(ii) To file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Intellectual Property Collateral without the signature of Grantor where permitted by law.

6. Events of Default. The occurrence of any of the following shall

constitute an Event of Default under this IP Agreement:

(a) An Event of Default occurs under the Loan and Security Agreement; or any document from Grantor to Lender; or

(b) Grantor breaches any warranty or agreement made by Grantor in this IP Agreement.

7. Remedies. Upon the occurrence and continuance of an Event of Default,

Lender shall have the right to exercise all the remedies of a secured party under the Massachusetts Uniform Commercial Code, including without limitation the right to require Grantor to assemble the Intellectual Property Collateral and to make it available to Lender at a place designated by

Lender. Lender shall have a nonexclusive, royalty free license to use the Copyrights, Patents, Trademarks, and Mask Works to the extent reasonably necessary to permit Lender to exercise its rights and remedies upon the occurrence of an Event of Default. Grantor will pay any expenses (including reasonable attorney's fees) incurred by Lender in connection with the exercise of any of Lender's rights hereunder, including without limitation any expense incurred in disposing of the Intellectual Property Collateral. All of Lender's rights and remedies with respect to the Intellectual Property Collateral shall be cumulative.

8. Indemnity. Grantor agrees to defend, indemnify and hold harmless

Lender and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this IP Agreement, and (b) all losses or expenses in any way suffered, incurred, or paid by Lender as a result of or in any way arising out of, following or consequential to transactions between Lender and Grantor, whether under this IP Agreement or otherwise (including without limitation, reasonable attorneys fees and reasonable expenses), except for losses arising from or out of Lender's gross negligence or willful misconduct.

9. Reassignment. At such time as Grantor shall completely satisfy all of

the obligations secured hereunder, Lender shall execute and deliver to Grantor all deeds, assignments, and other instruments as may be necessary or proper to reinvest in Grantor full title to the property assigned hereunder, subject to any disposition thereof which may have been made by Lender pursuant hereto.

10. Course of Dealing. No course of dealing, nor any failure to exercise,

nor any delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

11. Attorneys' Fees. If any action relating to this IP Agreement is

brought by either party hereto against the other party, the prevailing party
shall be entitled to recover reasonable attorneys fees, costs and disbursements.

12. Amendments. This IP Agreement may be amended only by a written

instrument signed by both parties hereto.

13. Counterparts. This IP Agreement may be executed in two or more

counterparts, each of which shall be deemed an original but all of which
together shall constitute the same instrument.

14. Law and Jurisdiction. This IP Agreement shall be governed by and

construed in accordance with the laws of the Commonwealth of Massachusetts.
GRANTOR ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES,
UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT OF
COMPETENT JURISDICTION IN THE COMMONWEALTH OF MASSACHUSETTS IN ANY ACTION, SUIT,
OR PROCEEDING OF ANY KIND, AGAINST IT WHICH ARISES OUT OF OR BY REASON OF THIS
AGREEMENT; PROVIDED, HOWEVER, THAT IF FOR ANY REASON LENDER CANNOT AVAIL ITSELF
OF THE COURTS OF THE

COMMONWEALTH OF MASSACHUSETTS, GRANTOR ACCEPTS JURISDICTION OF THE COURTS AND
VENUE IN SANTA CLARA COUNTY, CALIFORNIA.

GRANTOR AND LENDER EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY
TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE
LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING
CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR
STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER
CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH
PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL
COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS
FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

15. Confidentiality. In handling any confidential information, Lender

shall exercise the same degree of care that it exercises with respect to its own
proprietary information of the same types to maintain the confidentiality of any
non-public information thereby received or received pursuant to this IP
Agreement except that the disclosure of this information may be made (i) to the
affiliates of the Lender, (ii) to prospective transferee or purchasers of an
interest in the obligations secured hereby, provided that they have entered
into comparable confidentiality agreement in favor of Grantor and have deliver a
copy to Grantor, (iii) as required by law, regulation, rule or order, subpoena
judicial order or similar order and (iv) as may be required in connection with
the examination, audit or similar investigation of Lender.

IN WITNESS WHEREOF, the parties hereto have executed this IP Agreement on
the day and year first above written.

Address of Grantor:

124 Acton Street

Maynard, MA 01754

GRANTOR:

SEACHANGE INTERNATIONAL, INC.

By: /s/ William L. Fiedler

Name: William L. Fiedler

Title: Chief Financial Officer

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT is entered into as of November 12, 1998, by and between SILICON VALLEY BANK, a California-chartered bank, with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at Wellesley Office Park, 40 William Street, Suite 350, Wellesley, Massachusetts 02481, doing business under the name "Silicon Valley East" ("Bank") and SEACHANGE INTERNATIONAL, INC., a Delaware corporation with its principal place of business at 124 Acton Street, Maynard, Massachusetts 01754 ("Borrower").

RECITALS

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

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION

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

have the following definitions:

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

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

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

"Agreement" means this Loan and Security Agreement.

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

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

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

"Borrowing Base" means an amount equal to: (i) eighty percent (80.0%) of Eligible Accounts, plus (ii) ninety percent (90%) of Eligible Foreign Accounts, plus (iii) a percentage determined by the Bank, on a case by case basis, of Approved Foreign Accounts, up to a maximum amount equal to thirty-five percent (35.0%) of the total aggregate Borrowing Base, each as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower, minus (iv) at any time prior to the Debt Service Coverage Event, the amounts outstanding under the Committed

Equipment Line.

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

"Closing Date" means the date of this Agreement.

"Code" means the California Uniform Commercial Code.

"Collateral" means the property described on Exhibit A attached hereto.

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

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

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed, co-made or discounted or sold with recourse by that Person, or in respect of which that Person is

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

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

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

"Current Liabilities" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current liabilities on the consolidated balance sheet of Borrower and its Subsidiaries, as at such date, plus, to the extent not already included therein, all outstanding Credit Extensions made under this Agreement, including all Indebtedness that is payable upon demand or within one year from the date of determination thereof unless such Indebtedness is renewable or extendable at the option of Borrower or any Subsidiary to a date more than one year from the date of determination, but excluding Subordinated Debt.

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

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

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

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

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

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

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

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

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

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

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

(i) Accounts with respect to which the account debtor disputes liability or makes any claim with respect thereto as to which Bank believes, in its sole discretion, that there may be a basis for dispute (but only to the extent of the amount subject to such dispute or claim), or is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business; and

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

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

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

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

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

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

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

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

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

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

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

"Indebtedness" means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without

limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations and (d) all Contingent Obligations.

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

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

"Intellectual Property Collateral" means

- (a) Copyrights, Trademarks, Patents, and Mask Works;
- (b) Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;
- (c) Any and all design rights which may be available to Borrower now or hereafter existing, created, acquired or held;
- (d) Any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;
- (e) All licenses or other rights to use any of the Copyrights, Patents, Trademarks, or Mask Works, and all license fees and royalties arising from such use to the extent permitted by such license or rights;
- (f) All amendments, renewals and extensions of any of the Copyrights, Trademarks, Patents, or Mask Works; and
- (g) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

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

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

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

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

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

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

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

shall become due under the Loan Documents.

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

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

"Obligations" means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise.

"Overadvance" is defined in Section 2.2.

"Patents" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"Payment Date" means the fifth (5th) calendar day of each month commencing on the first such date after the Closing Date and ending on the Maturity Date.

"Permitted Indebtedness" means:

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(a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and disclosed in the Schedule;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors incurred in the ordinary course of business; and

(e) Indebtedness secured by Permitted Liens.

"Permitted Investment" means:

(a) Investments existing on the Closing Date disclosed in the Schedule; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having the highest rating obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank.

"Permitted Liens" means the following:

(a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and as to which adequate reserves are maintained on Borrower's Books in accordance with GAAP, provided the same have no priority over any of Bank's security interests;

(c) Liens (i) upon or in any Equipment acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition of such Equipment, or (ii) existing on such equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment;

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(d) Leases or subleases and licenses or sublicenses granted to

others in the ordinary course of Borrower's business not interfering in any material respect with the business of Borrower and its Subsidiaries taken as a whole, and any interest or title of a lessor, licensor or under any lease or license provided that such leases, subleases, licenses and sublicenses do not prohibit the grant of the security interest granted hereunder; and

(e) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the variable rate of interest, per annum, most recently announced by Bank, as its "prime rate," whether or not such announced rate is the lowest rate available from Bank.

"Quick Assets" means, as of any applicable date, the consolidated cash, cash equivalents, accounts receivable and investments with maturities of fewer than 90 days of Borrower determined in accordance with GAAP.

"Responsible Officer" means each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"Revolving Maturity Date" means one day prior to the date which is one (1) year from the Closing Date.

"Schedule" means the schedule of exceptions attached hereto, if any.

"Subordinated Debt" means any debt incurred by Borrower that is subordinated to the debt owing by Borrower to Bank on terms acceptable to Bank (and identified as being such by Borrower and Bank).

"Subsidiary" means with respect to any Person, corporation, partnership, company association, joint venture, or any other business entity of which more than fifty percent (50%) of the voting stock or other equity interests is owned or controlled, directly or indirectly, by such Person or one or more Affiliates of such Person.

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"Tangible Net Worth" means as of any applicable date, the consolidated total assets of Borrower and its Subsidiaries minus, without duplication, (i) the sum of any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, patents, trade and service marks and names, copyrights and research and development expenses except prepaid expenses, and (c) all reserves not already deducted from assets, and (ii) Total Liabilities, plus (iii) Subordinated Debt.

"Total Liabilities" means as of any applicable date, any date as of which the amount thereof shall be determined, all obligations that should, in accordance with GAAP be classified as liabilities on the consolidated balance sheet of Borrower, including in any event all Indebtedness, but specifically excluding Subordinated Debt.

"Trademarks" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Assignor connected with and symbolized by such trademarks.

1.2. Accounting and Other Terms. All accounting terms not specifically

defined herein shall be construed in accordance with GAAP and all calculations and determinations made hereunder shall be made in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. The terms "including"/ "includes" shall always be read as meaning "including (or includes) without limitation", when used herein or in any other Loan Document.

2. LOAN AND TERMS OF PAYMENT

2.1. Credit Extensions. Borrower promises to pay to the order of Bank, in

lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrower hereunder. Borrower shall also pay interest on the unpaid principal amount of such Credit Extensions

at rates in accordance with the terms hereof.

2.1.1. (a) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make Advances to Borrower in an aggregate outstanding amount not to exceed the Committed Revolving Line or the Borrowing Base, whichever is less. Subject to the terms and conditions of this Agreement, amounts borrowed pursuant to this Section 2.1 may be repaid and reborrowed at any time during the term of this Agreement.

(b) Whenever Borrower desires an Advance, Borrower will notify Bank by facsimile transmission or telephone no later than 3:00 p.m. Eastern time, on the Business Day that the Advance is to be made. Each such notification shall be promptly confirmed by a Payment/Advance Form in substantially the form of Exhibit B hereto. Bank is authorized

to make Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank shall be entitled to rely on any telephonic notice given by a person who Bank reasonably believes to be a Responsible Officer or a designee thereof, and Borrower shall indemnify

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and hold Bank harmless for any damages or loss suffered by Bank as a result of such reliance. Bank will credit the amount of Advances made under this Section 2.1 to Borrower's deposit account.

(c) The Committed Revolving Line shall terminate on the Revolving Maturity Date, at which time all Advances under this Section 2.1 and other amounts due under this Agreement (except as otherwise expressly specified herein) shall be immediately due and payable.

2.1.2. Equipment Advances.

(a) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make advances (each an "Equipment Advance" and collectively, the "Equipment Advances") to Borrower: (i) in one advance to take place at any time after the Closing Date through thirty (30) days after the Closing Date (the "Equipment Availability End Date No. 1") in the aggregate outstanding amount not to exceed Two Million Dollars (\$2,000,000.00) (the "Equipment Line No. 1"), and (ii) at any time and from time to time from the Equipment Availability End Date No. 1 through June 30, 1999 (the "Equipment Availability End Date No. 2") in the aggregate outstanding amount not to exceed Three Million Dollars (\$3,000,000.00) less the cumulative Equipment Advances made under Equipment Line No. 1 (the "Equipment Line No. 2"). To evidence the Equipment Advances, Borrower shall deliver to Bank, at the time of each Equipment Advance request, an invoice for the equipment to be purchased or refinanced. Equipment Advance requests under Equipment Line No. 1 shall only be permitted for Equipment purchased between July 2, 1997 and June 30, 1998. Equipment Advance requests under Equipment Line No. 2 shall only be permitted for Equipment purchased between July 1, 1998 and June 30, 1999. The Equipment Advances shall be used only to purchase or refinance Equipment and shall not exceed: (i) eighty percent (80.0%) of the invoice amount on such equipment, including software, approved from time to time by Bank under Equipment Line No. 1, and (ii) one hundred percent (100%) of the invoice amount on such equipment, including software, approved from time to time by Bank in accordance with its standard commercial practices under Equipment Line No. 2, each of (i) and (ii) excluding taxes, shipping, warranty charges, freight discounts, and installation expense.

(b) Interest shall accrue from the date of each Equipment Advance at the per annum rate of one percent (1.0%) above the Prime Rate and shall be payable monthly on the Payment Date of each month. Any Equipment Advances made pursuant to the Equipment Line No. 1 that are outstanding on the Equipment Availability End Date No. 1 will be payable in Thirty (30) equal monthly installments of principal, plus all accrued interest, beginning on the Payment Date of the month following Equipment Availability End Date No. 1 and ending on the Equipment Maturity Date No. 1. Any Equipment Advances made pursuant to the Equipment Line No. 2 that are outstanding on the Equipment Availability End Date No. 2 will be payable in Thirty-Six (36) equal monthly installments of principal, plus all accrued interest, beginning on the Payment Date of the month following Equipment Availability End Date No. 2 and ending on the Equipment Maturity Date No. 2. Equipment Advances, once repaid, may not be reborrowed.

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(c) When Borrower desires to obtain an Equipment Advance, Borrower shall notify Bank (which notice shall be irrevocable) by

facsimile transmission to be received no later than 3:00 p.m. Eastern time one (1) Business Day before the day on which the Equipment Advance is to be made. Such notice shall be substantially in the form of Exhibit B. The notice shall be signed by a Responsible Officer or its designee and include a copy of the invoice for the Equipment to be financed.

2.2. Overadvances. If, at any time or for any reason, the amount of

Obligations owed by Borrower to Bank pursuant to Section 2.1.1 plus, prior to the Debt Service Coverage Event, Section 2.1.2, is greater than the Borrowing Base, Borrower shall immediately pay to Bank, in cash, the amount of such excess (the "Overadvance").

2.3. Interest Rates, Payments, and Calculations.

(a) Interest Rate. Except as set forth in Section 2.3(b), any

Advances under the Committed Revolving Line shall bear interest, on the average daily balance thereof, at a per annum rate equal to: (i) One Half of One percent (0.5%) above the Prime Rate prior to the Debt Service Coverage Event, and (ii) the Prime Rate beginning on the date which is the Debt Service Coverage Event.

(b) Default Rate. All Obligations shall bear interest, from and

after the occurrence of an Event of Default, at a rate equal to five (5) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

(c) Payments. Interest hereunder shall be due and payable on

each Payment Date. Borrower hereby authorizes Bank to debit any accounts with Bank, including, without limitation, Account Number _____ for payments of principal and interest due on the Obligations and any other amounts owing by Borrower to Bank. Bank will notify Borrower of all debits which Bank has made against Borrower's accounts. Any such debits against Borrower's accounts in no way shall be deemed a set-off. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder. All amounts borrowed hereunder together with all interest, fees or other amounts due by Borrower to Bank may be repaid or prepaid to Bank in whole or in part prior to the Maturity Date without the imposition of any fee, penalty or cost to Borrower.

(d) Computation. In the event the Prime Rate is changed from time

to time hereafter, the applicable rate of interest hereunder shall be increased or decreased effective as of 12:01 a.m. on the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate. All interest chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

2.4. Crediting Payments. Prior to the occurrence of an Event of Default,

Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence of an Event of Default, the receipt by

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Bank of any wire transfer of funds, check, or other item of payment, whether directed to Borrower's deposit account with Bank or to the Obligations or otherwise, shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment in respect of the Obligations unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Bank after 12:00 noon Eastern time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.5. Fees. Borrower shall pay to Bank the following:

(a) Committed Revolving Line Facility Fee. A Committed Revolving

Line Facility Fee equal to Fifteen Thousand Dollars (\$15,000.00),
which fee shall be due on the Closing Date and shall be fully earned
and non-refundable;

(b) Committed Equipment Line Facility Fee. A Committed Equipment

Line Facility Fee equal to: (i) Five Thousand Dollars (\$5,000.00),
which fee shall be due on the Closing Date and shall be fully earned
and non-refundable, plus (ii) Two Thousand Five Hundred Dollars
(\$2,500.00), which fee shall be due upon the initial Equipment Advance
under the Equipment Line No. 2 and shall be fully earned at such time
and non-refundable;

(c) Financial Examination and Appraisal Fees. Bank's customary

fees and out-of-pocket expenses for Bank's semi-annual audits of
Borrower's Accounts, appraisals of Collateral and financial analysis
and examination of Borrower performed by Bank or its agents;

(d) Bank Expenses. Upon demand from Bank, including, without

limitation, upon the date hereof, all Bank Expenses incurred through
the date hereof, including reasonable attorneys' fees and expenses,
and after the date hereof, all Bank Expenses, including reasonable
attorneys' fees and expenses, as and when they become due.

2.6. Additional Costs. In case any law, regulation, treaty or official

directive or the interpretation or application thereof by any court or any
governmental authority charged with the administration thereof or the compliance
with any guideline or request of any central bank or other governmental
authority (whether or not having the force of law):

(a) subjects Bank to any tax with respect to payments of
principal or interest or any other amounts payable hereunder by
Borrower or otherwise with respect to the transactions contemplated
hereby (except for taxes on the overall net income of Bank imposed by
the United States of America or any political subdivision thereof);

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(b) imposes, modifies or deems applicable any deposit insurance,
reserve, special deposit or similar requirement against assets held
by, or deposits in or for the account of, or loans by, Bank; or

(c) imposes upon Bank any other condition with respect to its
performance under this Agreement,

and the result of any of the foregoing is to increase the cost to Bank, reduce
the income receivable by Bank or impose any expense upon Bank with respect to
any loans, Bank shall notify Borrower thereof. Borrower agrees to pay to Bank
the amount of such increase in cost, reduction in income or additional expense
as and when such cost, reduction or expense is incurred or determined, upon
presentation by Bank of a statement of the amount and setting forth Bank's
calculation thereof, all in reasonable detail, which statement shall be deemed
true and correct absent manifest error.

2.7. Term. Except as otherwise set forth herein, this Agreement shall

become effective on the Closing Date and, subject to Section 12.7, shall
continue in full force and effect for a term ending on the Maturity Date.
Notwithstanding the foregoing, Bank shall have the right to terminate its
obligation to make Credit Extensions under this Agreement immediately and
without notice upon the occurrence and during the continuance of an Event of
Default. Notwithstanding termination of this Agreement, Bank's lien on the
Collateral shall remain in effect for so long as any Obligations are
outstanding.

3. CONDITIONS OF LOANS -----

3.1. Conditions Precedent to Initial Credit Extension. The obligation of

Bank to make the initial Credit Extension is subject to the condition precedent
that Bank shall have received, in form and substance satisfactory to Bank, the
following:

(a) this Agreement;

(b) a certificate of the Secretary of Borrower with respect to
articles, bylaws, incumbency and resolutions authorizing the execution
and delivery of this Agreement;

- (c) an Intellectual Property Security Agreement;
- (d) an opinion of Borrower's counsel;
- (e) guaranties by the Guarantors;
- (f) financing statements (Forms UCC-1);
- (g) insurance certificate;
- (h) payment of the fees and Bank Expenses then due specified in Section 2.5 hereof;
- (i) Certificates of Good Standing and Foreign Qualification; and
- (j) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

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3.2. Conditions Precedent to all Credit Extensions. The obligation of Bank

to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

- (a) timely receipt by Bank of the Payment/Advance Form as provided in Section 2.1; and
- (b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Payment/Advance Form and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would result from such Credit Extension. The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2(b).

4. CREATION OF SECURITY INTEREST

4.1. Grant of Security Interest. Borrower grants and pledges to Bank a

continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt payment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Except as set forth in the Schedule, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in Collateral acquired after the date hereof. Borrower acknowledges that Bank may place a "hold" on any Deposit Account pledged as Collateral to secure the Obligations. Notwithstanding termination of this Agreement, Bank's Lien on the Collateral shall remain in effect for so long as any Obligations are outstanding.

4.2. Delivery of Additional Documentation Required. Borrower shall from

time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue perfected Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

4.3. Right to Inspect. Bank (through any of its officers, employees, or

agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours, to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

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5.1. Due Organization and Qualification. Borrower and each Subsidiary is

a corporation duly existing and in good standing under the laws of its state of incorporation and qualified and licensed to do business in, and is in good standing in, any state in which the conduct of its business or its ownership of

property requires that it be so qualified.

5.2. Due Authorization; No Conflict. The execution, delivery, and

performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Articles/Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound, which default could have a Material Adverse Effect.

5.3. No Prior Encumbrances. Borrower has good and indefeasible title to the

Collateral, free and clear of Liens, except for Permitted Liens.

5.4. Bona Fide Eligible Accounts. To the best of Borrower's knowledge, the

Eligible Accounts are bona fide existing obligations. The service or property giving rise to such Eligible Accounts has been performed or delivered in all material respects to the account debtor or to the account debtor's agent for immediate shipment to the account debtor. Borrower has not received notice of actual or imminent Insolvency Proceeding of any account debtor whose accounts are included in any Borrowing Base Certificate as an Eligible Account.

5.5. Merchantable Inventory. All Inventory is in all material respects of

good and marketable quality, free from all material defects.

5.6. Intellectual Property. Borrower is the sole owner of the Intellectual

Property Collateral, except for licenses granted by Borrower to its customers in the ordinary course of business. Each of the Patents is valid and enforceable, and no part of the Intellectual Property Collateral has been judged invalid or unenforceable, in whole or in part, and no claim known to Borrower has been made in writing that alleges that any part of the Intellectual Property Collateral violates the rights of any third party. Except for and upon the filing (i) with the United States Patent and Trademark Office with respect to the Patents and Trademarks and the Register of Copyrights with respect to the Copyrights and Mask Works, and (ii) with appropriate state authority, UCC-1 Financing Statements necessary to perfect the intellectual property security interests created hereunder, and except as has been already made or obtained, no authorization, approval or other action by, and no notice to or filing with, any United States governmental authority or United States regulatory body is required either (i) for the grant by Borrower of the intellectual property security interest granted hereby or for the execution, delivery or performance of Loan Documents by Borrower in the United States or (ii) for the perfection in the United States or the exercise by Bank of its rights and remedies under this Section 5.6.

5.7. Name; Location of Chief Executive Office. Except as disclosed in the

Schedule, Borrower has not done business and will not without at least thirty (30) days prior written notice

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to Bank do business under any name other than that specified on the signature page hereof. The chief executive office of Borrower is located at the address indicated in Section 10 hereof.

5.8. Litigation. Except as set forth in the Schedule, there are no actions

or proceedings pending, or, to Borrower's knowledge, threatened by or against Borrower or any Subsidiary before any court or administrative agency in which an adverse decision could have a Material Adverse Effect on Borrower or a material adverse effect on Bank's security interest in the Collateral.

5.9. No Material Adverse Change in Financial Statements. All consolidated

financial statements related to Borrower and any Subsidiary that have been delivered by Borrower to Bank fairly present in all material respects Borrower's consolidated financial condition as of the date thereof and Borrower's consolidated results of operations for the period then ended. There has not been a material adverse change in the consolidated financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank on or about the Closing Date.

5.10. Solvency. Borrower is able to pay its debts (including trade debts)

as they mature.

5.11. Regulatory Compliance. Borrower and each Subsidiary has met the

minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations G, T and U of the Board of Governors of the Federal Reserve System). Borrower has complied with all the provisions of the Federal Fair Labor Standards Act. Borrower has not violated in any material respect any statutes, laws, ordinances or rules applicable to it, violation of which could have a Material Adverse Effect.

5.12. Environmental Condition. To the best of Borrower's knowledge, none of

Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in accordance with applicable law; to the best of Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a hazardous waste or hazardous substance disposal site, or a candidate for closure pursuant to any environmental protection statute; no lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and neither Borrower nor any Subsidiary has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal, state or other governmental agency concerning any

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action or omission by Borrower or any Subsidiary resulting in the release, or other disposition of hazardous waste or hazardous substances into the environment.

5.13. Taxes. Borrower and each Subsidiary has filed or caused to be filed

all tax returns required to be filed on a timely basis, and has paid, or has made adequate provision for the payment of, all taxes reflected therein, except those being contested in good faith by proper proceedings with adequate reserves under GAAP.

5.14. Subsidiaries. Borrower does not own any stock, partnership interest

or other equity securities of any Person, except for Permitted Investments.

5.15. Government Consents. Borrower and each Subsidiary has obtained all

consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted where the failure to take such actions would have a Material Adverse Effect.

5.16. Full Disclosure. No representation, warranty or other statement made

by Borrower in any certificate or written statement furnished to Bank contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such certificates or statements not misleading.

6. AFFIRMATIVE COVENANTS -----

Borrower covenants and agrees that, until payment in full of all outstanding Obligations, and for so long as Bank may have any commitment to make a Credit Extension hereunder, Borrower shall do all of the following:

6.1. Good Standing. Borrower shall maintain its and each of its

Subsidiaries' corporate existence and good standing in its jurisdiction of incorporation and maintain qualification in each jurisdiction in which the failure to so qualify could have a Material Adverse Effect. Borrower shall maintain, and shall cause each of its Subsidiaries to maintain, to the extent consistent with prudent management of Borrower's business, in force all licenses, approvals and agreements, the loss of which could have a Material Adverse Effect.

6.2. Government Compliance. Borrower shall meet, and shall cause each

Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and

government rules and regulations to which it is subject, noncompliance with which could have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Bank's Lien on the Collateral.

6.3. Financial Statements, Reports, Certificates. Borrower shall deliver to

Bank: (a) as soon as available, but in any event within forty-five (45) days after the end of each quarter, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during such period, in a form and certified by an officer of Borrower

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reasonably acceptable to Bank; (b) as soon as available, but in any event within thirty (30) days after the end of each month, a company prepared consolidated revenue and expense statement covering Borrower's consolidated operations during such period, in form reasonably acceptable to Bank; (c) as soon as available, but in any event within ninety (90) days after the end of Borrower's fiscal year, audited consolidated financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an unqualified opinion on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank; (d) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of Two Hundred Fifty Thousand Dollars (\$250,000) or more; (e) prompt notice of any material change in the composition of the Intellectual Property Collateral, including, but not limited to, any subsequent ownership right of the Borrower in or to any Copyright, Patent or Trademark not specified in any intellectual property security agreement between Borrower and Bank or knowledge of an event other than information that is publicly available and applicable generally to Borrower's business practices and industry that materially adversely effects the value of the Intellectual Property Collateral; and (f) such budgets, sales projections, operating plans or other financial information as Bank may reasonably request from time to time.

Within twenty (20) days after the last day of each month, Borrower shall deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer in substantially the form of Exhibit C hereto, together with aged listings of

accounts receivable.

Within forty-five (45) days after the last day of each quarter, Borrower shall deliver to Bank with the quarterly financial statements a Compliance Certificate signed by a Responsible Officer in substantially the form of Exhibit

D hereto.

Bank shall have a right from time to time hereafter to audit Borrower's Accounts at Borrower's expense, provided that such audits will be conducted no more often than every six (6) months unless an Event of Default has occurred and is continuing.

6.4. Inventory; Returns. Borrower shall keep all Inventory in good and

marketable condition, free from all material defects. Returns and allowances, if any, as between Borrower and its account debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this Agreement. Except with respect to the Borrower's ordinary course of business or standard warranty provisions, Borrower shall promptly notify Bank of all returns and recoveries and of all disputes and claims, where the return, recovery, dispute or claim involves more than Two Hundred Fifty Thousand Dollars (\$250,000).

6.5. Taxes. Borrower shall make, and shall cause each Subsidiary to make,

due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Bank, on demand, appropriate certificates attesting to the payment or deposit thereof; and Borrower will make, and will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding

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taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Bank with proof satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment with respect to the foregoing if (i) the amount or validity of such payment is contested in good faith by appropriate proceedings, (ii) Borrower or Subsidiary, as the case may be, has established proper reserves (to the extent required by GAAP) and (iii) no lien other than a Permitted Lien results.

6.6. Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof. Borrower shall also maintain insurance relating to Borrower's ownership and use of the Collateral in amounts and of a type that are customary to businesses similar to Borrower's.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as are reasonably satisfactory to Bank. All such policies of property insurance shall contain a lender's loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee thereof and all liability insurance policies shall show the Bank as an additional insured, and shall specify that the insurer must give at least twenty (20) days notice to Bank before canceling its policy for any reason. At Bank's request, Borrower shall deliver to Bank certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy shall, at the option of Bank, be payable to Bank to be applied on account of the Obligations.

6.7. Principal Depository. Borrower shall maintain its principal depository

and operating accounts with Bank.

6.8. Quick Ratio. Borrower shall maintain, measured as of the last day of

each quarter, a ratio of Quick Assets to Current Liabilities of at least 0.75 to 1.0.

6.9. Tangible Net Worth. Borrower shall maintain, measured as of the last

day of each quarter, a Tangible Net Worth of not less than: (i) Twenty Nine Million Dollars (\$29,000,000.00) as of the last day of the quarter ending September 30, 1998; and (ii) Twenty-Eight Million Five Hundred Thousand Dollars (\$28,500,000.00) as of the last day of each calendar quarter thereafter.

6.10. Debt-Net Worth Ratio. Borrower shall maintain, measured as of the

last day of each quarter, a ratio of Total Liabilities to Tangible Net Worth of not greater than 0.80 to 1.0.

6.11. Profitability. Borrower shall maintain, measured as of the last day

of each quarter: (i) a maximum net loss of One Million Five Hundred Thousand Dollars (\$1,500,000.00)

as of the last day of the third quarter of 1998; (ii) a maximum net loss of One Million Dollars (\$1,000,000.00) as of the last day of the fourth quarter of 1998; and (iii) a profit for each quarter commencing with the first quarter of Borrower's fiscal year 1999 with an allowance for one quarterly loss during such fiscal year of no greater than Two Hundred Fifty Thousand Dollars (\$250,000.00).

6.12. Debt Service Coverage Ratio. Beginning with the last day of the first

quarter following the Debt Service Coverage Event, Borrower shall maintain, measured as of the last day of each quarter, a Debt Service Coverage Ratio of 1.50 to 1.0.

6.13. Registration of Intellectual Property Rights.

(a) Borrower shall, in its discretion, and in accordance with normal business practices, register or cause to be registered (to the extent not already registered) with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, those intellectual property rights listed on Exhibits A, B and C to the Intellectual Property Security Agreement delivered to Bank by Borrower in connection with this Agreement within thirty (30) days of the date of this Agreement. Borrower shall, in its discretion, and in accordance with normal business practices, register or cause to be registered with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, those additional intellectual property rights developed or acquired by Borrower from time to time in connection with any product prior to the sale or licensing of such product to any third party, including, without

limitation, revisions or additions to the intellectual property rights listed on such Exhibits A, B and C. Notwithstanding the foregoing, upon the occurrence of an Event of Default, the Bank may require, in its discretion, that Borrower register or cause to be registered with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, any intellectual property rights developed or acquired by Borrower, including, without limitation, revisions or additions to the intellectual property rights listed on such Exhibits A, B and C.

(b) Borrower shall execute and deliver such additional instruments and documents from time to time as Bank shall reasonably request to perfect Bank's security interest in the Intellectual Property Collateral.

(c) Borrower shall (i) in its sole discretion, protect, defend and maintain the validity and enforceability of the Trademarks, Patents, Copyrights, and Mask Works, (ii) use its best efforts to detect infringements of the Trademarks, Patents, Copyrights and Mask Works and promptly advise Bank in writing of material infringements detected and (iii) not allow any Trademarks, Patents, Copyrights, or Mask Works to be abandoned, forfeited or dedicated to the public without written notice to Bank; provided, however, that the decision to abandon, forfeit or dedicate to the public such assets shall be solely within the discretion of the Borrower.

(d) Bank shall have the right, but not the obligation, to take, at Borrower's sole expense, any actions that Borrower is required under this Section 6.13 to take but which Borrower fails to take, after fifteen (15) days' notice to Borrower. Borrower shall reimburse

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and indemnify Bank for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this Section 6.13.

6.14. Further Assurances. At any time and from time to time Borrower

shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS

Borrower covenants and agrees that, so long as any Credit Extension hereunder shall be available and until payment in full of the outstanding Obligations or for so long as Bank may have any commitment to make any Advances, Borrower will not do any of the following:

7.1. Dispositions. Convey, sell, lease, transfer or otherwise dispose of

(collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than Transfers: (i) of inventory in the ordinary course of business, (ii) of licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; (iii) that constitute payment of normal and usual operating expenses in the ordinary course of business; or (iv) of worn-out or obsolete Equipment.

7.2. Changes in Business, Ownership, or Management, Business Locations.

Engage in any business, or permit any of its Subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and any business substantially similar or related thereto (or incidental thereto), or suffer a material change in Borrower's ownership or management. Borrower will not, without at least thirty (30) days prior written notification to Bank, relocate its chief executive office or add any new offices or business locations.

7.3. Mergers or Acquisitions. Prior to the Termination Date, merge or

consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person.

7.4. Indebtedness. Create, incur, assume or be or remain liable with

respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness.

7.5. Encumbrances. Create, incur, assume or suffer to exist any Lien with

respect to any of its property, or assign or otherwise convey any right to
receive income, including the sale of any Accounts, or permit any of its
Subsidiaries so to do, except for Permitted Liens.

7.6. Distributions. Pay any dividends or make any other distribution or

payment on account of or in redemption, retirement or purchase of any capital
stock.

7.7. Investments. Directly or indirectly acquire or own, or make any

Investment in or to any Person, or permit any of its Subsidiaries so to do,
other than Permitted Investments.

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7.8. Transactions with Affiliates. Directly or indirectly enter into or

permit to exist any material transaction with any Affiliate of Borrower except
for transactions that are in the ordinary course of Borrower's business, upon
fair and reasonable terms that are no less favorable to Borrower than would be
obtained in an arm's length transaction with a nonaffiliated Person.

7.9. Intellectual Property Agreements. Borrower shall not permit the

inclusion in any material contract to which it becomes a party of any provisions
that could or might in any way prevent the creation of a security interest in
Borrower's rights and interests in any property included within the definition
of the Intellectual Property Collateral acquired under such contracts, except to
the extent that such provisions are necessary in Borrower's exercise of its
reasonable business judgement.

7.10. Subordinated Debt. Make any payment in respect of any Subordinated

Debt, or permit any of its Subsidiaries to make any such payment, except in
compliance with the terms of such Subordinated Debt, or amend any provision
contained in any documentation relating to the Subordinated Debt without Bank's
prior written consent.

7.11. Inventory. Store more than ten percent of the book value of the

Inventory with a bailee, warehouseman, or similar party unless Bank has received
a pledge of any warehouse receipt covering such Inventory. Except for Inventory
sold in the ordinary course of business and except for such other locations as
Bank may approve in writing, Borrower shall keep the Inventory only at the
locations set forth in Section 10 hereof and such other locations of which
Borrower gives Bank prior written notice and as to which Borrower signs and
files a financing statement where needed to perfect Bank's security interest.

7.12. Compliance. Become an "investment company" or a company controlled by

an "investment company," within the meaning of the Investment Company Act of
1940, or become principally engaged in, or undertake as one of its important
activities, the business of extending credit for the purpose of purchasing or
carrying margin stock, or use the proceeds of any Advance for such purpose; fail
to meet the minimum funding requirements of ERISA; permit a Reportable Event or
Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the
Federal Fair Labor Standards Act or violate any other law or regulation, which
violation could have a Material Adverse Effect or a material adverse effect on
the Collateral or the priority of Bank's Lien on the Collateral; or permit any
of its Subsidiaries to do any of the foregoing.

8. EVENTS OF DEFAULT

Any one or more of the following events shall constitute an Event of
Default by Borrower under this Agreement:

8.1. Payment Default. If Borrower fails to pay, when due, any of the

Obligations.

8.2. Covenant Default.

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(a) If Borrower fails to perform any obligation under Sections
6.3, 6.6, 6.7, 6.8, 6.9, 6.10, 6.11, 6.12 or 6.13 or violates any of
the covenants contained in Article 7 of this Agreement and such
failure is not cured within thirty (30) days with respect to

Borrower's obligations under Section 6.7 and 6.13; or

(b) If Borrower fails or neglects to perform, keep, or observe any other material term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Bank and as to any default under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure such default within twenty (20) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the twenty (20) day period or cannot after diligent attempts by Borrower be cured within such twenty (20) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default (provided that no Advances will be required to be made during such cure period);

8.3. Material Adverse Change. If there (i) occurs a material adverse change

in the business, operations, or condition (financial or otherwise) of the Borrower, or (ii) is a material impairment of the prospect of repayment of any portion of the Obligations as the same shall become due or (iii) is a material impairment of the value or priority of Bank's security interests in the Collateral;

8.4. Attachment. If any material portion of Borrower's assets is attached,

seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within ten (10) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within ten (10) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Credit Extensions will be required to be made during such cure period);

8.5. Insolvency. If Borrower becomes Insolvent, or if an Insolvency

Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within 30 days (provided that no Advances will be made prior to the dismissal of such Insolvency Proceeding);

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8.6. Other Agreements. If there is a default in any agreement to which

Borrower is a party with a third party or parties resulting in the acceleration of the maturity of any Indebtedness in an amount in excess of Two Hundred Fifty Thousand Dollars (\$250,000) or that could have a Material Adverse Effect;

8.7. Subordinated Debt. If Borrower makes any payment on account of

Subordinated Debt, except to the extent such payment is allowed under any subordination agreement entered into with Bank;

8.8. Judgments. If a judgment or judgments for the payment of money in an

amount, individually or in the aggregate, of at least Two Hundred Fifty Thousand Dollars (\$250,000) shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of thirty (30) days (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment); or

8.9. Misrepresentations. If any material misrepresentation or material

misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate or writing delivered to Bank by Borrower or any Person acting on Borrower's behalf pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document.

9. BANK'S RIGHTS AND REMEDIES

9.1. Rights and Remedies. Upon the occurrence and during the continuance of

an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, upon terms and in whatever order that Bank reasonably considers advisable;

(d) Without notice to or demand upon Borrower, make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may reasonably designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to

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be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's premises, Borrower hereby grants Bank a license to enter such premises and to occupy the same, without charge;

(e) Without notice to Borrower set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right, solely for the purposes of exercising Bank's rights hereunder, to use, without charge, Borrower's labels, patents, copyrights, mask works, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(g) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply the proceeds thereof to the Obligations in whatever manner or order it deems appropriate;

(h) Bank may credit bid and purchase at any public sale, or at any private sale as permitted by law; and

(i) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

(j) Bank shall have a non-exclusive, royalty-free license to use the Intellectual Property Collateral to the extent reasonably necessary to permit Bank to exercise its rights and remedies upon the occurrence of an Event of Default.

9.2. Power of Attorney. Effective only upon the occurrence and during the

continuation of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; and (e) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts

terms which Bank determines to be reasonable; (f) to modify, in its sole discretion, any intellectual property security agreement entered into between Borrower and Bank without first obtaining Borrower's approval of or signature to such modification by amending Exhibit A, Exhibit B, Exhibit C, and Exhibit D, thereof, as appropriate, to include reference to any right, title or interest in any Copyrights, Patents, Trademarks, Mask Works acquired by Borrower after the execution hereof or to delete any reference to any right, title or interest in any Copyrights, Patents, Trademarks, or Mask Works in which Borrower no longer has or claims any right, title or interest; (g) to file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of Borrower where permitted by law; and (h) to transfer the Intellectual Property Collateral into the name of Bank or a third party to the extent permitted under the California Uniform Commercial Code provided Bank may exercise such power of attorney to sign the name of Borrower on any of the documents described in Section 4.2 regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Bank's obligation to provide advances hereunder is terminated.

9.3. Accounts Collection. Upon the occurrence and during the continuance of

an Event of Default, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower for Bank, receive in trust all payments as Bank's trustee, and if requested or required by Bank, immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4. Bank Expenses. If Borrower fails to pay any amounts or furnish any

required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves under the Committed Revolving Line as Bank deems necessary to protect Bank from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.6 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement.

9.5. Bank's Liability for Collateral. So long as Bank complies with

reasonable banking practices, Bank shall not in any way or manner be liable or responsible, unless the same is due to Bank's gross negligence or willful misconduct, for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral, unless the same is due to Bank's gross negligence or willful misconduct, shall be borne by Borrower.

9.6. Remedies Cumulative. Bank's rights and remedies under this Agreement,

the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not expressly set forth herein as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given.

9.7. Demand; Protest. Borrower waives demand, protest, notice of protest,

notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Bank on which Borrower may in any way be liable.

10. NOTICES

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower SeaChange International, Inc.
Acton Street
Maynard, Massachusetts 01754
Attn: Mr. William Fiedler, Chief Financial Officer
FAX: _____

with a copy to Testa, Hurwitz & Thibeault, LLP
High Street - 20th Floor
Boston, Massachusetts 02110
Attn: William B. Simmons, Esquire
FAX: (617) 248-7100

If to Bank Silicon Valley Bank
William Street
Wellesley, Massachusetts 02481
Attn: Mr. Mark J. Pasculano
FAX: (781) 431-9906

with a copy to: Riemer & Braunstein
Three Center Plaza
Boston, Massachusetts 02108
Attn: David A. Ephraim, Esquire
FAX: (617) 723-6831

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The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. CHOICE OF LAW AND VENUE; JURY WAIVER

The laws of the Commonwealth of Massachusetts shall apply to this Agreement. BORROWER ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE COMMONWEALTH OF MASSACHUSETTS IN ANY ACTION, SUIT, OR PROCEEDING OF ANY KIND, AGAINST IT WHICH ARISES OUT OF OR BY REASON OF THIS AGREEMENT; PROVIDED, HOWEVER, THAT IF FOR ANY REASON BANK CANNOT AVAIL ITSELF OF THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS, BORROWER ACCEPTS JURISDICTION OF THE COURTS AND VENUE IN SANTA CLARA COUNTY, CALIFORNIA.

BORROWER AND BANK EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

12. GENERAL PROVISIONS

12.1. Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

12.2. Indemnification. Borrower shall , indemnify ,defend, protect and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses in any way suffered,

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incurred, or paid by Bank as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under the Loan Documents, or otherwise (including without limitation reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3. Time of Essence. Time is of the essence for the performance of all obligations set forth in this Agreement.

12.4. Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

12.5. Amendments in Writing, Integration. This Agreement cannot be amended or terminated except by a writing signed by Borrower and Bank. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement, if any, are merged into this Agreement and the Loan Documents.

12.6. Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

12.7. Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding. The obligations of Borrower to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run; provided that so long as the obligations referred to in the first sentence of this Section 12.7 have been satisfied, and Bank has no commitment to make any Credit Extensions or to make any other loans to Borrower, Bank shall release all security interests granted hereunder and redeliver all Collateral held by it in accordance with applicable law.

12.8. Confidentiality. In handling any confidential information Bank shall exercise the same degree of care that it exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or affiliates of Bank in connection with their present or prospective business relations with Borrower, (ii) to prospective transferees or purchasers of any interest in the Loans, provided that they have entered into a comparable confidentiality agreement in favor of Borrower and have delivered a copy to Borrower, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Bank, and (v) as Bank may deem appropriate in connection with the exercise of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or

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possession of Bank when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (b) is disclosed to Bank by a third party, provided Bank does not have actual knowledge that such third party is prohibited from disclosing such information.

12.9. Countersignature. This Agreement shall become effective only when it shall have been executed by Borrower and Bank (provided, however, in no event shall this Agreement become effective until signed by an officer of Bank in California).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

SEACHANGE INTERNATIONAL, INC.

By: /s/ William L. Fiedler

Name: William L. Fiedler

Title: Chief Financial Officer

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

By: /s/ Joan Parsons

Name: Joan Parsons

Title: Senior Vice President

SILICON VALLEY BANK

By: /s/ Heidi Fepty

Name: Heidi Fepty

Title: Loan Documentation Officer

(Signed in Santa Clara County, California)

EXHIBIT A

The Collateral shall consist of all right, title and interest of Borrower in and to the following:

- (a) All goods and equipment now owned or hereafter acquired, including, without limitation, all machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;
- (b) All inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above;
- (c) All contract rights and general intangibles now owned or hereafter acquired, including, without limitation, goodwill, trademarks, servicemarks, trade styles, trade names, patents, patent applications, leases, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer discs, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance and rights to payment of any kind;
- (d) All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower;
- (e) All documents, cash, deposit accounts, securities, investment property, letters of credit, certificates of deposit, instruments and chattel paper now owned or hereafter acquired and Borrower's Books relating to the foregoing;
- (f) All copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished, now owned or hereafter acquired; all trade secret rights, including all rights to unpatented inventions, know-how, operating manuals, license rights and agreements and confidential information, now owned or hereafter acquired; all mask work or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired; all claims for damages by way of any past, present and future infringement of any of the foregoing; and

Including, without limitation, all items listed on Rider 1 attached hereto and

made a part hereof.

All Borrower's Books relating to the foregoing and any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof.

EXHIBIT B

LOAN PAYMENT/ADVANCE TELEPHONE REQUEST FORM
DEADLINE FOR SAME DAY PROCESSING IS 3:00 P.M., E.S.T.

TO: CENTRAL CLIENT SERVICE DIVISION DATE: -----
FAX#: (408) ----- TIME: -----

FROM: SEACHANGE INTERNATIONAL, INC

BORROWER'S NAME

FROM: -----
AUTHORIZED SIGNER'S NAME

AUTHORIZED SIGNATURE

PHONE: -----
FROM ACCOUNT # TO ACCOUNT#

REQUESTED TRANSACTION TYPE -----	REQUEST DOLLAR AMOUNT -----
PRINCIPAL INCREASE (ADVANCE)	\$
PRINCIPAL PAYMENT (ONLY) \$	
INTEREST PAYMENT (ONLY) \$	
PRINCIPAL AND INTEREST (PAYMENT)	\$

OTHER INSTRUCTIONS:

All representations and warranties of Borrower stated in the Loan and Security Agreement are true, correct and complete in all material respects as of the date of the telephone request for and Advance confirmed by this Advance Request; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

BANK USE ONLY:
TELEPHONE REQUEST:

The following person is authorized to request the loan payment transfer/loan advance on the advance designated account and is known to me.

Authorized Requester

Authorized Signature (Bank)
Phone #

EXHIBIT C

BORROWING BASE CERTIFICATE

Borrower: SEACHANGE INTERNATIONAL, INC. Bank: Silicon Valley Bank

Commitment Amount: \$6,000,000.00

ACCOUNTS RECEIVABLE

- | | |
|--|----|
| 1. Accounts Receivable Book Value as of | \$ |
| 2. Additions (please explain on reverse) | \$ |

3.	TOTAL ACCOUNTS RECEIVABLE	\$	-----

ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)			
4.	Amounts over 90 days due	\$	-----
5.	Balance of 50% over 90 day accounts	\$	-----
6.	Concentration Limits	\$	-----
7.	Foreign Accounts	\$	-----
8.	Governmental Accounts	\$	-----
9.	Contra Accounts	\$	-----
10.	Promotion or Demo Accounts	\$	-----
11.	Intercompany/Employee Accounts	\$	-----
12.	Other (please explain on reverse)	\$	-----
13.	TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	\$	-----
14.	Eligible Accounts (#3 minus #13)	\$	-----
15.	Eligible Foreign Accounts	\$	-----
16.	Approved Foreign Accounts	\$	-----
17.	LOAN VALUE OF ALL ACCOUNTS (80% of #14, plus 90% of #15, plus a Bank determined percentage of #16)	\$	-----

BALANCES			
18.	Maximum Loan Amount	\$	-----
19.	Total Funds Available (Lesser of #18 or #17)	\$	-----
20.	Present balance owing on Line of Credit	\$	-----
21.	Outstanding under Committed Equipment Line [only prior to Debt Service Coverage Event]	\$	-----
22.	RESERVE POSITION (#19 minus #20 and #21)	\$	-----

The undersigned represents and warrants that the foregoing is true, complete and correct, and that the information reflected in this Borrowing Base Certificate complies with the representations and warranties set forth in the Loan and Security Agreement between the undersigned and Silicon Valley Bank.

COMMENTS:

BANK USE ONLY
Received By: _____
Date: _____
Reviewed By: _____
Compliance Status: Yes / No

By: _____
Authorized Signer

EXHIBIT D
COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK

FROM: SEACHANGE INTERNATIONAL, INC.

The undersigned authorized officer of SEACHANGE INTERNATIONAL, INC. hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct in all material respects as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The Officer expressly acknowledges that no borrowings may be requested by the Borrower at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that such compliance is determined not just at the date this certificate is delivered.

PLEASE INDICATE COMPLIANCE STATUS BY CIRCLING YES/NO UNDER "COMPLIES" COLUMN.

REPORTING COVENANT	Required	Complies	
-----	-----	-----	-----
<S>	<C>	<C>	
Financial statements & CC Annual (CPA Audited)	Quarterly within 45 days	Yes	No
BBC & A/R Agings	FYE within 90 days	Yes	No
Monthly Revenue and Expense	Monthly within 20 days	Yes	No
	Monthly within 30 days	Yes	No

FINANCIAL COVENANT	Required	Actual	Complies	
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	
Maintain on a Quarterly Basis:				
Minimum Quick Ratio	0.75:1.0	_____:1.0	Yes	No
Minimum Tangible Net Worth	\$29,000,000 for 9/30/98; \$28,500,000 thereafter	\$_____	Yes	No
Maximum Debt-Net Worth Profitability	0.80:1.0 (\$1,500,000) for third quarter 1998; (\$1,000,000) for fourth quarter 1998; and profitable on quarterly basis in FY 1999 with allowance for one quarterly loss of up to \$250,000	_____:1.0	Yes	No
Minimum Debt Service Coverage Ratio	1.5:1.0 (commencing after DSC Event)	_____:1.0	Yes	No

Comments Regarding Exceptions:

 BANK USE ONLY
 Received By: _____
 Date: _____
 Reviewed By: _____
 Compliance Status: Yes / No

Sincerely,

Date:

Signature

Title

<TABLE> <S> <C>

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(OTHER-SE)	
ADDITIONAL PAID-IN CAPITAL	31,977
RETAINED EARNINGS (DEFICIT)	(682)
CUMULATIVE TRANSLATION ADJUSTMENT	(130)
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