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 July 31, 2001

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 preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

YES __X___ NO _______

The number of shares outstanding of the registrant's Common Stock on September 10, 2001 was 22,916,517.

SEACHANGE INTERNATIONAL, INC.

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

ITEM I. Financial Statements

	July 31, 2001	January 31, 2001

Assets		
Current Assets		
Cash and cash equivalents	$ 8,994	$ 6,145
Accounts receivable, net of allowance for doubtful accounts of $634 at July 31, 2001 and $742 at January 31, 2001	26,448	27,112
Inventories	22,409	24,907
Prepaid expenses and other current assets	3,358	2,671
Deferred income taxes	7,001	7,001
Total current assets	68,210	67,836
Property and equipment, net	18,297	15,886
Other assets	1,444	1,833
Goodwill and intangibles, net	4,938	2,698
	$ 92,889	$ 88,253
Liabilities and Stockholders' Equity		
Current liabilities		
Line of credit	$ --	$ 4,000
Current portion of equipment line of credit and obligations under capital lease..................	2,318	2,532
Accounts payable	16,688	17,332
Accrued expenses	1,435	1,816
Customer deposits	2,683	3,946
Deferred revenue	9,992	8,435
Income taxes payable	87	956
Total current liabilities	33,203	39,017
Long-term equipment line of credit and obligations under capital lease	2,899	3,934
Commitments and contingencies (Note 9)		
Stockholders' Equity		
Common stock, $.01 par value; 100,000,000 shares authorized; 22,913,262 and 22,037,811 shares issued at July 31, 2001 and January 31, 2001, respectively	229	221
Additional paid-in capital	63,385	50,157
Deferred equity discount (Note 10)	(1,205)	--
Accumulated deficit	(5,407)	(4,905)
Accumulated other comprehensive loss	(215)	(171)
Total stockholders' equity	56,787	45,302
	$ 92,889	$ 88,253

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

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

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	July 31, 2001	July 31, 2000	July 31, 2001	July 31, 2000
<S>	<C>	<C>	<C>	<C>
Revenues				
Systems	$ 19,776	$ 19,848	$ 43,053	$ 36,684
Services	7,248	5,508	14,127	10,976
	27,024	25,356	57,180	47,660
Cost of revenues				
Systems	11,050	10,993	24,526	20,359
Services	5,223	4,457	10,443	8,689
	16,273	15,450	34,969	29,048

Gross profit	10,751	9,906	22,211	18,612
Operating expenses				
Research and development	6,093	5,002	11,677	9,355
Selling and marketing	3,583	2,625	7,189	5,115
General and administrative	1,993	1,799	3,831	3,302
	11,669	9,426	22,697	17,772
Income (loss) from operations	(918)	480	(486)	840
Interest income (expense), net	(88)	(1)	(252)	24
Income (loss) before income taxes	(1,006)	479	(738)	864
Provision (benefit) for income taxes	(322)	149	(236)	271
Income (loss) before cumulative effect of change in accounting principle	(684)	330	(502)	593
Cumulative effect of change in accounting principle, net of tax of $732	--	--	--	(1,100)
Net income (loss)	($ 684)	$ 330	($ 502)	($ 507)
Basic earnings per share before cumulative effect of change in accounting principle	($ 0.03)	$ 0.02	($ 0.02)	$ 0.03
Cumulative effect of change in accounting principle	--	--	--	($ 0.05)
Basic earnings (loss) per share	($ 0.03)	$ 0.02	($ 0.02)	($ 0.02)
Diluted earnings (loss) per share	($ 0.03)	$ 0.01	($ 0.02)	($ 0.02)
Weighted average common shares outstanding:				
Basic	22,895	21,759	22,725	21,570
Diluted	22,895	23,306	22,725	21,570

</TABLE>

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

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

<TABLE>
<CAPTION>

	For the six months ended	
	July 31, 2001	July 31, 2000
<S>	<C>	<C>
Cash flows from operating activities		
Net loss	$ (502)	$ (507)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,217	2,267
Inventory valuation allowance	--	92
Amortization of deferred equity discount	1,124	--
Changes in operating assets and liabilities:		
Accounts receivable	664	(3,867)
Inventories	1,952	(2,446)
Prepaid expenses and other assets	(343)	(1,974)
Accounts payable	(644)	3,314
Accrued expenses	(381)	(836)
Customer deposits	(1,263)	2,392
Deferred revenue	1,557	2,515
Income taxes payable	(869)	(724)
Net cash provided by operating activities	4,512	226

Cash flows from investing activities		
Purchases of property and equipment	(4,613)	(4,836)
Increase in intangible assets	(2,709)	--
Net cash used in investing activities	(7,322)	(4,836)
Cash flows from financing activities		
Borrowings under equipment line of credit	--	3,240
Repayment of borrowings under revolving line of credit	(4,000)	--
Repayment of borrowings under equipment line of credit	(1,147)	(625)
Repayment of obligations under capital lease	(102)	(126)
Net proceeds from issuance of common stock	10,908	11,299
Net cash provided by financing activities	5,659	13,788
Net increase in cash and cash equivalents	2,849	9,178
Cash and cash equivalents, beginning of period	6,145	2,721
Cash and cash equivalents, end of period	$ 8,994	$ 11,899
Supplemental disclosure of noncash activities		
Transfer of items originally classified as fixed assets to inventories	$ 141	$ 450
Transfer of items originally classified as inventories to fixed assets	$ 687	$ --

</TABLE>

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

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of SeaChange International, Inc. and its subsidiaries. SeaChange believes that the unaudited consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments), necessary for a fair statement of SeaChange's financial position, results of operations and cash flows at the dates and for the periods indicated. The results of operations for the periods presented are not necessarily indicative of results expected for the full fiscal year or any other future periods. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended January 31, 2001, included in SeaChange's Annual Report on Form 10-K for such fiscal year.

2. Revenue Recognition

Revenues from sales of systems are recognized upon shipment provided title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is probable. Installation, project management and training revenue is deferred and recognized as these services are performed. Revenue from technical support and maintenance is deferred and recognized ratably over the period of the related agreements, generally twelve months. Customers are billed for installation, project management, training and maintenance at the time of the product sale. If a portion of the sales price is not due until installation of the system is complete, that portion of the sales price is deferred until installation is complete. Revenue from content fees, primarily movies, is recognized based on the volume of monthly purchases that are made by hotel guests. Revenue from product development contract services is recognized based on the time and materials incurred to complete the work. Shipping and handling costs are included in revenue and cost of revenues.

SeaChange's transactions frequently involve the sales of systems and services under multiple element arrangements. Systems sales always include one year of free technical support and maintenance services. Revenue under multiple element arrangements is allocated to all elements except systems based upon the fair value of those elements. The amounts allocated to training, project management, technical support and maintenance and content fees is based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation revenue is based upon hourly rates and the estimated time required to complete the service. The amount allocated to systems is done on a residual method basis. Under this method, the total arrangement value is allocated first to undelivered elements, based on their fair values, with the remainder being allocated to systems revenue. Installation, training and project management services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products.

(in thousands, except per share data)

3. Earnings Per Share

For the three months ended July 31, 2001, and the six months ended July 31, 2001 and July 31, 2000, common shares of 3,496,000, 2,714,000 and 3,496,000, respectively, issuable upon the exercise of stock options, are antidilutive because SeaChange recorded a net loss for the period, and therefore, have been excluded from the diluted earnings per share computation.

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

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	July 31, 2001	July 31, 2000	July 31, 2001	July 31, 2000
<S>	<C>	<C>	<C>	<C>
Weighted average shares used in calculating earnings per share-Basic	22,895	21,759	22,725	21,570
Dilutive common stock equivalents	--	1,547	--	--
Weighted average shares used in calculating earnings per share-Diluted	22,895	23,306	22,725	21,570

</TABLE>

4. Inventories

Inventories consist of the following:

	July 31, 2001	January 31, 2001
Components and assemblies	$14,821	$18,695
Finished products	$ 7,588	$ 6,212
	$22,409	$24,907

5. Comprehensive Income (Loss)

SeaChange's comprehensive income (loss) was as follows:

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	July 31, 2001	July 31, 2000	July 31, 2001	July 31, 2000
<S>	<C>	<C>	<C>	<C>
Net income (loss)	$(684)	$ 330	$(502)	$(507)
Other comprehensive (expense), net of tax:				
Foreign currency translation adjustment, net of tax of $(8), $8, $(14) and $(33), respectively	16	(23)	(30)	(54)
Other comprehensive income (expense)	16	(23)	(30)	(54)
Comprehensive income (loss)	$(668)	$ 307	$(532)	$(561)

</TABLE>

6. Deferred Legal Costs

SeaChange defers legal costs associated with defending its existing patents. If the patent defense is successful, the costs are capitalized and amortized over their estimated remaining useful life. If the patent defense is unsuccessful, the amounts deferred are charged to operating expense. In July 2001, approximately $2.6 million in deferred legal costs were capitalized into intangible assets as a result of the successful defense of patents.

(in thousands, except per share data)

7. Change in Accounting Principle

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Historically, for some of SeaChange's sales transactions, a portion of the sales price, typically 25%, was not due until installation occurred. Under SAB 101 and the new accounting method adopted retroactive to February 1, 2000, SeaChange now defers the portion of the sales price not due until installation is complete. During the fourth quarter of the twelve months ended January 31, 2001, SeaChange implemented the SEC's SAB 101 guidelines, retroactive to the beginning of the year. This was reported as a cumulative effect of a change in accounting principle as of February 1, 2000. The cumulative effect of the change in accounting principle on prior years resulted in a charge to income of $1.1 million (net of income taxes of $732,000), or $0.05 per diluted share, which has been included in income for the six months ended July 31, 2000. The results for the six months ended July 31, 2000 have been restated to conform with SAB 101.

8. Segment Information

SeaChange has three reportable segments: broadband systems, broadcast systems and services. The broadband systems segment provides products to digitally manage, store and distribute digital video for television operators and telecommunications companies. The broadcast systems segment provides products for the storage, archival, on-air playback of advertising and other video programming for the broadcast television industry. The service segment provides installation, training, product management, post-contract support services for all of the above systems and content which is distributed by the broadband product segment. SeaChange does not measure the assets allocated to the segments. SeaChange measures results of the segments based on the respective gross profits. There were no inter-segment sales or transfers during the periods presented. Long-lived assets are principally located in the United States. The following summarizes the revenues and cost of revenues by reportable segment:

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	July 31, 2001	July 31, 2000	July 31, 2001	July 31, 2000
<S>	<C>	<C>	<C>	<C>
Revenues				
Broadband	$15,678	$14,018	$34,529	$27,896
Broadcast	4,098	5,830	8,524	8,788
Services	7,248	5,508	14,127	10,976
Total	$27,024	$25,356	$57,180	$47,660
Costs of revenues				
Broadband	$ 8,726	$ 7,749	$19,700	$15,235
Broadcast	2,324	3,244	4,826	5,124
Services	5,223	4,457	10,443	8,689
Total	$16,273	$15,450	$34,969	$29,048

The following summarizes revenues by geographic locations:

Revenues				
United States	$23,480	$21,363	$49,678	$40,347
Canada and South America	274	414	534	2,002
Europe	1,729	1,472	3,893	2,974
Asian Pacific and rest of world	1,541	2,107	3,075	2,337
Total	$27,024	$25,356	$57,180	$47,660

</TABLE>

(in thousands, except per share data)

For the three and six months ended July 31, 2001 and 2000, certain customers each accounted for more than 10% of SeaChange's revenue. Individual customers each accounted for 32% and 10% of revenues in the three months ended July 31, 2001, 17% and 10% of revenues in the three months ended July 31, 2000, 26% and 11% of revenues in the six months ended July 31, 2001, and 13%, 12%, 12% and 11% in the six months ended July 31, 2000.

	Three months ended		Six months ended	
	July 31,	July 31,	July 31,	July 31,
	2001	2000	2001	2000
Customer A	32%	17%	26%	13%
Customer B	10%			
Customer C		10%	11%	12%
Customer D				12%
Customer E				11%

9. Legal Proceedings

The patent infringement action (Civil Action No. 2:00-CV-195) filed by Beam Laser Systems, Inc. and Frank L. Beam in federal court in the Eastern District of Virginia against SeaChange, one of SeaChange's customers, Cox Communications, Inc., and two related companies of Cox Communications, has settled and been dismissed. In that action, Beam Laser asserted that ad insertion technology, including the SeaChange SPOT ad insertion system, used by Cox Communications and its companies infringed two United States patents held by Beam Laser (Patents No. 4,814,883 and 5,200,825), and sought both an injunction and monetary damages. All parties reached a settlement of that action effective as of June 28, 2001, which settlement included a consent judgment entered by the federal court in the Eastern District of Virginia on July 9, 2001. The settlement in part provides a judgment that all versions of SeaChange's SPOT product do not and have not infringed either of Beam Laser's two patents in the action, that Cox Communications' and its companies' use of those products and certain products of third parties does not infringe either of those two patents, waiving all rights to appeal, and dismissing with prejudice all other claims in the action. The settlement also contains both covenants by Beam Laser not to sue SeaChange, Cox Communications and its companies and customers for infringement of those patents regarding any products or uses and a fully paid-up, irrevocable license by Beam Laser to SeaChange under those two patents.

On June 13, 2000, SeaChange filed in the United States District Court for the District of Delaware a lawsuit against one of our competitors, nCube Corp., whereby SeaChange alleged that nCube's MediaCube-4 product infringed a patent held by SeaChange (Patent No. 5,862,312). In instituting the claim, SeaChange sought both a permanent injunction and damages in an unspecified amount. nCube made a counterclaim against SeaChange that the patent held by SeaChange was invalid and that nCube's MediaCube-4 product did not infringe the SeaChange patent. On September 6, 2000, nCube conceded, based on the District Court's prior claim construction ruling, that its MediaCube-4 product infringed the SeaChange patent. On September 25, 2000 the court upheld the validity of the SeaChange patent. nCube has filed motions challenging both the jury's verdict and the District Court's claim construction ruling. The District Court has yet to rule on nCube's motions. At this time SeaChange is awaiting the court's decision regarding a permanent injunction. Damages will be determined in future proceedings.

On January 8, 2001, nCube Corp. filed a complaint against SeaChange in the United States District Court for the District of Delaware alleging that SeaChange's use of its Media Cluster, Media Express and Media Server technology each infringe a patent held by nCube (Patent No. 5,805,804). In instituting the claim, nCube has sought both an injunction and monetary damages in an unspecified amount. SeaChange responded on January 26, 2001, denying that claim of infringement. SeaChange also asserted a counterclaim seeking a declaration from the District court that U.S. Patent No. 5,805,804 is invalid and not infringed.

On June 14, 1999, SeaChange filed a defamation complaint against Jeffrey Putterman, Lathrop Investment Management, Inc. and Concurrent Computer Corporation in the Circuit Court of Pulaski County, Arkansas alleging that the defendants conspired to injure SeaChange's business and reputation in the marketplace. The complaint further alleges that Mr. Putterman and Lathrop Investment Management, Inc. defamed SeaChange through false postings on an Internet message board. The complaint seeks unspecified amounts of compensatory and punitive damages. On June 14, 2000, Concurrent filed a counterclaim under seal against SeaChange seeking unspecified damages. These motions are currently pending and no trial date has been set.

SeaChange cannot be certain of the outcome of the foregoing litigation, but SeaChange plans to oppose allegations against it and assert its claims against other parties vigorously. In addition, as these claims are in the early stages of discovery and certain claims for damages are as yet unspecified, SeaChange is unable to estimate the impact to its business, financial condition, and results of operations or cash flows.

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

On December 1, 2000, SeaChange and Comcast Cable Communications, Inc. entered into a video-on-demand purchase agreement for SeaChange's interactive television video servers and related services. Under the terms of the video-on-demand purchase agreement, Comcast has committed to purchase SeaChange's equipment capable of serving a minimum of one million cable subscribers by approximately December 2002. In addition, Comcast may earn up to an additional 450,000 incentive common stock purchase warrants through December 2003 based on the number of cable subscribers in excess of one million who are served by SeaChange's equipment which has been purchased by Comcast. In connection with the execution of this commercial agreement, SeaChange entered into a common stock and warrant purchase agreement, dated as of December 1, 2000, with Comcast SC Investment, Inc., whereby Comcast SC agreed to purchase, subject to certain closing conditions including registration of the shares purchased thereby, 466,255 shares of SeaChange's common stock for approximately $10 million and Comcast SC would receive a warrant to purchase 100,000 shares, exercisable at $21.445 per share, of SeaChange's common stock. This stock and warrant purchase agreement was terminated by SeaChange and Comcast SC on February 28, 2001. The terms and conditions of the video-on-demand purchase agreement have not been modified.

On February 28, 2001, SeaChange and Comcast SC signed and closed a new common stock and warrant purchase agreement on terms similar to the prior agreement. Under the terms of this new agreement, SeaChange sold in a private placement to Comcast SC for approximately $10,000,000 an aggregate of 756,144 shares of SeaChange's common stock and a warrant to purchase 100,000 shares of SeaChange's common stock with an exercise price of $13.225 per share. Under certain conditions determined upon the effectiveness of the registration of the shares, the number of common shares purchased and the number of common stock purchase warrants and related exercise price are subject to adjustment. An additional number of shares of common stock would be issued to Comcast SC without any additional consideration as is equal to the difference between 756,144, the number of shares of common stock issued on February 28, 2001, and the number of shares obtained by dividing $10,000,000 by the lower of 1) 92% of the closing market price of SeaChange's common stock on the date of effectiveness of this registration statement, and 2) the average of the closing market price of SeaChange's common stock for the five trading days ending on the effective date of this registration statement, if either of such prices is lower than $13.225. The warrant agreement contains an adjustment mechanism such that the warrant would be exercisable for an additional 25,000 shares of SeaChange's common stock if the registration statement has not been declared effective on or before March 31, 2001 and an additional 333.33 shares of SeaChange's common stock per day beginning on and including May 1, 2001 for each day up to and including the day the registration statement is declared effective. The warrant agreement also provides that the exercise price of the warrant would be reduced on the effective date

of the registration statement to the lower of 1) 92% of the closing market price of SeaChange's common stock on the effective date of the registration statement, and 2) the average of the closing market prices of SeaChange's common stock for the five trading days ending on the date of effectiveness of the registration statement, if either of such prices is lower than $13.225, the exercise price as of the closing date.

SeaChange determined the intrinsic value of $586,000 related to the 756,144 shares of common stock purchased on February 28, 2001 and measured the fair value of $1.1 million related to the 100,000 common stock purchase warrants as of the closing date and recorded these amounts as contra-equity. On April 30, 2001, SeaChange recorded an additional contra-equity amount of $325,000 for the fair value of the additional 25,000 common stock purchase warrants of SeaChange common stock as the registration statement had not been declared effective on or before March 31, 2001. On June 13, 2001, the effective date of the registration statement, SeaChange issued an additional 14,667 common stock purchase warrants in accordance with the agreement, and recorded an additional contra equity amount of $335,000, representing the incremental fair value of the total warrants issued. Based on the closing market price on the date of effectiveness of this registration statement and the five trading days preceding the date of effectiveness of this registration statement, no additional common shares were issued to Comcast SC pursuant to the terms of the purchase agreement and Comcast is not entitled to the issuance in the future of additional shares pursuant to the terms of the purchase agreement. Also, based on the then prevailing market prices of SeaChange's common stock, the exercise price of the warrant was not reduced and is not subject to reduction in the future, other than equitable adjustment in connection with a stock split or other comparable event and future dilutive issuances. The contra-equity amount is being amortized as an offset to gross revenue in proportion to the revenue recognized from the sale of equipment with respect to the first one million subscribers Comcast has committed to under the video-on-demand purchase agreement. During the three months ended April 30, 2001 and July 31, 2001, SeaChange amortized $449,000 and $675,000, respectively, of the deferred equity discount. The fair value of the additional incentive common stock purchase warrants will also be recorded as an offset to gross revenue as the warrants are earned by Comcast, if any.

11. New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. SeaChange believes SFAS 142 will not impact its current financial position and results of operations.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective for SeaChange on February 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization and includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and reclassification of certain intangibles out of previously reported goodwill. SFAS 142 also requires SeaChange to complete a transitional goodwill impairment test within six months from the date of adoption. SeaChange is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

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

Factors That May Affect Future Results

Any statements contained in this Form 10-Q that do not describe historical facts, including without limitation statements concerning expected revenues, earnings, product introductions and general market conditions, may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements contained herein are based on current expectations, but are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. The factors that could cause actual future results to differ materially from current expectations include the following: SeaChange's ability to integrate the operations of acquired subsidiaries; fluctuations in demand for SeaChange's products and services; changes in the Company's customers' capital expenditures and purchasing plans; SeaChange's ability to manage its growth; SeaChange's ability to develop, market and introduce new and enhanced products and services on a timely basis; the rapid technological change which characterizes SeaChange's markets; SeaChange's significant concentration of customers; SeaChange's dependence on certain sole source suppliers and third-party manufacturers; the risks associated with international sales as SeaChange expands its markets; and the ability of SeaChange to compete successfully in the future. Further information on factors that could cause actual results to differ from those anticipated is detailed in various filings made by SeaChange from time to time with the Securities and Exchange Commission, including but not limited to, those appearing under the caption "Certain Risks Affecting Our Business" in SeaChange's Annual Report on Form 10-K for the year ended January 31, 2001. Any forward-looking statements should be considered in light of those factors.

Overview

SeaChange develops, manufactures and sells systems that automate the management and distribution of both short-form video streams, such as advertisements, and long-form video streams, such as movies or other feature presentations, each of which requires precise, accurate and continuous execution, and the related services and movie content to television operators, telecommunications companies and broadcast television companies. Revenues from sales of systems are recognized upon shipment provided title and risk of loss has passed to the customer, there is evidence of an arrangement, fees are fixed or determinable and collection of the related receivable is probable. Installation, project management and training revenue is deferred and recognized as these services are performed. Revenue from technical support and maintenance is deferred and recognized ratably over the period of the related agreements, generally twelve months. Customers are billed for installation, project management, training and maintenance at the time of the product sale. If a portion of the sales price is not due until installation of the system is complete, that portion of the sales price is deferred until installation is complete. Revenue from content fees, primarily movies, is recognized based on the volume of monthly purchases that are made by hotel guests. Revenue from product development contract services is recognized based on the time and materials incurred to complete the work. Shipping and handling costs are included in revenue and cost of revenues.

SeaChange's transactions frequently involve the sales of systems and services under multiple element arrangements. Systems sales always include one year of free technical support and maintenance services. Revenue under multiple element arrangements is allocated to all elements except systems based upon the fair value of those elements. The amounts allocated to training, project management, technical support and maintenance and content fees is based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation revenue is based upon hourly rates and the estimated time required to complete the service. The amount allocated to systems is done on a residual method basis. Under this method, the total arrangement value is allocated first to undelivered elements, based on their fair values, with the remainder being allocated to systems revenue. Installation, training and project management services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products.

SeaChange has experienced fluctuations in its systems revenues from quarter to quarter due to the timing of receipt of customer orders and the shipment of those orders. The factors that impact the timing of receipt of customer orders include among other factors: (1) customer obtaining authorized signatures on their purchase orders, (2) budgetary approvals within the customer's company for capital purchases and (3) the ability to process the purchase order within the customer's organization in a timely manner. Factors that may impact the shipment of customer orders include: (1) the availability of material to produce the product, and (2) the time required to produce and test the

system before delivery. Because the average sales price of a SeaChange system is high, the delay in the timing of receipt and shipment of any one customer order can result in quarterly fluctuations in SeaChange's revenue.

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

Three Months Ended July 31, 2001 Compared to the Three Months Ended July 31, 2000

Revenues

Systems. SeaChange's systems revenues consist of sales within its broadband segment (primarily digital advertising insertion and interactive television systems) and its broadcast segment. Systems revenues remained flat at $19.8 million in the three months ended July 31, 2001 and July 31, 2000. Revenues from the broadband segment, which accounted for 58% and 55% of total revenues in the three months ended July 31, 2001 and 2000, respectively, increased to $15.7 million in 2001 as compared to $14.0 million in 2000. Interactive television system revenues were $10.9 million for the three months ended July 31, 2001 as compared to $4.4 million in the prior year primarily due to the initial deployment of residential video-on-demand systems in the U.S. for U.S. cable operators. Included in the interactive television systems revenue was the amortization of $675,000 related to the deferred equity discount associated with the Comcast equity investment. Digital advertising system revenues were $4.8 million for the three months ended July 31, 2001 as compared to $9.6 million in the prior year. The decrease resulted primarily from the decline in the number of expansion systems purchased by U.S. cable operators. Broadcast system segment revenues were $4.1 million in the three months ended July 31, 2001 as compared to $5.8 million in the three months ended July 31, 2000. The decrease in broadcast revenues is primarily attributable to the decrease in advertising revenues earned by the broadcast companies resulting in a decrease in their capital expenditures for new broadcast systems. We expect future revenue growth, if any, to come principally from our interactive television and broadcast system products as cable and telecommunications companies continue to offer new video-on-demand applications for their customers and the market for digital video servers within the broadcast industry expands. As revenues from broadcast and interactive television products increase, the digital advertising products will become a smaller portion of total system revenues. However, SeaChange believes that there will be a continued demand for expansions to existing digital advertising insertion systems within the U.S. and growth potential for new interactive advertising systems in the future.

Services. SeaChange's services revenues consist of fees for installation, training, product maintenance, technical support services, product development services and movie content fees. SeaChange's services revenues increased 32% to $7.2 million in the three months ended July 31, 2001 from $5.5 million in the three months ended July 31, 2000. This increase in services revenues primarily resulted from the renewals of technical support and maintenance services, price increases on certain technical support and maintenance services, the impact of a growing installed base of systems and a higher level of product development services.

For the three-month periods ended July 31, 2001 and July 31, 2000, a limited number of our customers each accounted for more than 10% of SeaChange's total revenues. Single customers accounted for 32% and 10% of total revenues in three months ended July 31, 2001 and 17% and 10% of total revenues in the three months ended July 31, 2000. Revenue from these customers was primarily in the broadband segment. SeaChange believes that revenues from current and future large customers will continue to represent a significant proportion of total revenues.

International sales accounted for approximately 13% and 16% of total revenues in the three-month periods ended July 31, 2001 and July 31, 2000, respectively. SeaChange expects that international sales will remain a significant portion of SeaChange's business in the future. As of July 31, 2001, substantially all sales of SeaChange's products were made in United States dollars. Therefore, SeaChange has not experienced, nor does it expect to experience in the near term, any material impact from fluctuations in foreign currency exchange rates on its results of operations or liquidity. If this practice changes in the future, SeaChange will reevaluate its foreign currency exchange rate risk.

Gross Profit

Systems. Costs of systems revenues consist primarily of the cost of purchased components and subassemblies, labor and overhead relating to the final assembly and testing of complete systems and related expenses. Costs of systems revenues increased 1% to $11.1 million in the three months ended July 31, 2001 as compared to $11.0 million in the three months ended July 31, 2000. In the three months ended July 31, 2001, the increase in costs of systems revenues reflects higher systems revenue offset in part by improved manufacturing efficiencies and lower material costs through improved purchasing efficiencies primarily within the digital advertising insertion products. SeaChange expects cost of systems revenues for the interactive television products within the broadband segment to be higher as a percentage of revenues as the products are first deployed and to decrease as a percentage of revenues as the revenue level increases and SeaChange improves its manufacturing and material purchasing efficiencies.

Systems gross profit as a percentage of systems revenues was 44% and 45% in the three months ended July 31, 2001 and July 31, 2000, respectively. The decrease in systems gross profit in the three months ended July 31, 2001 was primarily due to the shift within broadband product sales from higher gross profit ad insertion systems to lower gross profit interactive television systems. Gross profit for the broadband segment decreased to 44% for the three months ended July 31, 2001 from 45% for the three months ended July 31, 2000. Gross profit for the broadcast segment decreased to 43% for the three months ended July 31, 2001 compared to 44% for the three months ended July 31, 2000.

Services. Costs of services revenues consist primarily of labor, materials and overhead relating to the installation, training, product maintenance and technical support services provided by SeaChange and costs associated with providing movie content. Costs of services revenues increased 17% to $5.2 million in the three months ended July 31, 2001 from $4.5 million in the three months ended July 31, 2000 primarily as a result of increased revenues and the costs associated with SeaChange hiring and training additional service personnel to provide worldwide support for the growing installed base of broadband and broadcast systems and costs associated with providing movie content. Services gross profit as a percentage of services revenue was 28% in the three months ended July 31, 2001 and 19% in the three months ended July 31, 2000. Product development service revenues contributed approximately $800,000 for the quarter ended July 31, 2001 compared to $400,000 for the three months ended July 31, 2000. SeaChange expects that it will continue to experience fluctuations in gross profit as a percentage of services revenue as a result of the timing of revenues from technical support and other services to support the growing installed base of systems and the timing of costs associated with SeaChange's ongoing investment required to build a service organization to support the installed base of systems and new products.

Research and Development. Research and development expenses consist primarily of compensation of development personnel, depreciation of equipment and an allocation of related facilities expenses. Research and development expenses increased 22% to $6.1 million in the three months ended July 31, 2001 as compared to $5.0 million in the three months ended July 31, 2000. The increase in the three months ended July 31, 2001 was primarily attributable to the hiring and contracting of additional development personnel which reflects SeaChange's continuing investment in new products. The current quarter included additional prototype expenses associated with new board development efforts. SeaChange expects that research and development expenses will continue to increase in dollar amount as SeaChange continues its development and support of new and existing products.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses increased 36% to $3.6 million in the three months ended July 31, 2001 from $2.6 million in the three months ended July 31, 2000. The increase was primarily due to the hiring of additional sales personnel for SeaChange's interactive television and broadcast products and higher tradeshow and other promotional related costs.

General and Administrative. General and administrative expenses consist primarily of compensation of executive, finance, human resource and administrative personnel, legal and accounting services and an allocation of related facilities expenses. General and administrative expenses increased 11% to $2.0 million in the three-month period ended July 31, 2001, as compared to $1.8 million in the three-month period ended July 31, 2000. This increase is primarily due to the amortization of capitalized patent costs and accounting and filing fees related to the registration statement covering the shares of SeaChange common stock in the Comcast transaction.

Interest income (expense), net. Interest expense, net was $88,000 for the three months ended July 31, 2001 and interest expense, net was $1,000 for the three months ended July 31, 2000. The increase in interest expense, net in the three months ended July 31, 2001 primarily resulted from interest expense on borrowings under SeaChange's lines of credit and borrowings under SeaChange's construction loan. Bank debt was reduced by $2.2 million during the quarter.

Provision (benefit) for Income Taxes. SeaChange's effective tax benefit rate was 32% in the three months ended July 31, 2001. The effective tax rate for the three months ended July 31, 2001 was favorably impacted by the utilization of research and development tax credits.

SeaChange had net deferred tax assets of $7.7 million at July 31, 2001 and January 31, 2001. Although realizability is not assured, based on the weight of available evidence, SeaChange believes it is more likely than not that all remaining deferred tax assets will be realized. The amount of the deferred tax assets considered realizable is subject to change based on future events, including generating taxable income in future periods. SeaChange will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if SeaChange does not generate sufficient taxable income in future periods.

Six Months Ended July 31, 2001 Compared to the Six Months Ended July 31, 2000

Revenues

Systems. Systems revenues increased 17% to $43.1 million in the six months ended July 31, 2001 from $36.7 million in the six months ended July 31, 2000. Revenues from the broadband segment, which accounted for 60% and 59% of total revenues in the six months ended July 31, 2001 and 2000, respectively, increased to $34.5 million in 2001 as compared to $27.9 million in 2000. Interactive television system revenues were $22.7 million for the six months ended July 31, 2001 as compared to $6.7 million in the prior year primarily due to the initial deployment of residential video-on-demand systems in the United States for U.S. cable operators. Included in the interactive television systems revenue was the amortization of $1.1 million related to the deferred equity discount associated with the Comcast equity investment. Digital advertising system revenues were $11.9 million for the six months ended July 31, 2001 as compared to $21.2 million in the prior year. The decrease resulted primarily from the decline in the number of expansion systems purchased by U.S. cable operators. Broadcast system segment revenues were $8.5 million in the six months ended July 31, 2001 as compared to $8.8 million in the six months ended July 31, 2000. The decrease in broadcast revenues is primarily attributable to the decrease in advertising revenues earned by the broadcast companies resulting in a decrease in their capital expenditures for new broadcast systems. We expect future revenue growth, if any, to come principally from our interactive television and broadcast system products as cable and telecommunications companies continue to offer new video-on-demand applications for their customers and the market for digital video servers within the broadcast industry continues to expand. As revenues from broadcast and interactive television products increase, the digital advertising products will become a smaller portion of total system revenues. However, SeaChange believes that there will be a demand for expansions to existing digital advertising insertion systems within the U.S. and growth potential for new interactive advertising systems in the future.

Services. SeaChange's services revenues increased 29% to $14.1 million in the six months ended July 31, 2001 from $11.0 million in the six months ended July 31, 2000. This increase in services revenues primarily resulted from the renewals of technical support and maintenance services, price increases on certain technical support and maintenance services, the impact of a growing installed base of systems and a higher level of product development services.

For the six-month periods ended July 31, 2001 and July 31, 2000, a limited number of our customers each accounted for more than 10% of SeaChange's total revenues. Single customers accounted for 26% and 11% of total revenues in six months ended July 31, 2001 and 13%, 12%, 12% and 11% of total revenues in the six months ended July 31, 2000. Revenue from these customers was primarily in the broadband segment. SeaChange believes that revenues from current and future large customers will continue to represent a significant proportion of total revenues.

International sales accounted for approximately 13% and 15% of total revenues in the six-month periods ended July

31, 2001 and July 31, 2000, respectively. SeaChange expects that international sales will remain a significant portion of SeaChange's business in the future. As of July 31, 2001, substantially all sales of SeaChange's products were made in United States dollars. Therefore, SeaChange has not experienced, nor does it expect to experience in the near term, any material impact from fluctuations in foreign currency exchange rates on its results of operations or liquidity. If this practice changes in the future, SeaChange will reevaluate its foreign currency exchange rate risk.

Gross Profit

Systems. Costs of systems revenues increased 21% to $24.5 million in the six months ended July 31, 2001 as compared to $20.4 million in the six months ended July 31, 2000. In the six months ended July 31, 2001, the increase in costs of systems revenues reflects higher systems revenue offset in part by improved manufacturing efficiencies and lower material costs through improved purchasing efficiencies primarily within the digital advertising insertion products. SeaChange expects cost of systems revenues for the interactive television products within the broadband segment to be higher as a percentage of revenues as the products are first deployed and to decrease as a percentage of revenues as the revenue level increases and SeaChange improves its manufacturing and material purchasing efficiencies.

Systems gross profit as a percentage of systems revenues was 43% and 45% in the six months ended July 31, 2001 and July 31, 2000, respectively. The decrease in systems gross profit in the six months ended July 31, 2001 was primarily due to the shift within broadband product sales from higher gross profit ad insertion systems to lower gross profit interactive television systems. Gross profit for the broadband segment decreased to 43% for the six months ended July 31, 2001 as compared to 45% for the six months ended July 31, 2000 while gross profit for the broadcast segment increased to 43% for the six months ended July 31, 2001 compared to 42% for the six months ended July 31, 2000.

Services. Costs of services revenues increased 20% to $10.4 million in the six months ended July 31, 2001 from $8.7 million in the six months ended July 31, 2000 primarily as a result of increased revenues and the costs associated with SeaChange hiring and training additional service personnel to provide worldwide support for the growing installed base of broadband and broadcast systems and costs associated with providing movie content. Services gross profit as a percentage of services revenue was 26% in the six months ended July 31, 2001 and 21% in the six months ended July 31, 2000. SeaChange expects that it will continue to experience fluctuations in gross profit as a percentage of services revenue as a result of the timing of revenues from technical support and other services to support the growing installed base of systems and the timing of costs associated with SeaChange's ongoing investment required to build a service organization to support the installed base of systems and new products.

Research and Development. Research and development expenses increased 25% to $11.7 million in the six months ended July 31, 2001 as compared to $9.4 million in the six months ended July 31, 2000. The increase in the six months ended July 31, 2001 was primarily attributable to the hiring and contracting of additional development personnel which reflects SeaChange's continuing investment in new products. SeaChange expects that research and development expenses will continue to increase in dollar amount as SeaChange continues its development and support of new and existing products.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation expenses, including sales commissions, travel expenses and certain promotional expenses. Selling and marketing expenses increased 41% to $7.2 million in the six months ended July 31, 2001 from $5.1 million in the six months ended July 31, 2000. The increase was primarily due to the hiring of additional sales personnel for SeaChange's interactive television and broadcast products and higher tradeshow and other promotional related costs.

General and Administrative. General and administrative expenses increased 16% to $3.8 million in the six-month period ended July 31, 2001, as compared to $3.3 million in the six-month period ended July 31, 2000. This increase is primarily due to the amortization of capitalized patent costs and filing fees related to the registration statement covering the shares of SeaChange common stock in the Comcast transaction.

Interest income (expense), net. Interest expense, net was $252,000 for the six months ended July 31, 2001 and interest income, net was $24,000 for the six months ended July 31, 2000. The increase in interest expense, net in the six months ended July 31, 2001 primarily resulted from interest expense on borrowings under SeaChange's lines of credit and borrowings under SeaChange's construction loan.

Provision (benefit) for Income Taxes. SeaChange's effective tax benefit rate was 32% in the six months ended July 31,2001. The effective tax rate for the six months ended July 31, 2001 was favorably impacted by the utilization of research and development tax credits.

SeaChange had net deferred tax assets of $7.7 million at July 31, 2001 and January 31, 2001. Although realizability is not assured, based on the weight of available evidence, SeaChange believes it is more likely than not that all remaining deferred tax assets will be realized. The amount of the deferred tax assets considered realizable is subject to change based on future events, including generating taxable income in future periods. SeaChange will continue to assess the need for the valuation allowance at each balance sheet date based on all available evidence. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if SeaChange does not generate sufficient taxable income in future periods.

Cumulative effect change in accounting principle. During the fourth quarter of the twelve months ended January 31, 2001, SeaChange implemented the SEC's SAB 101 guidelines, retroactive to the beginning of the year. This was reported as a cumulative effect of a change in accounting principle as of February 1, 2000. Historically, for some of SeaChange's sales transactions, a portion of the sales price, typically 25%, was not due until installation occurred. SeaChange now defers the portion of the sales price not due until installation is complete. The cumulative effect of the change in accounting principle on prior years resulted in a charge to income of $1.1 million (net of income taxes of $732,000) or $0.05 per diluted share which has been included in income for the six months ended July 31, 2000.

Liquidity and Capital Resources

SeaChange has financed its operations and capital expenditures primarily with the proceeds of SeaChange's common stock, borrowings and cash flows generated from operations. Cash and cash equivalents increased $2.9 million from $6.1 million at January 31, 2001 to $9.0 million at July 31, 2001. Working capital increased from approximately $28.8 million at January 31, 2001 to approximately $35.0 million at July 31, 2001.

Net cash provided by operating activities was approximately $4.5 million and $226,000 for the six months ended July 31, 2001 and July 31, 2000, respectively. The net cash provided by operating activities in the six months ended July 31, 2001 was the result of the net loss adjusted for non-cash expenses including depreciation and amortization of $4.3 million and the changes in certain operating assets and liabilities. The significant net changes in assets and liabilities that provided cash from operations included a decrease in inventories of $2.0 million, a decrease in accounts receivable of $664,000 and an increase in deferred revenues of $1.6 million. These items that generated cash from operations were offset by a decrease in accounts payable of $644,000 and a decrease in customer deposits of $1.3 million. We expect inventory levels to continue to decline as revenues from both the broadband and broadcast product segment products increase. We expect that the broadcast segment and the interactive television products within the broadband segment will continue to require a significant amount of cash to fund future product development, to manufacture and deploy customer test and demonstration equipment and to meet higher revenue levels in both product segments.

Net cash used in investing activities was approximately $7.3 million and $4.8 million for the six months ended July 31, 2001 and July 31, 2000, respectively. Intangible assets increased by $2.7 million as a result of the successful defense of its patents. Investment activity consisted primarily of capital expenditures related to capital equipment required to support the expansion and growth of the business.

Net cash provided by financing activities was approximately $5.7 million and approximately $13.8 million for the six months ended July 31, 2001 and July 31, 2000, respectively. In the six months ended July 31, 2001, the cash provided by financing activities included $10.0 million in connection with the issuance of common stock issued on February 28, 2001, from a private placement sale of common stock and a warrant to Comcast SC Investment, Inc. (See Note 10 to the Consolidated Financial Statements). During the same period, cash used in financing activities included approximately $4.0 million in repayments under SeaChange's revolving line of credit and $1.1 million in principal payments under its equipment line of credit and capital lease obligations.

SeaChange had a $6.0 million revolving line of credit and a $5.0 million equipment line of credit with a bank. This revolving line of credit expired in March 2000 and SeaChange's ability to make purchases under the equipment line

of credit expired in March 2000. In July 2000, SeaChange renewed its revolving line of credit and equipment line of credit with a bank. The revolving line of credit was extended until March 2001 and borrowings under the facility increased to $7.5 million. The equipment line of credit was extended to provide SeaChange additional equipment financing of $4.0 million through March 2001. In addition, SeaChange entered into a $3.0 million line of credit facility with the Export-Import Bank of the United States ("EXIM") which allows SeaChange to borrow money based upon eligible foreign customer account balances. The ability to borrow funds by SeaChange under this facility also expired in March 2001. SeaChange extended the revolving line of credit and the EXIM line of credit through June 30, 2001 and is currently in the process of negotiating the renewal of all its lines of credit. No borrowings were outstanding under the revolving line of credit at July 31, 2001. Borrowings under all the lines of credit are collateralized by substantially all of SeaChange's assets. Loans made under the revolving line of credit would generally bear interest at a rate per annum equal to the LIBOR rate plus 2% (9.05% at July 31, 2001). Loans under the EXIM line of credit bear interest at a rate per annum equal to the prime rate (9.5% at July 31, 2001). Loans made under the equipment line of credit bear interest at a rate per annum equal to the bank's base rate plus 1.0% (10.5% at July 31, 2001). The loan agreements relating to the lines of credit requires that SeaChange provide the bank with certain periodic financial reports and comply with certain financial ratios including the maintenance of total liabilities, excluding deferred revenue, to net worth ratio of at least .80 to 1.0. At July 31, 2001, SeaChange was not in compliance with certain covenants of the loan agreement for all the lines of credit. Seachange received a waiver of non-compliance from the bank.

In October 2000, SeaChange entered into an agreement with a bank to finance $1.2 million of the construction costs related to the purchase and renovation of a manufacturing mill in New Hampshire that SeaChange previously purchased in February 2000. Upon occupancy of the building in November 2000, the loan converted into two promissory notes whereby SeaChange will pay principal and interest based upon a fixed interest rate per annum over a five and ten year period, respectively (8.875% at July 31, 2001). Borrowings under the loan are secured by the land and buildings of the renovated mill. The loan agreement requires that SeaChange provide the bank with certain periodic financial reports and comply with certain financial ratios. At July 3, 2001, SeaChange was in compliance with all covenants. As of July 31, 2001, borrowings outstanding under the loan were $1.1 million.

It is typical for SeaChange to experience fluctuations in its monthly operating results primarily due to the timing of receiving customer orders and the related shipment of these customer orders. As a result of these monthly fluctuations, SeaChange may experience an increase in its inventories as a result of procurement of both short and long lead components for anticipated orders for both its product segments, a decrease in its accounts payable balance primarily due to the timing of payments for materials purchased for prior month shipments, a decrease in accounts receivable amounts as a result of customer payments without corresponding customer shipments and a resulting decrease in cash and cash equivalents.

SeaChange believes that existing funds are adequate to satisfy its working capital and capital expenditure requirements for the foreseeable future.

SeaChange had no material capital expenditure commitments as of July 31, 2001.

Effects of Inflation

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

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. SeaChange believes SFAS 142 will not impact its current financial position and results of operations.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective for SeaChange on February 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization and includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and reclassification of certain intangibles out of previously reported goodwill.

SFAS 142 also requires SeaChange to complete a transitional goodwill impairment test within six months from the date of adoption. SeaChange is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

SeaChange faces exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on SeaChange's financial results. SeaChange's primary exposure has been related to local currency revenue and operating expenses in Europe and Asia. Historically, SeaChange has not hedged specific currency exposures as gains and losses on foreign currency transactions have not been material to date. At July 31, 2001, SeaChange had approximately $5,000,000 outstanding related to variable rate U.S. dollar denominated debt. The carrying value of these short-term borrowings approximates fair value due to the short maturities of these instruments. Assuming a hypothetical 10% adverse change in the interest rate, interest expense on these short-term borrowings would increase by approximately $37,000.

The carrying amounts reflected in the consolidated balance sheet of cash and cash equivalents, trade receivables, and trade payables approximates fair value at July 31, 2001 due to the short maturities of these instruments.

SeaChange maintains investment portfolio holdings of various issuers, types, and maturities. SeaChange's cash and marketable securities include cash equivalents, which SeaChange considers investments to be purchased with original maturities of three months or less given the short maturities and investment grade quality of the portfolio holdings at July 31, 2001, a sharp rise in interest rates should not have a material adverse impact on the fair value of SeaChange's investment portfolio. As a result, SeaChange does not currently hedge these interest rate exposures.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The patent infringement action (Civil Action No. 2:00-CV-195) filed by Beam Laser Systems, Inc. and Frank L. Beam in federal court in the Eastern District of Virginia against SeaChange, one of SeaChange's customers, Cox Communications, Inc., and two related companies of Cox Communications, has settled and been dismissed. In that action, Beam Laser asserted that ad insertion technology, including the SeaChange SPOT ad insertion system, used by Cox Communications and its companies infringed two United States patents held by Beam Laser (Patents No. 4,814,883 and 5,200,825), and sought both an injunction and monetary damages. All parties reached a settlement of that action effective as of June 28, 2001, which settlement included a consent judgment entered by the federal court in the Eastern District of Virginia on July 9, 2001. The settlement in part provides a judgment that all versions of SeaChange's SPOT product do not and have not infringed either of Beam Laser's two patents in the action, that Cox Communications' and its companies' use of those products and certain products of third parties does not infringe either of those two patents, waiving all rights to appeal, and dismissing with prejudice all other claims in the action. The settlement also contains both covenants by Beam Laser not to sue SeaChange, Cox Communications and its companies and customers for infringement of those patents regarding any products or uses and a fully paid-up, irrevocable license by Beam Laser to SeaChange under those two patents.

On June 13, 2000, SeaChange filed in the United States District Court for the District of Delaware a lawsuit against one of our competitors, nCube Corp., whereby SeaChange alleged that nCube's MediaCube-4 product infringed a patent held by SeaChange (Patent No. 5,862,312). In instituting the claim, SeaChange sought both a permanent injunction and damages in an unspecified amount. nCube made a counterclaim against SeaChange that the patent held by SeaChange was invalid and that nCube's MediaCube-4 product did not infringe the SeaChange patent. On September 6, 2000, nCube conceded, based on the District Court's prior claim construction ruling, that its MediaCube-4 product infringed the SeaChange patent.

On September 25, 2000 the court upheld the validity of the SeaChange patent.

nCube has filed motions challenging both the jury's verdict and the District Court's claim construction ruling. The District Court has yet to rule on nCube's motions. At this time SeaChange is awaiting the court's decision regarding a permanent injunction. Damages will be determined in future proceedings.

On January 8, 2001, nCube Corp. filed a complaint against SeaChange in the United States District Court for the District of Delaware alleging that SeaChange's use of its Media Cluster, Media Express and Media Server technology each infringe a patent held by nCube (Patent No. 5,805,804). In instituting the claim, nCube has sought both an injunction and monetary damages in an unspecified amount. SeaChange responded on January 26, 2001, denying that claim of infringement. SeaChange also asserted a counterclaim seeking a declaration from the District court that U.S. Patent No. 5,805,804 is invalid and not infringed.

On June 14, 1999, SeaChange filed a defamation complaint against Jeffrey Putterman, Lathrop Investment Management, Inc. and Concurrent Computer Corporation in the Circuit Court of Pulaski County, Arkansas alleging that the defendants conspired to injure SeaChange's business and reputation in the marketplace. The complaint further alleges that Mr. Putterman and Lathrop Investment Management, Inc. defamed SeaChange through false postings on an Internet message board. The complaint seeks unspecified amounts of compensatory and punitive damages. On June 14, 2000, Concurrent filed a counterclaim under seal against SeaChange seeking unspecified damages. These motions are currently pending and no trial date has been set.

SeaChange cannot be certain of the outcome of the foregoing litigation, but SeaChange plans to oppose allegations against it and assert its claims against other parties vigorously. In addition, as these claims are in the early stages of discovery and certain claims for damages are as yet unspecified, SeaChange is unable to estimate the impact to its business, financial condition, and results of operations or cash flows.

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

The annual meeting of the security holders of SeaChange was held on July 17, 2001. Matters considered and acted upon the meeting included the election of two (2) members to the SeaChange's Board of Directors, each to serve for a three-year term as a Class II Director, and the approval of an amendment to SeaChange's Amended and Restated 1995 Stock Option Plan to increase the number of shares of SeaChange's common stock available for issuance thereunder from 4,800,000 to 9,200,000 shares.

Martin R. Hoffmann was elected as a Class II Director of the Company with 20,678,085 shares of SeaChange's common stock voted for and 472,906 shares of SeaChange's common stock withheld from the election of Mr. Hoffmann. Thomas F. Olson was elected as a Class II Director of the Company with 20,675,447 shares of SeaChange's common stock voted for and 475,544 shares of SeaChange's common stock withheld from the election of Mr. Olson. In addition, after the annual meeting, the following persons continued to serve as directors of the Company: William C. Styslinger, III and Carmine Vona.

With respect to the approval of the amendment to SeaChange's Amended and Restated 1995 Stock Option Plan to increase the number of shares of SeaChange's common stock available for issuance thereunder from 4,800,000 to 9,200,000 shares, 9,986,988 shares of SeaChange's common stock voted for, 4,767,709 shares of SeaChange's common stock voted against, and 786,301 shares of SeaChange's common stock abstained from such vote.

SIGNATURES

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

Dated: September 14, 2001

SEACHANGE INTERNATIONAL, INC.

by: /s/ William L. Fiedler

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